Legislative Budget and Finance Committee

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Philadelphia's Use of Gaming Funds

Conducted Pursuant to HR 2013-86

December 2013

Table of Contents

Summary

The Pennsylvania Race Horse Development and Gaming Act, Act 2004-71, as amended, 4 Pa.C.S. §1101 et seq., provides that a portion of gaming revenues go to assist Philadelphia (though not necessarily the City of Philadelphia) through three sources: the Property Tax Relief Fund, the Local Share Assessment, and through the Pennsylvania Gaming and Economic Development and Tourism Fund.

Property Tax Relief Fund

All school districts except for the School District of Philadelphia are to use PTRF funds to reduce property taxes on homesteads and farmsteads. Act 2006-1 (Sp. Sess. 1) requires the City of Philadelphia to use its allocation for the School District of Philadelphia to reduce the wage and net profits tax on residents and non-residents. The General Assembly placed this provision in the act because the wage tax was viewed as a greater barrier to Philadelphia's economic growth than the property tax.

Philadelphia's share of the Property Tax Relief Fund has remained steady at about $86.3 million since FY 2008-09, with 65 percent of the funds being targeted to support wage tax reductions to city residents and 35 percent to support wage tax reductions to residents of other municipalities who work in Philadelphia and pay the city wage tax (see the table below).

PTRF Funds Provided to Philadelphia
($ in Millions)

	Resident Share	Nonresident Share	Total
FY 2013-14 (estimated)...	$55.90	$30.40	$86.28
FY 2012-13.....	$55.87	30.40	$86.27
FY 2011-12.....	$55.88	30.40	$86.27
FY 2010-11.....	$55.88	30.39	$86.27
FY 2009-10.....	$55.88	30.39	$86.27
FY 2008-09.....	$55.88	30.67	$86.55

Philadelphia's Wage and Property Taxes. As the table below shows, most of the local tax revenue generated for Philadelphia (combining the city and school district) is derived almost equally between wage taxes (35 percent) and property taxes (34 percent). However, when only considering local tax revenues for the city (i.e., not including the school district), the picture changes, with the wage tax accounting

for 47 percent of local tax revenue and property taxes accounting for only 19 percent.

City of Philadelphia and School District of Philadelphia Wage and Property Taxes
(2012) ($ in Millions)

	Total Local Taxes	% Wage Tax	% Property Tax
City	$2,570.4[a]	46.5%	19.5%
School District	840.9	0	77.2
Total	$3,411.3	35.1%	33.7%

[a] Does not include taxes collected by the city but provided to the school district.

The wage tax rate hit its peak in 1983 when it climbed to 4.96 percent for residents of Philadelphia and 4.3125 for nonresidents. Since 1990, the wage tax rate has slowly decreased to its current (October 2013) rate of 3.928 percent for residents and 3.499 percent for nonresidents.

For many decades, property values in Philadelphia have failed to reflect true market value. In 2011, the city's Office of Property Assessment began to reassess all property in the city with the goal of ensuring that assessments reflect the true market value of properties. This effort, known as the Actual Value Initiative, was to result in revenue-neutral 2014 property tax rates (i.e., although the amount collected for any given property may change, overall property tax collections would remain the same in 2014 as in 2013.)

In June 2013, the Philadelphia City Council approved a 1.34 percent property tax for tax year 2014 to be applied to the new AVI values. The Council also approved a $30,000 homestead exemption, which applies to people who own their home and live in it, and two "gentrification relief" bills for long-time residents whose assessments rose more than 300 percent under AVI. Residents had until the first Monday in October 2013 to appeal their reassessment.

Impact of the AVI

In April 2013, a consultant for City Council found that—assuming that all homeowners take advantage of the homestead exemption (set at $30,000) and that gentrification relief is given to long-time owners in growing neighborhoods—as many as 72 percent of Philadelphia homeowners could see lower property tax bills, and just 10 percent would see bills rise by more than $400. The analysis predicted that the Actual Value Initiative will generally either benefit or have little impact on the majority of homeowners.

A May 2013 Pew Charitable Trusts report found that, as expected, the AVI shifted more of Philadelphia's property tax burden onto homeowners. This is because residential property assessments were far more out-of-date than commercial property assessments throughout the city.

