



CITY OF PHILADELPHIA

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REBECCA RHYNHART
Budget Director

May 5, 2014

The Honorable Darrell Clarke
City Council President
City Hall, Room 490
Philadelphia, PA 19107

Dear Council President Clarke:

This letter is in response to questions raised at the March 19th, 2014 hearing before the Committee of the Whole on the Fiscal Year 2015-2019 Five Year Plan. The questions were recorded as follows:

From Council President Clarke:

- 1. Can you provide the amount of delinquent tax collections we realize annually, excluding interest and penalty?**

Please see Attachment 1 which shows the delinquent collections, principle only, for Fiscal Years 2011 through 2013. The amounts are listed for each tax type collected by the department and show a net increase of approximately \$10 million in annual collections from 2011 to 2013.

From Councilman Oh:

- 2. What are the employment and wage growth assumptions that the wage tax growth rates are based on?**

Please see Attachment 2 which includes the February 6, 2014 Federal Reserve presentation that contains information on the latest economic forecasts for Philadelphia. As a result of the feedback received during this meeting, projections are modified.

- 3. What is the back-up calculation of the \$166 million in foregone revenue resulting from the wage tax reductions?**

Please see Attachment 3 which shows how the assumed wage tax growth rates impact the wage tax base in all five years of the Five Year Plan and includes calculation of the \$166 million in foregone revenue resulting from the proposed wage tax reductions.

From Councilman Henon:

4. Please provide a cost analysis reflecting a District Council 33 labor package comparable to that offered to District Council 47.

This analysis is currently being worked on; however preliminary estimates show the general fund cost to be at least \$214 million, \$174 million more than has been set aside for DC33 in the FY15-FY19 Proposed Five Year Plan.

Please feel free to contact me with any questions you may have about the information provided in this response.

Sincerely,



Rebecca Rhyhart
Budget Director

cc: Everett Gillison, Chief of Staff
Rob Dubow, Director of Finance
Fiona Greig, Deputy Budget Director

Department of Revenue
Delinquent Collections FY11-13
Principal Only

Tax Type	FY2013	FY2012	FY2011
WAGE TAX	\$ 14,502,765	\$ 12,961,418	\$ 13,487,191
EARNINGS TAX	\$ 2,926,774	\$ 4,054,516	\$ 3,184,942
NET PROFITS TAX	\$ 2,392,998	\$ 2,799,335	\$ 2,860,663
AMUSEMENT TAX	\$ 167,934	\$ 118,823	\$ 481,190
PARKING TAX	\$ 644,807	\$ 2,008,059	\$ 818,123
COIN OPERATED TAX	\$ 7,839	\$ 12,200	\$ 13,602
POLICE FEE	\$ 1,725,439	\$ 1,003,347	\$ 1,805,052
COMMERCIAL TRASH FEE	\$ 2,486,952	\$ 1,527,792	\$ 772,304
VEHICLE RENTAL TAX	\$ 96	\$ 572	\$ -
REALTY TRANSFER TAX	\$ 160,032	\$ 283,404	\$ 334,372
HOTEL TAX	\$ 473,400	\$ 357,325	\$ 1,000,795
BUSINESS PRIVILEGE TAX	\$ 18,704,761	\$ 17,844,636	\$ 20,832,471
TOBACCO TAX	\$ 117,099	\$ 50,234	\$ 4,926
LIQUOR TAX	\$ 4,909,502	\$ 4,428,906	\$ 2,946,443
SCHOOL INCOME TAX	\$ 1,934,451	\$ 1,997,652	\$ 2,052,895
HOSPITAL TAX	\$ 671,926	\$ 393,266	\$ -
VALET PARKING TAX	\$ 42,548	\$ 7,197	\$ 42,659
REAL ESTATE TAX	\$ 68,594,656	\$ 64,007,260	\$ 59,299,435
OUTDOOR ADVRTSING TX	\$ 315	\$ 4,937	\$ -
U&O TAX - LANDLORD	\$ 5,484,730	\$ 4,768,497	\$ 6,446,778
U&O TAX - TENANT	\$ 499,122	\$ 307,225	\$ 339,687
Total	\$ 126,448,144	\$ 118,936,602	\$ 116,723,528

* Definition of a delinquent payment- for business tax is any payment made 45 days after due date.
For real estate tax, a delinquent payment is a payment for a prior year billing date.

