



CENTER CITY REPORTS

Investing the Proceeds of Growth:

City of Philadelphia Budget Choices: 2020-2024

FEBRUARY 2020

CENTER CITY DISTRICT,
CENTRAL PHILADELPHIA DEVELOPMENT CORPORATION

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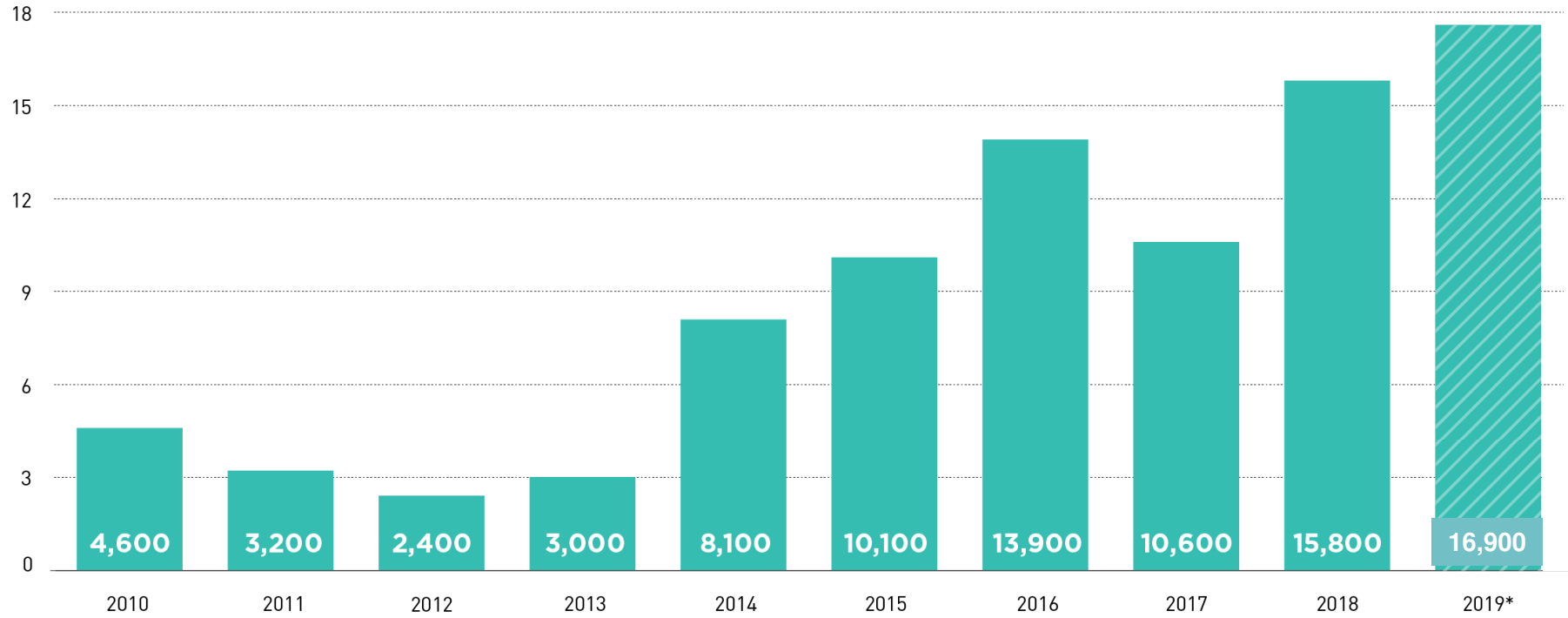
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CENTRAL PHILADELPHIA
DEVELOPMENT CORPORATION

10 straight years of job growth = +88,500 jobs since 2009

TOTAL JOB CHANGE FROM PREVIOUS YEAR 2010-2019*



Source: Bureau of Labor Statistics, Current Employment Statistics
*CCD Estimates

**Expanded municipal tax base is a huge dividend of growth.
From 2009 to 2019, adjusting for inflation:**

**More jobs, higher salaries, increased business volume & sales,
population growth & new construction
= more to tax even without an increase in rates.**