Also in May 2013, the City Controller's Office released a report that found that the Actual Value Initiative reassessments did not improve the accuracy, uniformity or fairness of assessments and that assessments were actually more accurate under the prior system. In particular, the report concluded that black areas of Philadelphia are over-assessed, while white areas are under-assessed. The report attributed these errors to a very large proportion of residential properties not having sound data with which to model and assess their market values.

Property Tax Delinquency Rates

Philadelphia has also had a longstanding problem with property tax delinquency. A 2013 report by the Pew Charitable Trusts found that as of April 2012, the city and school district were owed $292.3 million in delinquent taxes on 102,789 properties. That figure increases to $515.4 million when interest and penalties are included. Pew reported that about one-quarter of those properties had been delinquent for more than a decade.

Impact to Homeowners of Devoting the PTRF to Property Tax Reductions

We calculated which groups of Philadelphia homeowners would benefit (defined as lower combined wage and property taxes) from devoting Philadelphia's share of PTRF funds to reducing property taxes rather than wage taxes. The $86 million Philadelphia receives in PTRF funds, if permitted in legislation, would reduce the amount Philadelphia collects in property taxes from $1.15 billion to $1.064 billion, thereby allowing a 7.5 percent reduction in 2014 property tax rates, from 1.34 percent to 1.24 percent. This would primarily benefit homeowners with high-value homes, particularly homeowners who also have low levels of earned income (see Table 9). Owners of commercial and other nonhomestead properties would also benefit from this approach as the property tax rate would be reduced to 1.24 percent for all property owners, not just homestead properties.

We also calculated the effect on Philadelphia homeowners using PTRF funds to expand the homestead exemption from its current level ($30,000) to $60,000. We estimate such an expansion would cost about $80 million. Using Philadelphia's PTRF funds to expand the homestead exemption to $60,000 primarily benefits homeowners with low levels of earned income (under $60,000) who own homes having appraised values of $60,000 or more (see Table 11).

Prior Studies on the Relative Merits of Wage Vs. Property Tax Reductions

Among the reports and studies we reviewed over the past 18 years, we found widespread agreement that a reduction in resident and nonresident wage taxes is preferable from an economic growth standpoint to a reduction in city property taxes. In general, finance experts agree that property taxes do less damage to a local economy than income, wage, or business taxes because real estate, unlike residents or businesses, cannot move to avoid being taxed. Key points from these reports/studies include:

High Wage Taxes Cost City Jobs. The rise in Philadelphia's wage taxes between 1971 and 2001 has been reported as responsible for driving out or eliminating about 173,000 jobs from the city.

One commentator noted that "We [Philadelphia] tax what moves, while other cities tax what's fixed: land and improvements. They [e.g., Boston, New York, and Washington] have much more dynamic job growth." A second commentator supported that statement, noting "People are not going to work in the city unless the business compensates for their higher wage tax. The bottom line is that this tax is shifted back onto businesses."

Property Taxes Promote More Efficient Government. Property taxes give property owners an incentive to demand better services and efficiency from the city government. Not only do property owners receive the direct benefits of improved education, public safety, and parks, improved services also result in an increase in property values.

Wages Taxes Are Regressive. Surveys indicate that 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 lower-level incomes relative to other cities.

Local Share Assessments and the Gaming Economic Development and Tourism Fund

Gaming funds are also directed to Philadelphia through Local Share Assessments and the Pennsylvania Gaming Economic Development and Tourism Fund. Four percent of the gross terminal revenue from Category 2 gaming facilities (stand-alone casinos) are local share assessments. Under the Pennsylvania Race Horse Development and Gaming Act, the first $5 million in Philadelphia's annual local share assessments are to go to the Philadelphia School District.

The following table shows how Philadelphia's local share assessment has been distributed:

Distribution of Sugarhouse Casino's Local Share Assessment

Year	Philadelphia School District	Philadelphia City	Total
2010[a]...	$1,825,412.87	$ 0.00	$1,825,412.87
2011	5,000,000.00	3,322,958.88	8,322,958.88
2012	5,000,000.00	4,286,518.55	9,286,518.55
2013[b] ...	4,652,934.59	0.00	4,652,934.59

[a] Sugarhouse Casino Open Date 09/23/2010.
[b] 2013 represents 1Q and 2Q LSA Distributions.

The city's share of LSA funds has been placed into the city's General Fund.