City of Philadelphia
Regional Economist Meeting

Rebecca Rhynhart
Budget Director
February 6, 2014

Latest Economic Forecasts - US

- Blue Chip consensus forecasts for US real GDP show 2.8% for 2014 and 3.0% for 2015, significantly higher than the consensus estimate for 2013 of 1.7% due to the growth in consumer spending, an improved housing market, and stronger export growth (resulting from growth in oil and gas production)
- The newly negotiated Bipartisan Budget Act almost eliminates the risk of a repeat of the October Government shutdown
- Blue Chip consensus projects that the unemployment rate will decline from 6.8% in 2014 to 6.3% in 2015, down from 7.5% in 2013 and 8.1% in 2012

Philadelphia's Economy

- Philadelphia's recovery has been slower than the nation's
 - GDP growth in Philadelphia was 1.4% in 2012 and 0.8% in 2013 compared to 2.8% and 1.9% respectively for the US¹
 - City unemployment in 2013 is 10.4% compared to 7.5% nationally²
 - Home prices grew by 4.5% in 2013 compared to 11% nationally³
- The FRB's January Business Outlook Survey indicate that the region's manufacturing sector increased moderately
- The Comcast Innovation and Technology Center is expected to have a positive impact on economic activity, jobs and revenue for the City

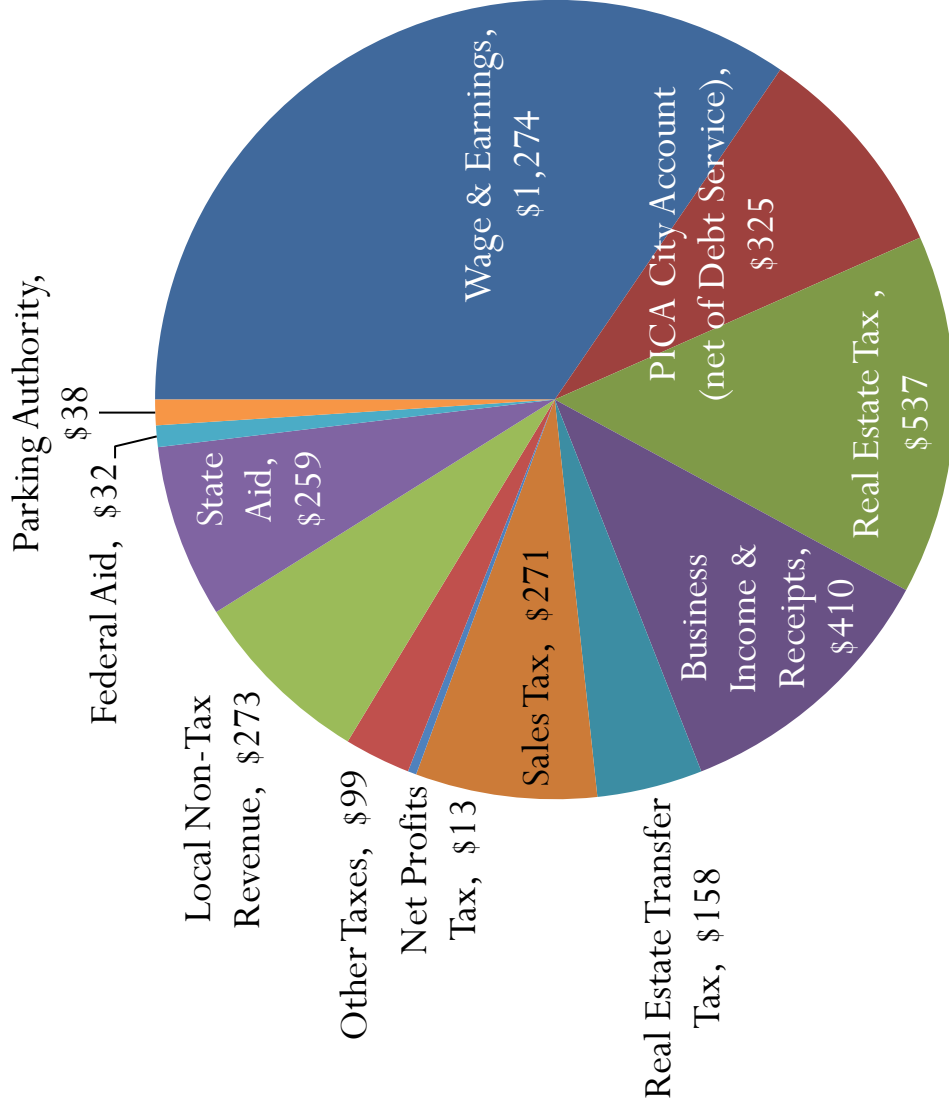
1. Source: IHS

2. Source: Bureau of Labor Statistics, Blue Chip Economic Forecast, January 2014

3. Source: Econsult (Philadelphia market) and CoreLogic Home Price Index (HPI) report for national statistics

City of Philadelphia FY14 Estimated General Fund Revenues

Total Revenues= \$3,779 Million



For discussion today:

1. Wage Tax Slides 5-6
2. Business income and receipts tax Slides 7-8
3. Net Profits tax Slides 9-10
4. Real estate Slides 11-12
tax
3. Real estate Slides 13-14
transfer tax
4. Sales tax Slides 15-16

Wage tax, the City's largest tax, shows slower than expected growth

Current trends

- Wage and Earnings tax receipts, including PICA wage tax, in FY13 were 3.57% above FY12 (compared to a projection of 4.5%). This includes an adjustment to account for FY12 having a 5^{3rd} weekly payroll.
- Year to date receipts for FY14 through January are up 1.92% compared to the same period in FY13.