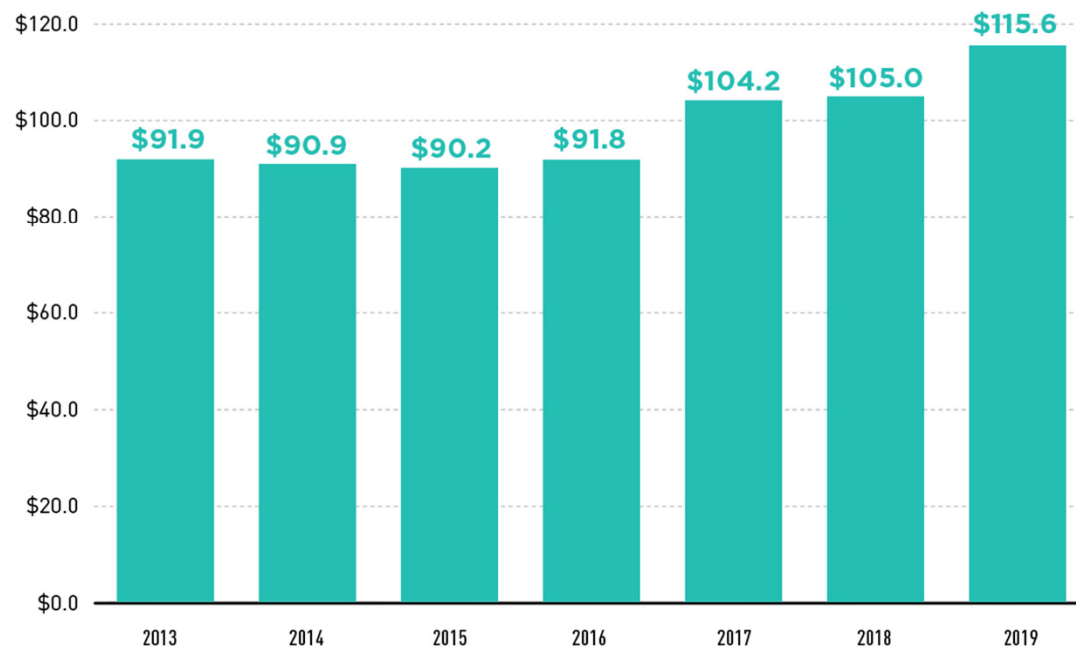
- **wage & earnings tax base up 27% (\$12 b) = \$442.4 million in FY20**
- **sales tax base up 18% (\$2.6 b) = \$52.5 million in FY20**
- **real estate transfer tax base up 131% (\$5.7b) = \$187.4 million in FY20**
- **Real estate tax base up 18% (\$18.3b) (Plus two rate increases)
= \$256.5 million in FY20 (city & school district) ***
- **U&O tax base up (%) \$14.5b = \$20.9 million in FY20 (school district)***

* Post AVI calculation only

Increase in real estate tax base & rates benefits school district

FIGURE 5: CITY OF PHILADELPHIA TAXABLE ASSESSED VALUE OF PROPERTY TAX YEAR 2013 - 2019 (DOLLARS IN BILLIONS)

13.998 per \$1,000 of taxable assessed value is divided in 2020: 6.317 goes to the City and 7.681 goes to the School District.



Revenue increases

Since 2009, School District has received 18% more in RE taxes

Use & occupancy taxes up 38%

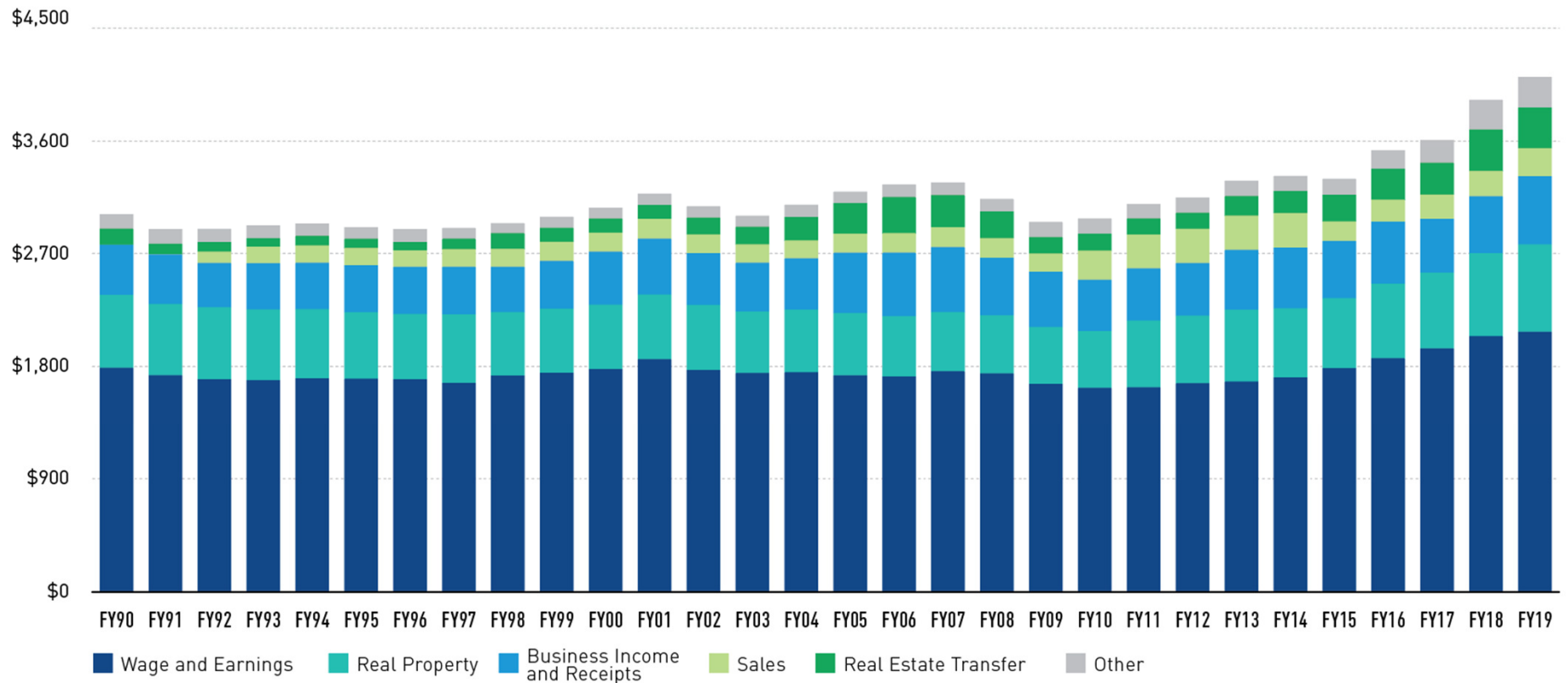
School income tax up 70%.