Each licensed gaming entity within the Commonwealth is also to pay an assessment of five percent of its gross terminal revenue into the Gaming Economic Development and Tourism Fund. Under Act 2004-71, GEDTF funds used in the City of Philadelphia can only be used for the debt service and operational expenses of the Pennsylvania Convention Center.

As shown in the table below, as of June 30, 2013, a total of $250.4 million has been disbursed for this purpose. This represents 38 percent of the total amount collected ($651.5 million) statewide for the GEDTF since FY 2006-07.

Gaming Economic Development and Tourism Fund
Project Payments to Date (6-30-2013) for Philadelphia

Pennsylvania Convention Center

FY 2007-08.....	$ 7,958,837
FY 2008-09.....	14,169,000
FY 2009-10.....	61,672,147
FY 2010-11.....	57,735,484
FY 2011-12.....	56,556,125
FY 2012-13.....	52,273,087
GEDTF Payments to Date.....	$250,364,681
Remaining Encumbrances	$629,635,319

I. Introduction

House Resolution 2013-86 directs the Legislative Budget and Finance Committee to study the allocation of gaming revenue provided to Philadelphia. In particular, we are to assess whether wage tax relief or property tax relief is the best use of the revenue Philadelphia receives from the Property Tax Relief Fund for the city's residents and taxpayers.

Study Scope and Objectives

The objectives of this study are:

1. Determine how much Philadelphia has received in gaming funds and how those funds have been used.

2. Assess the impact of the Actual Value Initiative on property taxes in Philadelphia.

3. Determine the relative advantages of using Philadelphia's share of Property Tax Relief Funds for wage tax relief or property tax relief.

Methodology

The financial information used in this report is primarily derived from audited and unaudited financial statements of the City of Philadelphia and the School District of Philadelphia. Additional information was received from the Pennsylvania Department of Revenue (regarding local share assessments) and the Office of the Budget (regarding Gaming Economic Development and Tourism Fund allocations).

Much of this report is developed from prior studies of Philadelphia's tax structure, the Actual Value Initiative, and the relative merits of wage tax relief and property tax relief on economic development in Philadelphia. We did not conduct our own economic analysis of these issues.

Important Note

This report was developed by Legislative Budget and Finance Committee staff. The release of this report should not be construed as an indication that the Committee or its individual members necessarily concur with the report's findings and recommendations.

Any questions or comments regarding the contents of this report should be directed to Philip R. Durgin, Executive Director, Legislative Budget and Finance Committee, P.O. Box 8737, Harrisburg, Pennsylvania 17105-8737.

II. Philadelphia Tax Structure

The Pennsylvania Race Horse Development and Gaming Act, Act 2004-71, as amended, 4 Pa.C.S. §1101 et seq., provides that a portion of gaming revenues go to assist Philadelphia (though not necessarily the City of Philadelphia) through three sources: the Property Tax Relief Fund, the Local Share Assessment, and through the Pennsylvania Gaming and Economic Development and Tourism Fund. The amount provided to Philadelphia or Philadelphia projects from these sources since FY 2007-08 is shown in Table 1. Additional detail is provided in Chapter III and the text below.

Table 1

Gaming Funds Provided to Philadelphia or Philadelphia Projects
($ in Millions)

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
PTRF[a]		$86.55	$86.27	$86.27	$86.27	$86.27
LSA (CY)[b]			1.83	8.32	9.29	4.65[c]
GEDTF[d]	$7.96	14.17	61.67	57.74	56.56	52.27

[a] 65 percent of this amount is targeted to wage tax relief for Philadelphia residents, 35 percent for nonresidents who work in Philadelphia.
[b] The first $5 million annually is required to go to the School District of Philadelphia.
[c] 1st and 2nd quarter distributions.
[d] Dedicated to the debt service and operating expense of the Pennsylvania Convention Center located in Philadelphia.

Source: PA Department of Education, PA Department of Revenue, and the Office of the Budget.

The Property Tax Relief Fund

Act 2006-1 (Sp. Sess. 1) provided property tax relief for Pennsylvania homesteads and farmsteads using funds derived from casinos operating in the Commonwealth. Since 2008, when funds were first certified for distribution, distributions from the Property Tax Relief Fund have averaged about $614 million annually. The Commonwealth's Budget Secretary certified that $611.6 million in state-funded local tax relief will be available in 2013-14.

