

Report Highlights

Philadelphia's Use of Gaming Funds

House Resolution 2013-86 calls on the LB&FC to study Philadelphia's use of gaming revenue, particularly whether wage tax relief or property tax relief is the best use of Philadelphia's allocation from the Property Tax Relief Fund. Philadelphia (though not necessarily City government) receives gaming funds from three sources: the Property Tax Relief Fund (PTRF), the Local Share Assessment (LSA), and the Gaming and Economic Development and Tourism Fund (GEDTF).

We found:

- **Philadelphia must use its PTRF allocation to reduce wage taxes.** All school districts except for the Philadelphia SD must use PTRF funds to reduce property taxes on homesteads. By law, Philadelphia must use its PTRF allocation to reduce the wage tax on residents and nonresidents as the wage tax was viewed as a greater barrier to the city's economic growth.
- **Philadelphia's share of the PTRF has remained steady at about \$86.3 million since FY 2008-09.** 65% of the funds are for wage tax reductions to city residents and 35% to wage tax reductions for nonresidents.
- **Philadelphia has implemented the Actual Value Initiative (AVI) to reform property valuations.** For many decades, property values in Philadelphia have failed to reflect true market value. In 2011, all property was reassessed with the goal to reflect true market value. AVI was to result in revenue-neutral 2014 property tax rates (overall property tax collections would remain the same in 2013.)
- **AVI appears to have had mixed success.** One study found that AVI will generally benefit or have little impact on most homeowners (after factoring in the \$30,000 homestead exemption and gentrification relief programs), while another found that assessments were actually more accurate under the prior system.
- **Philadelphia has a longstanding problem with property tax delinquency.** Philadelphia has one of the highest property tax delinquency rates of major US cities (9%), with about \$292 million owed in delinquent taxes (\$515 million when interest and penalties are included).
- **If PTRF monies were used for property tax relief, property tax rates could be reduced from 1.34% to 1.24%.** This 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 as the property tax rate would be reduced for all property owners.
- **We also modeled the impact of using PTRF monies to expand the homestead exemption from \$30,000 to \$60,000.** In June 2013, Philadelphia City Council enacted a \$30,000 homestead exemption. Expanding this 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.
- **Economic studies are virtually unanimous in concluding that wage taxes are a greater impediment to the city's economic development than property taxes.** Finance experts agree that property taxes do less damage to a local economy than wage taxes because real estate, unlike residents or businesses, cannot move to avoid being taxed. In particular:
 - *High wage taxes cost city jobs.* The rise in Philadelphia's wage taxes between 1971 and 2001 has been reported as responsible for the loss of about 173,000 jobs from the city.
 - *Property taxes promote more efficient government.* Property taxes give property owners an incentive to demand better services and efficiency from the City government as better services result in increased property values.
 - *Wages taxes are regressive.* Philadelphia has the highest wage tax out of the 50 largest US 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.
- Gaming funds are also directed to Philadelphia through LSAs and the PGEDTF. In 2012, the Philadelphia School District received \$5M in LSA funds and the city received \$4.3M. Philadelphia also received \$56.6M in GEDTF monies, but these monies must be used to repay PA Convention Center debt.