FY14-FY18 Five Year Plan Base growth projections

- Base growth projections in current five year plan
 - FY14 3.59%
 - FY15 3.20%
 - FY16 3.32%
 - FY17 3.17%
 - FY18 2.95%

FY14-FY18 Five Year Plan Tax Rate Changes

Year	Residents	Non-Residents
FY14	3.9240%	3.4985%
FY15	3.9200%	3.4950%
FY16	3.8700%	3.4915%
FY17	3.8140%	3.4470%
FY18	3.7568%	3.3970%

Wage tax – Updated projections

Revenue forecasting consultant IHS has the following projections

Year	IHS Forecast	MSA employment growth	MSA Wage growth
FY14	1.6%	0.9%	2.8%
FY15	3.7%	1.4%	3.3%
FY16	3.7%	1.8%	3.4%
FY17	3.6%	1.6%	3.2%
FY18	3.3%	1.1%	3.4%
FY19	3.1%	0.8%	3.4%

Business Income and Receipts Tax

Current trends

- BIRT grew by 3.3% in FY12 and 15.8% in FY13. Both years were above projections
- Year to date receipts are not indicative since tax is due in Q4

FY14-FY18 Five Year Plan Base growth projections

- Base growth projections in current five year plan
- FY14 -8.39%
- FY15 3.00%
- FY16 3.00%
- FY17 3.00%
- FY18 3.00%

FY14-FY18 Five Year Plan Tax Rate Changes

Year	Net Income	Gross Receipts
FY14	6.45%	0.1415%
FY15	6.43%	0.1415%
FY16	6.41%	0.1415%
FY17	6.39%	0.1415%
FY18	6.35%	0.1415%

Business Income and Receipts Tax – IHS projections

Revenue forecasting consultant IHS has the following projections

Year	IHS Forecast	Corporate profits	City wage and salary disbursements	City employment growth	Comments
FY14	4.6%	6.3%	4.9%	1.0%	Business tax growth is expected to flatten in FY15 after seeing double digit growth in FY13
FY15	0.6%	4.3%	5.2%	1.5%	
FY16	6.4%	3.8%	4.8%	1.7%	
FY17	1.8%	1.3%	4.3%	1.6%	
FY18	1.8%	2.0%	3.9%	1.1%	
FY19	0.9%	2.1%	3.7%	0.8%	

Net Profits Tax

Current trends

- Net profits tax grew by 65.12% in FY13
- Year to date receipts are not yet indicative since the majority of Net Profits Tax is collected in Q4

FY14-FY18 Five Year Plan Base growth projections

- Base growth projections in current five year plan
 - FY14 3.0%
 - FY15 3.0%
 - FY16 3.0%
 - FY17 3.0%
 - FY18 3.0%

Net Profits Tax – IHS projections

Revenue forecasting consultant IHS has the following projections

Year	IHS Forecast (City Proprietors' income)	Comments
FY14	6.0%	City Proprietors' income is calculated based on state-level proprietor income, adjusted by relative total wages in the Philadelphia division.
FY15	6.3%	
FY16	6.1%	
FY17	4.3%	
FY18	4.2%	
FY19	4.0%	

Real estate tax

Current trends

- The City and School District combined real estate tax rate was set at 1.34% in FY14 to generate the same amount of current year revenue in FY13 and FY14 as the Actual Value Initiative was implemented and all City parcels were reassessed
- Year to date receipts are not indicative since tax is due in Q3

FY14-FY18 Five Year Plan Base growth projections

- Base growth projections in current five year plan

• FY14	0.0%
• FY15	3.0%
• FY16	3.0%
• FY17	3.0%
• FY18	3.0%

Real Estate Tax – IHS Projections

Revenue forecasting consultant IHS has the following projections

Year	IHS Forecast	Residential forecast (Growth in home prices)	Non Residential Forecast (Gross County Economic Product)	Comments
FY14	N/A	N/A	N/A	Gross County Economic Product is used as a proxy for growth in commercial real estate values.
FY15	4.3%	4.0%	4.6%	
FY16	2.1%	0.8%	4.4%	
FY17	1.9%	0.5%	4.2%	
FY18	3.4%	3.1%	4.0%	
FY19	2.8%	2.0%	3.9%	