All school districts except for the School District of Philadelphia are to use these funds to reduce property taxes on homesteads and farmsteads. Act 1 requires the City of Philadelphia to use the allocation calculated for the School District of Philadelphia to reduce the wage and net profits tax on residents and nonresidents.[1]

[1] Since 2009, the wage and the net profits tax rates have been virtually identical. The wage tax applies to employees, whereas the net profits tax applies to the net profits from the operation of a trade, business, profession, or other similar enterprise other than corporations. (Corporations are exempt from the net profits tax.) The net profits tax applies to residents, even if business is conducted outside Philadelphia, and nonresidents who conduct business in Philadelphia.

The General Assembly placed this provision in the act because the wage tax was viewed as the greater barrier to Philadelphia's economic growth than the property tax.

Philadelphia's share of the Property Tax Relief Fund has remained steady at about $86.3 million since FY 2008-09, with 65 percent of the funds (about $55.9 million) being targeted to support wage tax reductions to city residents and 35 percent (about $30.5 million) to support wage tax reductions to residents of other municipalities who work in Philadelphia and pay the city wage tax (see Table 2).

Table 2

PTRF Funds Provided to Philadelphia
($ in Millions)

	Resident Share	Nonresident Share	Total
FY 2013-14 (estimated)...	$55.9	$30.40	$86.28
FY 2012-13.....	$55.87	30.40	$86.27
FY 2011-12.....	$55.88	30.40	$86.27
FY 2010-11.....	$55.88	30.39	$86.27
FY 2009-10.....	$55.88	30.39	$86.27
FY 2008-09.....	$55.88	30.67	$86.55

Source: Pennsylvania Department of Education.

Philadelphia's Use of the Property Relief Tax Funds

Act 2006-1 (Sp. Sess. 1) stipulates that Philadelphia is only to use the Property Relief Tax Funds it receives to reduce resident and nonresident wage taxes. We estimated that Philadelphia reduced resident and nonresident wage taxes by about $85 million in CY 2009, $87 million in CY 2010, and $89 million in 2011, thus meeting the provisions of Act 1 when averaged over the three-year period.

Overview of Philadelphia Taxes

Exhibit 1 shows the types of taxes and rates for Philadelphia's city and school district taxes.

Exhibit 1

Philadelphia Tax Rates
(2013)

Tax Name	Municipality Tax Amount	School District Tax Amount	Total Tax Amount
Amusement (percent)	5	0	5
Earned Income – Nonresident (percent)	3.499	0	3.499
Earned Income – Resident (percent)	3.928	0	3.928
Hotel Room Rental (percent)	8.5		8.5
Liquor Sales (percent)	0	10	10
Local Sales Tax (percent)	2	0	2
Mechanical Devices (dollars)	100	0	100
Mercantile/Business Privilege – Retail (mills)	1.415	0	1.415
Mercantile/Business Privilege – Wholesale (mills)	1.415	0	1.415
Parking Tax (percent)	20	0	20
Real Estate – General Purpose (mills)[a]	97.71	53.09	150.8
Realty Transfer (percent)	3	0	3
Unearned Income (percent)	0	3.928	3.928
Use & Occupancy (mills)	0	46.2	46.2
Vehicle Rental (percent)	2	0	2

[a] For tax year 2014, the rate will be reduced to 1.34 percent in conjunction with implementation of Actual Value Initiative values.

Source: City of Philadelphia.

Table 3 shows the local tax revenues received by the City and School District of Philadelphia. Exhibit 2 shows the percentage of taxes received from these various sources for the City of Philadelphia in a graphic form.

Table 3

Local Tax Revenues Received by Philadelphia and the School District of Philadelphia
($ in Millions)