In addition, in 2015 District began receiving \$120 million annually in revenues from local sales tax.

Total District tax revenues increased 46% (inflation-adjusted) during past decade.

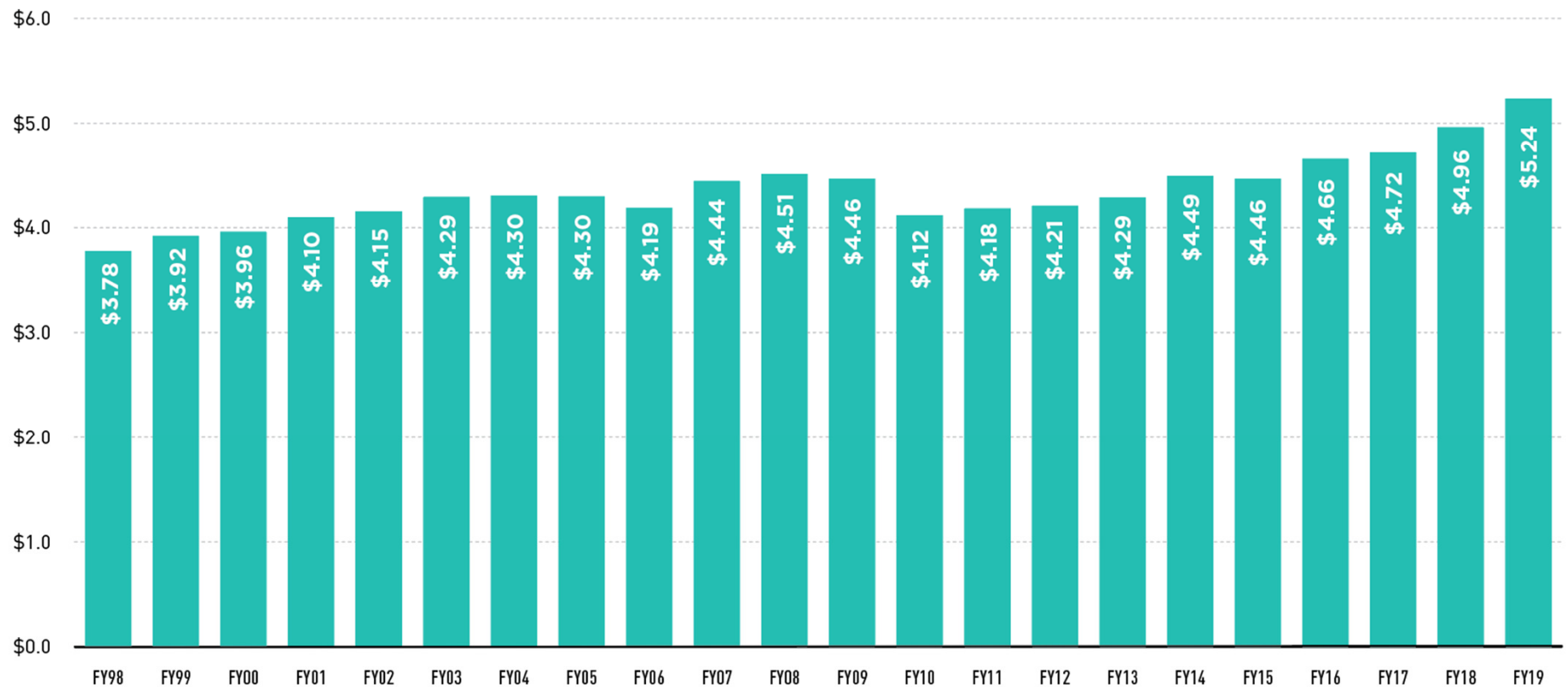
Total municipal tax revenues up from \$2.95 to \$4.11 billion +39% since 2009

FIGURE 6: CITY OF PHILADELPHIA TAX REVENUES BY CATEGORY, FY 1990 - FY 2019
(2019 DOLLARS IN BILLIONS)



FY2010 to FY 2019, General Fund spending increased by \$1.6 billion, 27% increase on inflation adjusted basis

FIGURE 4: CITY OF PHILADELPHIA ADJUSTED GENERAL FUND EXPENDITURES, FY 1998 - FY 2019 (2019 DOLLARS IN BILLIONS)



