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Monthly City of Philadelphia Tax Revenue Update

February 2011

City General Fund tax collections in February were \$401.0 million, bringing the total for the first eight months of fiscal year 2011 (FY11) to \$1,479.0 million, an increase of \$141.2 million or 10.6 percent over the same period in fiscal year 2010. Of this increase, \$36.7 million (26 percent) represents increased real estate tax revenue, which is partly the result of an increase in the City real estate tax rate from 3.305 percent in 2010 to 4.123 percent in 2011. Forty-two percent of the increase from FY10 to FY11 represents increased sales tax revenue that reflects the increase in the City sales tax rate from 1 to 2 percent, as well as modest growth in the sales tax base. The increase in collections through the first eight months of FY11 also reflects growth in the wage and business privilege tax base.

While it should be noted that monthly tax revenue data can be a misleading indicator due to significant monthly variability, the tax base trends observed in the first and second quarter of FY11 appear to be continuing in the third quarter.¹ Collections through February indicate continuing modest growth in the City's wage and sales tax bases and decline in the real estate transfer tax (RETT) base. The RETT decline, which began in the second quarter of FY11, apparently reflects at least in part the September 2010 expiration of the federal first-time homebuyer tax credit, which had contributed to large revenue increases in the fourth quarter of FY10 and first quarter of FY11.

- Wage and earnings tax collections (including both the City and PICA portions of the tax) were \$115.6 million in February, bringing the total for the first eight months of FY11 to \$1,000.6 million, an increase of 3.1 percent over the same period in FY10. February collections were below the prior year level by \$11.3 million, the first time since July that collections were below the same month in the previous year. However, January 2011 wage and earnings tax collections were unusually strong, in part due to the one-time impact of the implementation of electronic filing for certain employers who submit wage tax payments on a quarterly basis; electronic filing likely resulted in a significant increase in the proportion of such payments received in January. Combined January and February collections are \$7.8 million or 3.0 percent above the same period in FY10, indicating that the trend toward moderate growth in the wage tax base is continuing through the third

¹ The tax base is estimated as revenue divided by the tax rate in effect in each time period.

quarter of FY11. The current estimate for FY11 is \$1,492.1 million, based on projected tax base growth of 3.0 percent.

- Real estate tax collections in February were \$269.6 million, bringing the total for the first eight months of the fiscal year to \$339.7 million, a 12.1 percent increase compared to FY10. The rate of the City portion of the real estate tax increased from 3.305 percent in 2010 to 4.123 percent in 2011, a tax rate increase of 24.8 percent. (The combined tax rate for the City and School District portion of the tax increased 9.9 percent from 2010 to 2011.) The current projection for FY11 is \$488.7 million, an increase of 21.5 percent over FY10.
- January sales tax collections were \$22.8 million, bringing the total for the first eight months of FY11 to \$167.1 million, a 55.0 percent increase over the same period in FY10. This increase is primarily due to the increase in the City sales tax rate from 1 to 2 percent effective in October 2009. The current estimate for FY11 sales tax revenue is \$247.5 million, an increase of \$40.4 million over the FY10 actual. This increase reflects estimated tax base growth of 3.2 percent in FY11, along with the impact of a full year of collections at the higher tax rate of 2 percent.
- Real estate transfer tax (RETT) collections were \$5.8 million in February, bringing the total for the first eight months of FY11 to \$80.2 million, a 6.5 percent increase over the same period in FY10. While the February collections were \$0.4 million or 8.1 percent over February of 2010, collections for this tax since August have generally been below the prior year level. Strong performance in July and August 2010, which apparently reflected in part the impact of the federal first-time homebuyer tax credit, is the primary reason that FY11 collections through February are above the FY10 level. The current projection for FY11 is \$119.8 million. This projection assumes that collections will stabilize in the remaining four months of the fiscal year.
- Parking tax collections in February were \$5.1 million, bringing the total for the first eight months of the fiscal year to \$45.9 million, a 0.8 percent increase compared to FY10. The current FY11 estimate is \$72.5 million.
- February amusement tax collections were \$1.1 million, bringing the total for the first eight months of FY11 to \$11.8 million, a 9.4 percent decline compared to FY10. A portion of the decline is due to the fewer number of Phillies home playoff games in FY11. The current FY11 estimate is \$21.1 million.

City of Philadelphia Tax Revenues through February 2011 (\$ in Millions)

Tax	Monthly Total through February			Fiscal Year Total (Budget Basis)	
	FY10	FY11 (Preliminary)	Percent Change	FY10 Actual	FY11 Current Estimate
Wage and Earnings¹	\$970.2	\$1,000.6	3.1%	1,450.3	1,492.1
<i>Wage</i>	964.7	994.1	3.1%	--	--
<i>Earnings</i>	5.5	6.5	17.4%	--	--
Net Profits¹	5.2	5.5	6.6%	21.7	20.4
Real Estate²	302.9	339.7	12.1%	402.2	488.7
Business Privilege	40.9	58.7	43.3%	364.7	360.8
Sales³	107.8	167.1	55.0%	207.1	247.5
Real Estate Transfer	75.3	80.2	6.5%	119.2	119.8
Parking	45.5	45.9	0.8%	70.5	72.5
Amusement	13.0	11.8	-9.4%	21.9	21.1
Other	2.7	3.4	25.7%	2.4	4.1
Total	1,563.7	1,712.9	9.5%	2,659.9	2,827.0
<i>PICA Taxes</i>	225.9	233.9	3.5%	343.3	345.5
<i>City General Fund Taxes</i>	1,337.7	1,479.0	10.6%	2,316.6	2,481.5

Source: Monthly collections from *Comparative Statement of Net Revenue Collections*, City Department of Revenue, available at http://www.phila.gov/revenue/City_Monthly_Revenue.html, preliminary revenue report for February 2011, and updated information on February real estate tax collections provided by the City Office of Budget and Program Evaluation. Fiscal Year total FY10 actual and FY11 current estimate from *Mayor's Operating Budget in Brief for Fiscal Year 2012 as Proposed to the Council*, March 2011.

Notes:

¹ Includes portion dedicated to PICA.

² The rate of the City portion of the real estate tax will increase from 3.305 percent in 2010 to 4.123 percent in 2011. The combined City and School District real estate tax rate will increase from 8.264 percent to 9.082 percent.

³ The City Sales Tax rate increased from 1 percent to 2 percent effective October 8, 2009, and was first reflected in December 2009 collections.