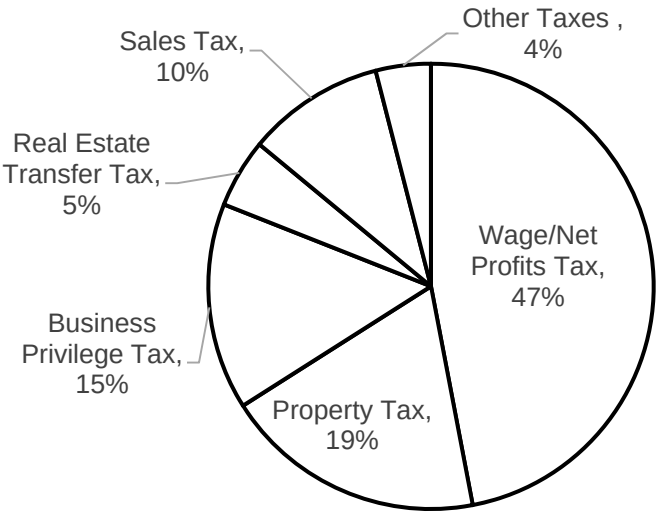
	City of Philadelphia		School District of Philadelphia	
	FY 2012	FY 2011	FY 2012	FY 2011
Real Estate Taxes[a]	$ 500.7	$ 482.7	$649.4	$589.3
Wage and Earnings Taxes	1,196.3	1,134.3	-	-
Business Taxes.....	404.5[b]	385.8[c]	112.5	109.3
Sales Tax	253.5	244.6	50.1[d]	43.9[d]
Real Property Transfer Tax	119.4	116.6	-	-
Parking Lot Tax.....	70.9	71.6	-	-
Other Taxes	25.1	23.5	28.9	69.0
Total	$2,570.4	$2,459.1	$840.9	$767.6

[a] Includes current and prior years
[b] Includes net profits tax of $15.1 million.
[c] Includes net profits tax of $8.8 million.
[d] Liquor sales tax. All liquor tax collections support the School District of Philadelphia.

Source: City of Philadelphia financial documents.

Exhibit 2

General Fund Local Tax Revenue for the City of Philadelphia
(FY 2012)



Source: City of Philadelphia financial documents.

As Table 4 shows, most of the local tax revenue generated for Philadelphia (combining the city and school district) is derived almost equally between wage taxes (35 percent) and property taxes (34 percent). However, when looking only at local tax revenues for the city (i.e., not including the school district), the picture changes, with the wage tax accounting for 47 percent of local tax revenue and property taxes accounting for only 19 percent.

Table 4

City of Philadelphia and School District of Philadelphia Wage and Property Taxes
(2012) ($ in Millions)

	Total Local Taxes	% Wage Tax	% Property Tax
City	$2,570.4[a]	46.5%	19.5%
School District	840.9	0	77.2
Total	$3,411.3	35.1%	33.7%

[a] Does not include taxes collected by the city but provided to the school district.

Source: City of Philadelphia and School District of Philadelphia financial documents.

Table 5 shows how wage and property taxes in Philadelphia compare to Pennsylvania's next two largest cites, Pittsburgh and Allentown.

Table 5

Wage and Property Taxes as a Percentage of Total Local Taxes: Philadelphia, Pittsburgh, and Allentown
($ in Millions)

	Philadelphia	Pittsburgh	Allentown
Total City Local Taxes	$2,570.4[a]	$348.5	$56.0
% Wage Tax	46.5%	20.3%	29.7%
% Property Tax	19.5%	37.8%	53.3%
Total School District Local Taxes	$840.9	$277.2	$72.4
% Wage	0.0%	37.4%	9.3%
% Property	77.2%	59.4%	82.9%
Total City and SD Taxes	$3,411.3	$625.7	$128.4
% Wage	35.1%	27.9%	18.2%
% Property	33.7%	47.4%	70.0%

[a] Does not include property taxes collected by the city but provided to the school district.

Source: City of Philadelphia and School District of Philadelphia financial documents.

As shown in Table 5, Philadelphia relies much more heavily on wage tax revenues to fund city services than either Pittsburgh or Allentown. The difference is less when school district funding is taken into account, but still notable.