How best to spend increased revenues

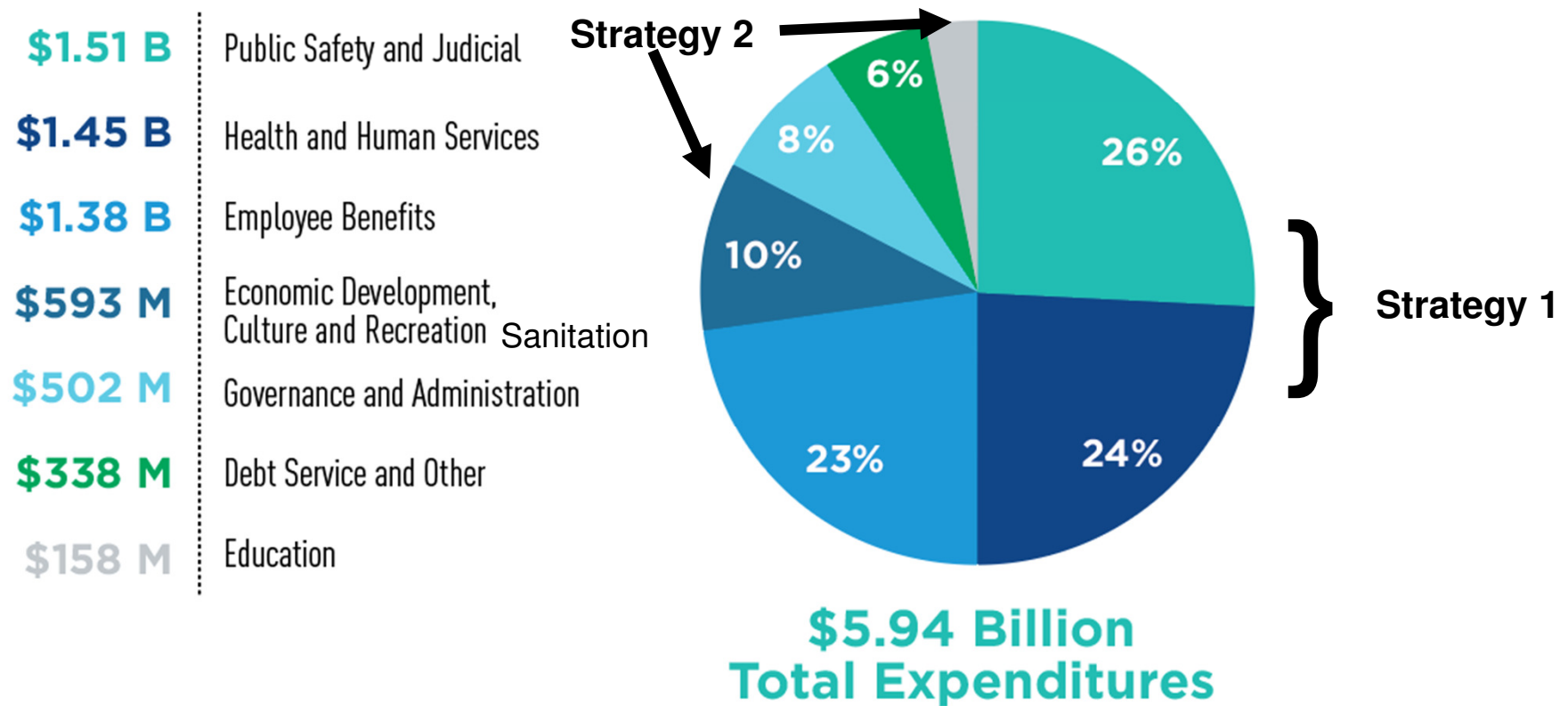
Strategy 1: Enlarge share of tax revenues devoted to address crime, criminal justice & the city's substantial social needs & disparities.

Strategy 2: Place greater emphasis on quality of life issues, cleaning, parks, infrastructure, education & economic development to retain & attract more residents & businesses with the means to choose many other regional or national locations.

Strategy 3: Invest more of proceeds of growth in tax reduction, lowering cost of working & doing business in Philadelphia, to prompt more widespread & inclusive, private-sector job growth.

Strategy 1 = 50% of budget

FIGURE 9: CITY OF PHILADELPHIA EXPENDITURES BY PROGRAM CATEGORY MAJOR FUNDS, FY 2018



Strategy 1 expenditures

**APPENDIX TABLE 1: CITY OF PHILADELPHIA EXPENDITURES BY CATEGORY, MAJOR FUNDS
(2018 DOLLARS IN MILLIONS)**

PUBLIC SAFETY	FY98	FY2018	AMOUNT DIFFERENCE	PERCENT DIFFERENCE
Fire	\$197.6	\$278.4	\$80.8	41%
Police	\$577.9	\$717.1	\$139.3	24%
District Attorney	\$42.3	\$41.6	(\$0.8)	-2%
Court System	\$208.9	\$168.0	(\$40.9)	-20%
Defender Association	\$36.1	\$48.8	\$12.7	35%
Prisons	\$170.1	\$259.0	\$88.8	52%
Total	\$1,233.0	\$1,512.9	\$280.0	23%
HEALTH AND HUMAN SERVICES				
Health	\$690.7	\$758.4	\$67.8	10%
Human Services	\$515.5	\$591.7	\$76.1	15%
Homeless Services	\$41.8	\$81.9	\$40.1	96%
Community Services	\$43.9	\$16.7	(\$27.3)	-62%
Total	\$1,291.9	\$1,448.6	\$156.8	12%

