Legislative Budget and Finance Committee

Philadelphia's Use of Gaming Funds

Report Presentation by Philip Durgin, Executive Director,
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Good morning. House Resolution 2013-86 calls on our Committee to study Philadelphia's use of gaming revenues, and particularly whether wage tax relief or property tax relief is the best use of Philadelphia's allocation from the Property Tax Relief Fund (PTRF).

All school districts except for the School District of Philadelphia must use PTRF funds to reduce property taxes on homesteads and farmsteads. By law, Philadelphia is required to use its PTRF allocation to reduce the wage tax on residents and nonresidents. This provision was inserted into Act 1 of 2006 because the General Assembly viewed the Philadelphia wage tax as a greater barrier to the city's economic growth than the property taxes.

We found that Philadelphia's share of the PTRF has remained steady at about $86.3 million for the past five years. Of this amount, 65 percent, or about $56 million, is targeted for wage tax reductions for Philadelphia residents and 35 percent to wage tax reductions for nonresidents who work in Philadelphia but live outside the city limits.

Philadelphia's tax structure is unusual in that it relies much more heavily on wage taxes than property taxes. For example, the city generates 47 percent of its local tax revenue from wage taxes, versus only 12 percent from property taxes. The picture changes somewhat when school taxes are added in, but even when taken together, Philadelphia still relies more heavily on wage taxes (35 percent) than either Pittsburgh (28 percent) or Allentown (18 percent), Pennsylvania's next two largest cities.

In part because property taxes in Philadelphia have historically been relatively modest, for many decades property valuations in Philadelphia, and particularly residential valuations, bore little resemblance to their true market values. Mayor Nutter attempted to change this situation in 2011, when all property in the city was reassessed with the goal of reflecting true market value. This effort, known as the Actual Value Initiative, or AVI, was to result in revenue-neutral 2014 property tax rates—meaning overall property tax collections would remain the same in 2014 as in 2013—but property assessment values were to be much closer to actual market values.

The Actual Value Initiative appears to have had mixed success, with one study finding that AVI will generally benefit or have little impact on the majority of homeowners (after factoring in the $30,000 homestead exemption and gentrification

relief programs), while another study found that assessments were actually more accurate under the prior system.

Philadelphia has also had a longstanding problem with property tax delinquency, with about $292 million in delinquent taxes owed to the city and its school district as of April 2012. That figure increases to $515.4 million when interest and penalties are included.

A recent report by the Pew Charitable Trusts that compared Philadelphia to 36 other cities found that Philadelphia had the fifth highest delinquency rate, with 9 percent of 2011 property taxes going uncollected. In comparison, the median delinquency rate for all 36 cities included in the study was 4.1 percent.

With that as a backdrop, our charge was to assess the impact of using the PTRF funds to reduce property, rather than wage, taxes. We found that if Philadelphia's $86 million in PTRF monies were used solely for property tax relief, 2014 property tax rates could be reduced from 1.34 percent to 1.24 percent. This 7.5 percent reduction in property taxes would primarily benefit homeowners with high-value homes, particularly if they also have low levels of earned income. Owners of commercial and other nonhomestead properties would also benefit from this approach as the property tax rate would be reduced for all property owners, not just homeowners.

We also modeled the impact of using the PTRF monies to double the homestead exemption which the Philadelphia City Council approved in June 2013 from $30,000 to $60,000. Expanding the homestead exemption to $60,000 would primarily benefit homeowners with low levels of earned income (under $60,000) who own homes with appraised values of $60,000 or more. For example, a Philadelphia resident earning $30,000 in annual wages who owns a home with an appraised value of $60,000 or more would save an additional $315 if the PTRF was used to expand the homestead exemption rather than reduce wage taxes. Conversely, a Philadelphia homeowner earning $240,000 in annual wages would pay about $300 more in combined taxes, as they would lose more in wage relief than they would gain from an expanded homestead exemption. The report contains several tables outlining the "winners" and "losers" under these various scenarios.

While we did not conduct our own independent analysis of the relative advantages and disadvantages of using PTRF funds to reduce property versus wage taxes, we did review a number of economic studies that have been conducted over the past 20 years and found that they are virtually unanimous in concluding that Philadelphia's wage tax is a greater impediment to the city's economic development than the property tax. Our report summarizes these studies which, in general, found that:

- High wage taxes have cost the city jobs, with the rise in Philadelphia's wage taxes between 1971 and 2001 found to be responsible for the loss of about 173,000 jobs from the city.
- Secondly, property taxes tend to promote more efficient government. Unlike wage taxes, property taxes give property owners an incentive to demand better services and efficiency, which in turn then result in increased property values.
- And third, wage taxes are regressive. Philadelphia was found to have the highest wage tax out of the 50 largest U.S. cities for individuals making less than $100,000. Because the wage tax rate is the same for all income levels, the burden of the city wage tax falls disproportionately on persons with lower-level incomes.

Finally, the report notes that additional gaming funds are provided to Philadelphia through Local Share Assessments and the Pennsylvania Gaming and Economic Development and Tourism Fund. In 2012, the Philadelphia School District received $5 million in Local Share Assessment funds and the city received an additional $4.3 million. Philadelphia also received $56.6 million in Gaming and Economic Development and Tourism Fund monies, but by law these monies can only be used to repay the operating and debt expenses of the Pennsylvania Convention Center.

Thank you.