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Monthly City of Philadelphia Tax Revenue Update

January 2010

City General Fund tax collections in January were $179.9 million, an increase of 4.5 percent compared to the January 2009 level. Collections for the first seven months of FY10 were $973.0 million, 3.3 percent below revenues received during the same period in FY09. The increase in overall January tax revenues reflected increases in revenues from the Wage Tax and Sales Tax, offset by declines in other taxes. It should be noted that collections for a single month can be a misleading indicator due to monthly variability in collections; full collections data for the third quarter of FY10 (January through March 2010) will provide a more reliable indicator of City tax revenue trends.

Increases in January Wage Tax collections compared to January of 2009 continue a recent trend toward stabilization in Wage Tax revenues. The increase in January Sales Tax revenue was expected due to the increase in the tax rate from 1 to 2 percent in October, although monthly collections since the implementation of the higher Sales Tax rate are below the $20 million level anticipated in the Revised Five Year Plan (FYP). Uncertainty surrounding Real Estate Tax assessment appeals raise questions about the City's ability to achieve FYP projections for this tax.

- Collections of the City portion of the Wage, Earnings, and Net Profits taxes were $105.4 million in January, an increase of 3.3 percent from the January 2009 collection level. This increase is a further sign of stabilization in the Wage Tax base, which declined at an annual rate of approximately 4.6 percent in the first quarter of FY10, but showed a comparatively small decline of 1.1 percent in the second quarter. Wage Tax trends continue to indicate a stabilizing labor market in the city and region. However, the pace of recovery remains a concern, particularly in relation to the FYP projections of Wage Tax revenues. The Revised FYP projects Wage Tax collections of $1,172.4 million in FY10, an increase of 3.8 percent over the FY09 actual amount. The stabilization of collections since the first quarter of FY10 increases the likelihood of achieving the revised estimates in the most recent *Quarterly City Managers Report* (QCMR) which projects Wage Tax revenues of $1,131.4 million in FY10, an increase of 0.2 percent from the FY09 actual.

- Real Estate Transfer Tax (RETT) collections were $9.0 million in January, an increase of 0.5 percent over the same month last year. This was the third consecutive month in which RETT revenues exceeded the prior year's level for the same month. This is a sign that the City's real estate market is improving, after years of deterioration. Total collections for the first seven months of FY10 were $69.9 million, a decline of 11.0 percent over the same period in FY09. The FYP projects $94.7 million in RETT revenue in FY10, a decline of 17.7 percent from the FY09 actual amount. However, the *QCMR* for the first quarter of FY10 projects FY10 RETT revenue at $114.7 million, or down only 0.3 percent compared to FY09.

- Sales Tax collections in January were $18.2 million, an increase of 58.2 percent compared to January 2009. This increase reflects a higher Sales Tax rate, effective October 8, 2009, offsetting a lower tax base. (The Sales Tax base declined by more than 8 percent from the prior year during the first two quarters of FY10.) In addition, there is a time lag between the implementation of the higher 2 percent tax rate and the receipt of Sales Tax revenues by the City, so the full impact of the higher rate may not yet be apparent in revenue collections. The FYP projected that monthly Sales Tax collections would increase to over $20 million beginning in February. Whether revenue will increase to that level will depend on the health of the retail sector as well as the impact of the higher tax rate on retail sales activity in the city. Under the City's accounting policies, Sales Tax revenues received within 60 days of the end of the fiscal year are recognized as revenue for that year, so revenues received through August 2010 will determine whether the City meets its FY10 projection for this tax. The FYP projection for Sales Tax revenue in FY10 is $215.3 million, a 67.9 percent increase over FY09.

- Preliminary figures indicate that Real Estate Tax (RET) collections in January were $25.9 million, bringing the total through the first seven months of the fiscal year to $65.0 million, an 11.5 percent decline compared to the same period in FY09. However, most RET revenue is received in February and March, so collections through January are not indicative of likely results for the full fiscal year. The recent decision to freeze reassessments for two years, and uncertainty about the final 2010 assessments for more than 18,000 properties that were already reassessed by the Board of Revision of Taxes, adds additional concerns for RET revenues. The FYP assumed assessment growth of 0.9 percent in 2010 and projects $412.7 million in RET revenue in FY10, an increase of 3.2 percent over the FY09 actual. This projected increase primarily reflects projected growth in delinquent collections.

- Business Privilege Tax (BPT) revenues were $6.7 million in January. The FY10 total through January is $38.3 million, a decline of 26.1 percent compared to the same period in FY09. However, because most BPT revenue is collected in April and May, collections to date are not indicative of likely results for the full fiscal year. The FYP projects FY10 BPT revenue of $356.7 million, a decline of 7.6 percent from FY09 actual revenue.

- Parking Tax collections in January were $5.4 million, bringing the total for the first seven months of the fiscal year to $40.8 million, an increase of 3.2 percent over the same period in FY09. The FYP projects FY10 Parking Tax revenue of $70.7 million, an increase of 0.5 percent from FY09 actual collections.

- January Amusement Tax collections were $1.0 million. FY10 collections through January are $12.1 million, a decrease of 2.4 percent compared to collections in the first seven months of FY09. The FYP projects FY10 Amusement Tax collections of $20.9 million, a decrease of 2.3 percent from the FY09 actual amount.

Fiscal Year 2010 General Fund Tax Collections through January 2010

Dollars in Millions

Tax	FY10 through January (Preliminary)	FY09 through January	Percent Change through January	Revised Five-Year Plan Projection for FY10[1]	Percent Change from FY09 Actual to FY10 Plan Projection
Wage, Earnings, and Net Profits[2]	$651.1	$670.7	-2.9%	$1,172.4	3.8%
Real Estate	65.0	73.4	-11.5%	412.7	3.2%
Business Privilege	38.3	51.8	-26.1%	356.7	-7.6%
Sales[3]	85.5	77.7	10.0%	215.3	67.9%
Realty Transfer	69.9	78.6	-11.0%	94.7	-17.7%
Parking	40.8	39.5	3.2%	70.7	0.5%
Amusement	12.1	12.4	-2.4%	20.9	-2.3%
Other [4]	10.2	2.4	331.8%	3.0	24.7%
Total Taxes[5]	973.0	1,006.6	-3.3%	2,346.5	4.2%

Notes:

[1] Projections from the Revised FY10-FY14 Five-Year Financial Plan approved by PICA on September 11, 2009.

[2] Excludes the portion of these taxes dedicated to PICA. Figures are not adjusted to reflect the decrease in Wage Tax rate from 3.98% for residents and 3.5392% for non-residents in July 2008, to 3.9296% for residents and 3.4997% for non-residents in July 2009. These reductions are made possible by State gaming revenues of $86.3 million in FY10.

[3] The Five-Year Plan Sales Tax projection for FY10 assumed an increase in the City Sales Tax rate from 1% to 2% effective October 1, 2009. The rate increase actually became effective on October 8.

[4] This category includes $8 million of January tax collections yet to be apportioned to the proper category.

[5] The total taxes growth projection includes the increase in Sales Tax revenue due to the rate increase. Total tax revenue, excluding the Sales Tax, is projected to increase by only 0.3 percent from FY09 to FY10.