Strategy 2 + Schools: 13% of budget

ECONOMIC DEVELOPMENT, CULTURE AND RECREATION

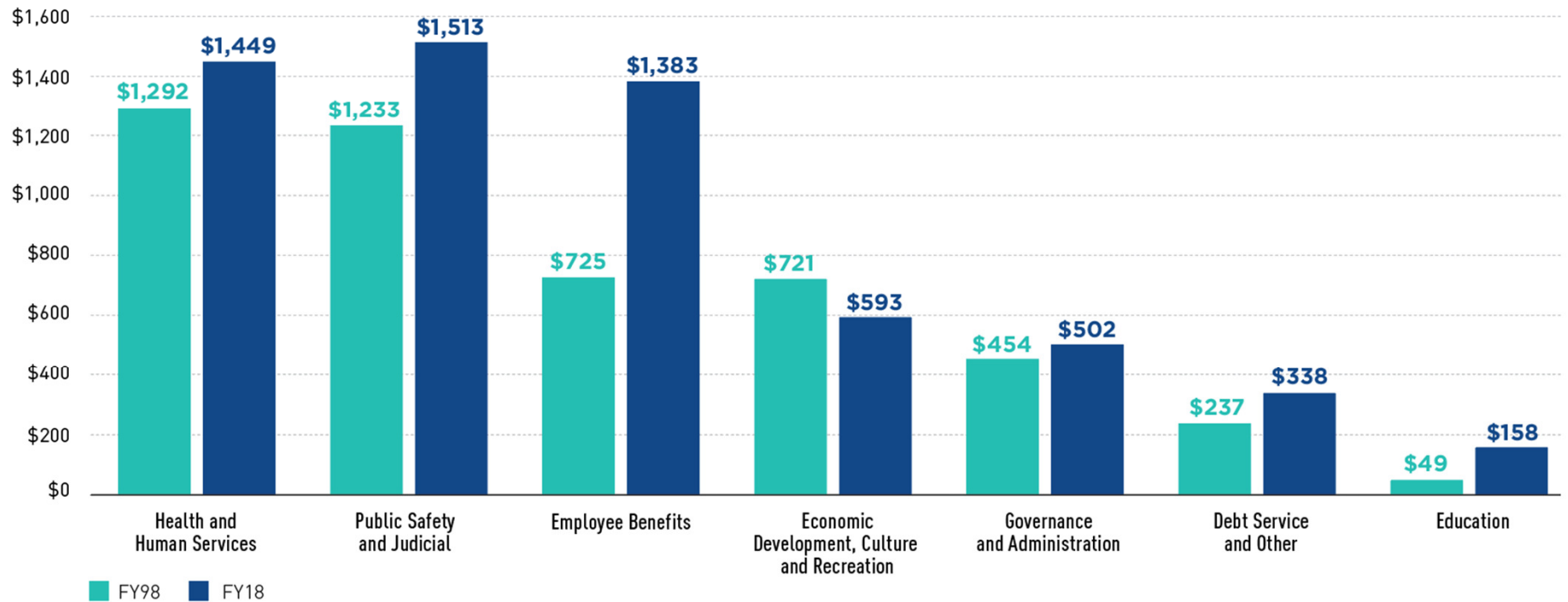
Arts and Culture	Philadelphia Museum of Art subsidy, Office of Arts and Culture and the Creative Economy, Atwater Kent Museum, Civic Center, Mural Arts Program
Free Library	Free Library of Philadelphia
Parks and Recreation	Fairmount Park Commission, Department of Recreation, Department of Parks and Recreation, Camp William Penn
Commerce/City Representative	Department of Commerce, Office of City Representative
Convention Center Subsidy	Subsidy to Pennsylvania Convention Center Authority
Planning and Development	Historical Commission, City Planning Commission, Office of Housing and Community Development, Zoning Board of Adjustment, Office of Planning and Development
SEPTA Subsidy	Subsidy to SEPTA
Streets	Department of Streets

20 year comparison by category from all sources

Economic development, culture & recreation declined

Strategy 2 expenditures

FIGURE 11: CITY OF PHILADELPHIA EXPENDITURES BY PROGRAM CATEGORY MAJOR FUNDS, FY 1998 AND FY 2018 (2018 DOLLARS IN BILLIONS)



Long-term decline in Strategy 2 Except hotel tax invested in PHLCVB & Visit Philly Produces significant growth in low wage jobs

FIGURE 12: CITY OF PHILADELPHIA EXPENDITURES FOR ECONOMIC DEVELOPMENT, CULTURE, AND RECREATION PROGRAMS (2018 DOLLARS IN BILLIONS)

PROGRAMS	FY98	FY18	AMOUNT CHANGE	PERCENT CHANGE
Arts and Culture ¹	\$4.5	\$8.9	\$4.5	100%
Free Library	\$54.5	\$50.1	(\$4.4)	-8%
Parks and Recreation ²	\$81.5	\$73.2	(\$8.3)	-10%
Commerce/City Representative	\$51.4	\$85.5	\$34.1	66%
Convention Center Subsidy	\$44.1	\$15.0	(\$29.1)	-66%
Planning and Development ³	\$171.1	\$80.4	(\$90.7)	-53%
SEPTA Subsidy	\$82.7	\$81.9	(\$0.7)	-1%
Streets	\$231.2	\$198.1	(\$33.1)	-14%
TOTAL	\$720.8	\$593.1	(\$127.7)	-18%

Notes:

1. Includes Art Museum subsidy, Office of Arts and Culture and the Creative Economy, Atwater Kent Museum subsidy, Civic Center subsidy, and Mural Arts Program.
2. Includes Camp William Penn.
3. Includes Office of Housing and Community Development, Department of Planning and Development, City Planning Commission, Historical Commission, and Zoning Board of Adjustment.

Strategy 3:

Tax reduction & reform is essential to job growth

Currently 0.16% of budget

Wage & earnings tax (\$5.4m) + BIRT Net income: \$2.6m = \$8.0 million.

As Philadelphia invests in education, job training & services for those of limited means & mobility & seeks to stabilize moderate-income neighborhoods, it must simultaneously prompt faster employment growth.

