

Pennsylvania Intergovernmental Cooperation Authority

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Monthly City of Philadelphia Tax Revenue Update

November 2009

City General Fund tax collections in November were \$125.1 million, a decline of \$12.6 million (9.2 percent) from the November 2008 level. Collections for the first five months of FY10 were \$650.1 million, 6.4 percent below revenues received during the same period in FY09. While overall revenues are still declining from last year, the tax bases of two of the major General Fund taxes appear to be showing signs of stabilizing. November revenues indicate that the Wage Tax base is declining at a lower rate in the second quarter of FY10 than in the first quarter, though full second quarter numbers will provide a more accurate picture. In addition, collections of the Real Estate Transfer Tax in November were \$2.3 million higher than in November 2008. This is the first year-over-year increase since April 2008, and is consistent with an overall trend toward stability in revenues from this tax since the fourth quarter of FY09.

- Collections of the City portion of the Wage, Earnings, and Net Profits taxes were \$99.0 million in November, a decrease of \$8.2 million (7.6 percent) from the November 2008 collection level. After taking into account tax rate reductions between 2008 and 2009, the combined October and November collection levels suggest a 0.8 percent decline in the Wage Tax base compared to the same two-month period in 2008. This compares favorably to an estimated 4.6 percent decline in the tax base in the first quarter of FY10. The slower rate of decline in the tax base over the past two months may indicate a stabilizing labor market in the City and region, a hopeful sign for City finances. The Revised Five-Year Plan projects Wage Tax collections of \$1,172.4 million in FY10, an increase of 3.8 percent over the FY09 actual amount. Due to the weaker than expected Wage Tax collections to date, however, the *Quarterly City Managers Report* (QCMR) for the first quarter of FY10 projects Wage Tax revenues of \$1,131.4 million in FY10, a reduction of \$41 million from the Plan.
- Real Estate Transfer Tax collections were \$9.1 million in November, an increase of \$2.3 million or 34.6 percent over the same month last year. This is the first year-over-year increase in revenues from this tax since April 2008, which appears to reflect the stabilizing real estate market in Philadelphia. Total Real Estate Transfer Tax collections in the first five months of FY10 were \$48.4 million, a decline of 20.4 percent over the same period in FY09. The November result is consistent with the improved performance of Real Estate Transfer

Tax revenues in the first quarter of FY10 compared to the fourth quarter of FY09: on a year-over-year basis, revenues declined 47.2 percent in the fourth quarter of FY09 and 31.0 percent in the first quarter of FY10. Combining October and November, the first two months of the second quarter of FY10, revenues are 7.5 percent higher on a year-over-year basis, suggesting that this tax base – which reflects both the volume of real estate transactions and real estate values – is stabilizing after three consecutive fiscal years of decline. The Revised Five-Year Plan projects \$94.7 million in revenue from the Real Estate Transfer Tax in FY10, a decline of 17.7 percent from the FY09 actual amount. However, in the *QCMR* for the first quarter of FY10 the City has revised its FY10 projection for this tax to \$114.7 million, which represents only a 0.3 percent decline from FY09.

- Sales Tax collections in November were \$10.7 million, a decline of \$1.0 million or 8.8 percent from the November 2008 level, reflecting continued weakness in retail sales in the city. Total collections for the first five months of FY10 are \$51.8 million, a decline of 8.6 percent from the same period in FY09. The Revised FY10-FY14 Five-Year Plan projection for Sales Tax revenue in FY10 is \$215.3 million, a 67.9 percent increase over FY09. Act 44, the State law authorizing the increase in the City Sales Tax rate, became law on September 18, and the new tax rate was implemented on October 8. Because the State collects the City and State Sales Tax from retailers and remits the City's portion of the tax to the City in one payment each month, the higher City tax rate should not impact City revenues until December.
- Real Estate Tax (RET) collections in November were \$4.5 million, bringing the year-to-date total to \$25.7 million, a 22.1 percent decline from the same period in FY09. Monthly collections for this tax are highly variable during months other than March and April when most RET revenue is received, so year-to-date collections are not indicative of likely collections for the full fiscal year. The Revised FY10-14 Five-Year Financial Plan 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 negative \$7.5 million in November, reflecting accounting adjustments. The FY10 total through November is \$22.7 million, an increase of 0.7 percent over the first five months of FY09. However, monthly BPT collections are highly variable during months other than April and May, when most revenue from this tax is collected. Therefore, as in the case of the Real Estate Tax, collections through November give little indication of likely results for FY10. The Revised Five-Year Financial Plan projects FY10 BPT revenues of \$356.7 million, a decline of 7.6 percent from FY09 actuals.

- Parking Tax collections were \$6.1 million in November, bringing the fiscal year-to-date total to \$29.8 million, an increase of 5.3 percent over the same period in FY09. The Revised FY10-FY14 Five-Year Plan projects FY10 Parking Tax revenue of \$70.7 million, an increase of 0.5 percent from FY09 actual collections.
- November Amusement Tax collections were \$3.0 million. FY10 year-to-date collections are \$9.2 million, a decrease of 8.7 percent compared to collections in the first five months of fiscal year 2009. The Revised Five-Year Plan 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 November 2009

Dollars in Millions

Tax	FY10 through November (Preliminary)	FY09 through November	Percent Change through November	Revised Five-Year Plan Projection for FY10 ¹	Percent Change from FY09 Actual to FY10 Plan Projection
Wage, Earnings, and Net Profits ²	\$460.9	\$481.3	-4.2%	\$1,172.4	3.8%
Real Estate	25.7	33.0	-22.1%	412.7	3.2%
Business Privilege	22.7	22.6	0.7%	356.7	-7.6%
Sales ³	51.8	56.7	-8.6%	215.3	67.9%
Realty Transfer	48.4	60.8	-20.4%	94.7	-17.7%
Parking	29.8	28.3	5.3%	70.7	0.5%
Amusement	9.2	10.1	-8.7%	20.9	-2.3%
Other	1.5	1.8	-21.0%	3.0	24.7%
Total Taxes ⁴	650.1	694.6	-6.4%	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 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.