Real estate transfer tax shows recent strength

Current trends

- Real estate transfer tax grew by 23.96% in FY13
- Year to date receipts through January for FY14 are showing 8.34% growth over the same period in FY13

FY14-FY18 Five Year Plan Base growth projections

- Base growth projections in current five year plan
- FY14 6.53%
- FY15 10.00%
- FY16 8.00%
- FY17 5.00%
- FY18 3.00%

Realty Transfer Tax – IHS Projections

Revenue forecasting consultant IHS has the following projections

Year	IHS Forecast	Residential forecast	Growth in home sales	Growth in home prices	Non-residential forecast	City employment growth	Comments
FY14	15.5%	16.2%	11.7%	3.5%	13.7%	1.0%	City employment growth is used as a proxy for commercial real estate growth.
FY15	13.8%	18.6%	13.4%	4.0%	0.0%	1.5%	
FY16	5.6%	7.3%	6.2%	0.8%	0.0%	1.7%	
FY17	-2.0%	-2.5%	-2.9%	0.5%	0.0%	1.6%	
FY18	-0.4%	-0.5%	-3.4%	3.1%	0.0%	1.1%	
FY19	3.6%	4.6%	2.4%	2.0%	0.0%	0.8%	

Sales tax revenues show slower than expected growth

Current trends

- Sales tax grew by 1.59% in FY13 relative to FY12
- Year to date receipts through January for FY14 show 2.92% growth over the same period in FY13

FY14-FY18 Five Year Plan Base growth projections

- Base growth projections in current five-year plan
 - FY14 5.03%
 - FY15 5.26%
 - FY16 5.17%
 - FY17 3.47%
 - FY18 2.97%

Sales tax– Updated projections

Revenue forecasting consultant IHS has the following projections

Year	IHS Forecast	MSA growth in personal income
FY14	3.9%	3.7%
FY15	3.7%	4.9%
FY16	3.6%	4.9%
FY17	3.8%	5.2%
FY18	3.7%	4.9%
FY19	3.4%	4.6%

Questions

- Should we anticipate the Philadelphia economy to follow a similar recovery as the US forecasts?
- Do you expect that the Comcast Technology and Innovation Center will have a meaningful impact on the economy?
- Is there anything else that we should be aware of as we produce our next five year plan (FY15-19)?

Value of Wage Tax Reductions

Fiscal Year	Tax	Prior Year Tax Base	Growth Rate	Current Year Tax Base	As Proposed Per Current FY15-19	With No Tax Reductions FY15-19	Value of Wage Tax Cuts	Proposed Tax Rates with Reductions		
								FY	Residents	Non-Residents
FY14	Wage & Earnings	42,150,748	1.75%	42,888,386	1,240,499	1,242,122	1,623	2014	3.9240%	3.4950%
	Net Profits	777,883	6.02%	824,712	19,446	19,463	17	2015	3.9200%	3.4915%
	Total				1,259,945	1,261,585	1,640	2016	3.9102%	3.4828%
FY15	Wage & Earnings	42,888,386	3.68%	44,466,679	1,284,309	1,287,676	3,367	2017	3.9004%	3.4741%
	Net Profits	824,712	6.27%	876,421	20,491	20,527	36	2018	3.8224%	3.4046%
	Total				1,304,800	1,308,203	3,403	2019	3.7460%	3.3365%
FY16	Wage & Earnings	44,466,679	3.74%	46,129,732	1,328,282	1,336,084	7,802	Tax Rates with NO Reductions		
	Net Profits	876,421	6.10%	929,883	21,608	21,694	86	FY	Residents	Non-Residents
	Total				1,349,890	1,357,778	7,888	2014	3.9280%	3.4985%
FY17	Wage & Earnings	46,129,732	3.56%	47,771,951	1,371,143	1,383,674	12,531	2015	3.9280%	3.4985%
	Net Profits	929,883	4.33%	970,147	22,416	22,556	140	2016	3.9280%	3.4985%
	Total				1,393,559	1,406,230	12,671	2017	3.9280%	3.4985%
FY18	Wage & Earnings	47,771,951	3.27%	49,334,094	1,379,137	1,428,762	49,625	2018	3.9280%	3.4985%
	Net Profits	970,147	4.17%	1,010,602	22,830	23,388	558	2019	3.9280%	3.4985%
	Total				1,401,967	1,452,150	50,183			
FY19	Wage & Earnings	49,334,094	3.11%	50,868,384	1,384,809	1,473,045	88,236			
	Net Profits	1,010,602	4.03%	1,051,329	23,224	24,225	1,001			
	Total				1,408,033	1,497,270	89,237			
Total Wage Tax Cuts							165,022			
Total PICA (All Years)							1,453			
Grand Total							166,475			