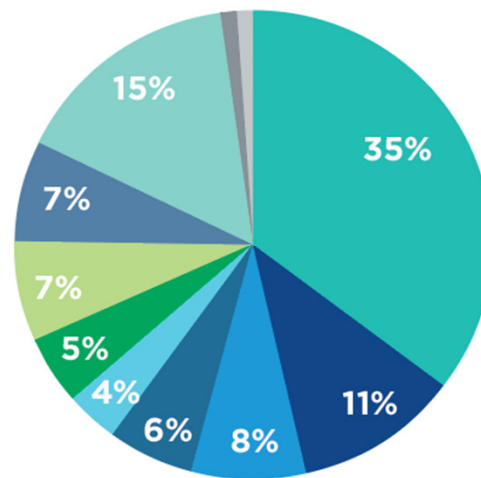
Only this way will there be sufficient opportunities in the city for those seeking to enter the workforce & to enjoy benefits of growth.

Only the creation of more family-sustaining jobs will persuade those with the option to leave that there are promising reasons to stay.

Pew Charitable Trusts: Low reliance on property tax High reliance on wage and business taxes

FIGURE 8: CITY OF PHILADELPHIA REVENUES BY TYPE
MAJOR FUNDS, FY 2018

\$2.29 B	Wage, Earnings and Net Profits Tax
\$650 M	Real Estate Tax
\$446 M	Business Income and Receipts Tax
\$332 M	Real Property Transfer Tax
\$198 M	Sales Tax
\$276 M	Other Taxes
\$403 M	Locally-Generated Non-Tax
\$401 M	Federal Grants
\$881 M	State Grants
\$63 M	Other Grants
\$63 M	Interfund Transfers and Other



**\$5.74 Billion
Total Revenue**

Among 30 largest US cities, Philadelphia's overall reliance on the property tax in 2015 was the lowest – at only 25% of locally generated tax revenue .

2nd highest in reliance on business taxes

3rd highest in reliance of wage tax

Pew report on business taxes

A report from  THE PEW CHARITABLE TRUSTS

| Aug 2016



Philadelphia Business Taxes: Incentives and Exemptions

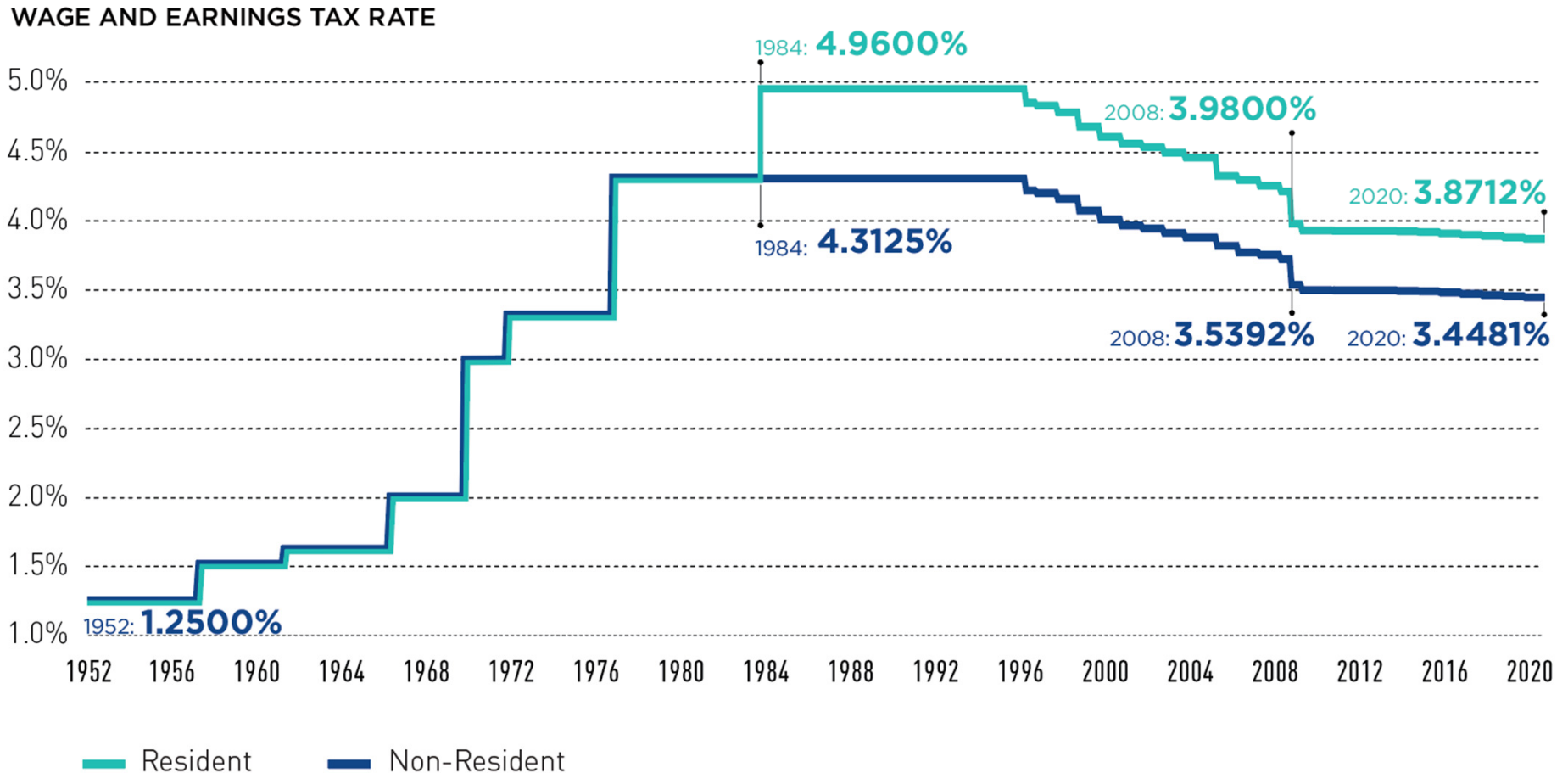
Like many cities, Philadelphia does not regularly evaluate whether tax breaks achieve their goals

**PHL has one of the highest
business tax burdens among
all large cities**

**Only large city to tax both
gross revenues & net income**

Accelerate wage tax & BIRT reduction

FIGURE 1: WAGE & EARNINGS TAX RATE HISTORY, 1952-2020



Source: City of Philadelphia, Summary Schedule of Tax Rates Since 1952

Commitment to tax reduction 1996 to 2010

Amount of collected revenue not spent on services, but dedicated to wage tax reductions in constant 2019 dollars: \$9 million to \$38 million/year for 15 consecutive fiscal years, average of \$19.3 million/year.

Continuous wage tax reduction came to a halt with the recession. No reductions in FY 2012 & 2013. Beginning in FY 2014, City resumed reductions, but at a much lower level, averaging just \$5 million/year.

FY 1996 to 2010, the revenue forgone due to tax cuts in any single year was never more than 1% of total General Fund obligations. The actual revenue impact of tax rate reductions: **from 0.23% to 0.98%** of General Fund spending, and averaged 0.47% of the budget.

When the rate cuts resumed in FY14, they were significantly smaller, **currently 0.16% of General Fund spending**

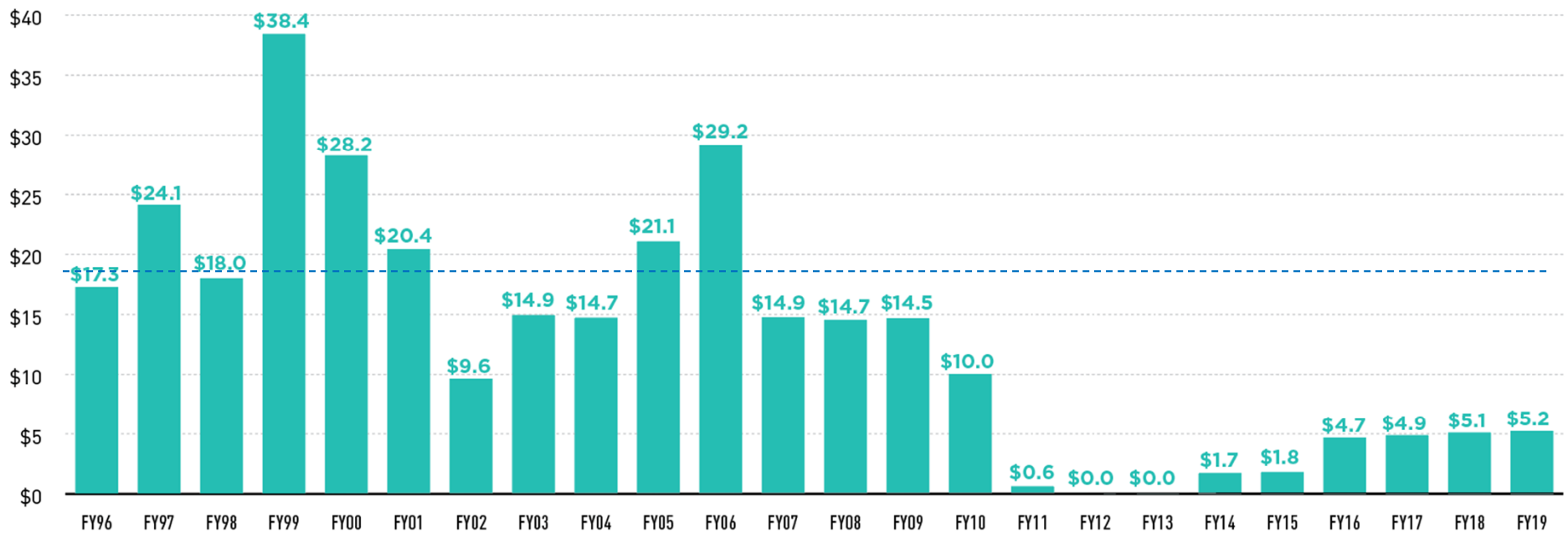
1996-2010: from \$9 million to \$38 million

Average commitment of \$19.3 million/year

From 0.23% - 0.98% (av 0.47%) of general fund expenditures;

Currently 0.16%

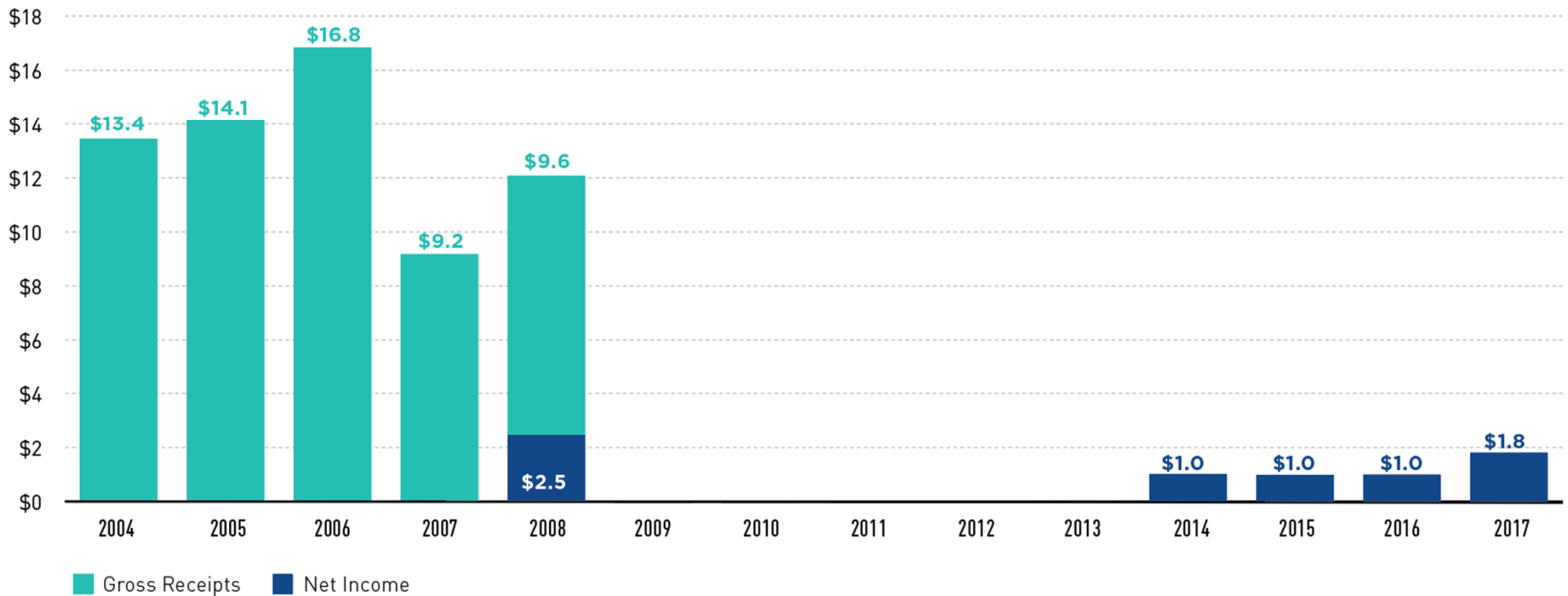
FIGURE 16: FISCAL IMPACT OF WAGE AND EARNINGS TAX RATE REDUCTIONS
(2019 DOLLARS IN MILLIONS)



Note: The most significant wage cuts over this period occurred at the beginning of FY09, when the resident wage tax declined from 4.219% to 3.98% and the non-resident tax from 3.7242% to 3.5392%. The FY09 reductions were financed primarily by a large infusion of \$86.5 million in state gaming proceeds, a funding stream that the City has continued to receive at a much reduced rate over the past decade. (In the figure, the \$14.5 million reduction in FY09 represents the amount of the reduction financed by local taxpayers.) In all other years, the primary source of reductions came from the decision not to spend every tax dollar collected for services.

**2004-2008: cuts to gross receipts of BIRT ranged from \$9 million to \$17 million.
Since 2014-2017, reductions in net income BIRT \$1-\$ 1.8 million/year; currently: \$2.6 million**

**FIGURE 17: FISCAL IMPACT OF BUSINESS INCOME AND RECEIPTS TAX RATE REDUCTIONS
(2017 DOLLARS IN MILLIONS)**

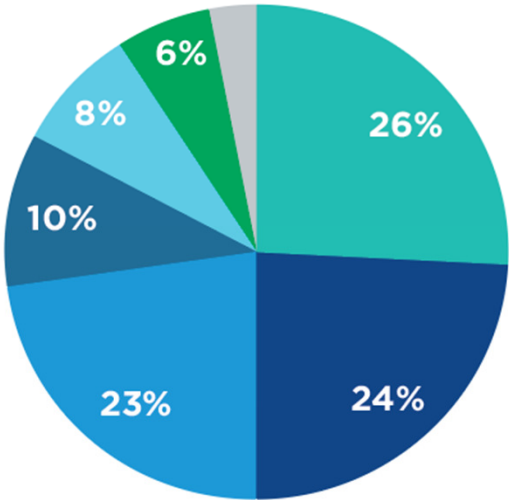


Current summary

FIGURE 9: CITY OF PHILADELPHIA EXPENDITURES BY PROGRAM CATEGORY MAJOR FUNDS, FY 2018

Strategy 1 = 50%
Strategy 2 = 13%
Strategy 3 = 0.16%
Pension/Benefits = 23%

\$1.51 B	Public Safety and Judicial
\$1.45 B	Health and Human Services
\$1.38 B	Employee Benefits
\$593 M	Economic Development, Culture and Recreation
\$502 M	Governance and Administration
\$338 M	Debt Service and Other
\$158 M	Education



\$5.94 Billion
Total Expenditures

Recommended

1% of FY20 budget

Split 70/30 Wage/BIRT FY20 would have been:

Wage and earnings tax: \$35.2 million

BIRT net income tax: \$15.1 million

Total: \$50.3 million

Strategy 3: invest in tax competitiveness & economic growth
Tax reform strategy = 1.0% of budgeted spending.

**FIGURE 19: STRONGER TAX REDUCTION SCENARIO:
 PROJECTED WAGE AND BIRT RATES, 2021-2025**

	2020	2021	2022	2023	2024	2025
Wage Tax Resident Rate	3.8712%	3.8035%	3.7368%	3.6713%	3.6067%	3.5433%
Wage Tax Non-Resident Rate	3.4481%	3.3879%	3.3286%	3.2704%	3.2130%	3.1566%
BIRT Net Income Rate	6.20%	5.93%	5.65%	5.37%	5.09%	4.81%