History of Philadelphia Wage and Property Taxes

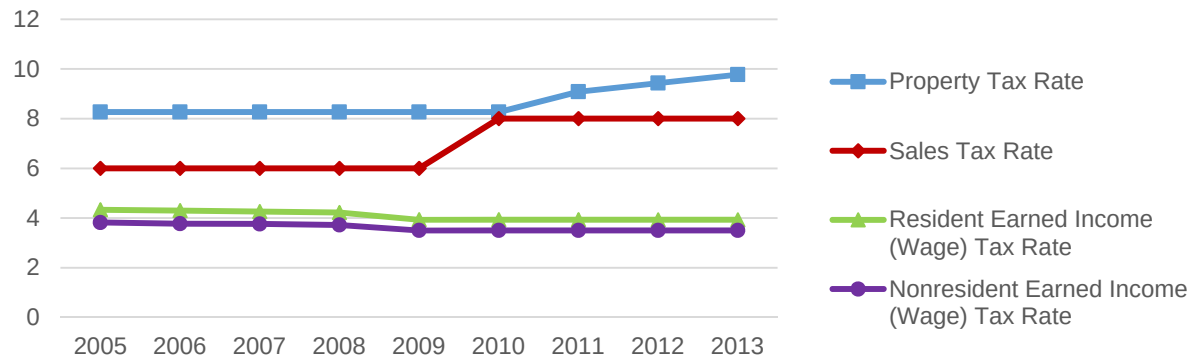
Wage Taxes. Philadelphia first approved a wage tax (of 1.5 percent) in 1939, becoming the first city in the nation to impose such a tax. The wage rate remained below 2 percent until 1970, at which point it began gradually increasing. These increases prompted concern, particularly among Philadelphia's suburban (nonresident) workers who must also pay the Philadelphia wage tax.[2]

This concern resulted in a significant change in the Philadelphia wage tax in 1977. Under Act 1977-98, the nonresident tax rate could not exceed 4.3125 percent until the residential rate reached higher than 5.75 percent. At that point, the nonresidential rate could be increased, but could not exceed 75 percent of the residential rate.

The wage tax rate hit its peak in 1983 when it climbed to 4.96 percent for residents of Philadelphia. The nonresident rate remained at 4.3125 percent. Since 1990, the wage tax rate has slowly decreased to its current (October 2013) rate of 3.928 percent for residents and 3.499 percent for nonresidents (see Exhibit 3).

Exhibit 3

Philadelphia Wage, Property, and Sales Tax Rates



Source: City of Philadelphia.

Under the mayor's March 2013 budget proposal, the wage tax rate reductions are to continue for at least the next five years, dropping to 3.7568 percent (for residents) by 2018. This would result in an additional reduction (from current rates) of about $84 per year for someone earning $50,000 a year.

[2] If an individual lives outside Philadelphia but works in the city and pays the Philadelphia earned income tax, the individual is entitled to claim a credit of the taxes paid to Philadelphia against the tax assessed by the municipality/school district in which the individual resides (some municipalities may limit the credit).

The Actual Value Initiative (AVI). A 1980 Pennsylvania Economy League report, *The Problems with Philadelphia Real Property Assessment Practices and Solutions*, found that the city had not had a proper reassessment in at least 30 years. As a result, similar properties have not been valued similarly and often had drastically different tax liabilities.

In 2011, the city's Office of Property Assessment began to reassess all property in the city with the goal of ensuring that assessments reflected the property's true market value. In 2012, Mayor Nutter proposed, and the City Council approved (but with at one-year delay in implementation), the Actual Value Initiative (AVI). Under AVI, real estate taxes are to be computed based on property values that equal 100 percent of the market value. Mayor Nutter also proposed that the AVI be revenue-neutral (i.e., although the amount collected for any given property may change, overall property tax collections would remain the same in 2014 as in 2013.)

Notice of the new AVI values were sent to property owners in February 2013. The notices reflect the proposed value of properties for Tax Year 2014. If property owners disagree with the proposed value, they may make a first-level review (due March 31, 2013) with the Office of Property Assessment. If still not satisfied, or if the property owner decided to skip the first level of review, the property owner could file a second-level (formal) appeal with the Board of Revision of Taxes. Formal appeals were due to the BRT by the first Monday in October 2013.

In June 2013, the Philadelphia City Council approved a 1.34 percent property tax for Tax Year 2014 to be applied to the new AVI values. The Council also approved a $30,000 homestead exemption, which applies to people who own their home and live in it, and two "gentrification relief" bills (discussed below).

Impact of the AVI

While general agreement exists that Philadelphia's property taxes should be based on accurate market values, concerns have been expressed about the impact of the property valuations established under the AVI.

An April 2013 City Council analysis of Mayor Nutter's property tax plan found that—assuming that all homeowners take advantage of the homestead exemption (set at $30,000) and that gentrification relief is given to longtime owners in growing neighborhoods—as many as 72 percent of Philadelphia homeowners could see lower bills, and just 10 percent would see bills rise by more than $400.

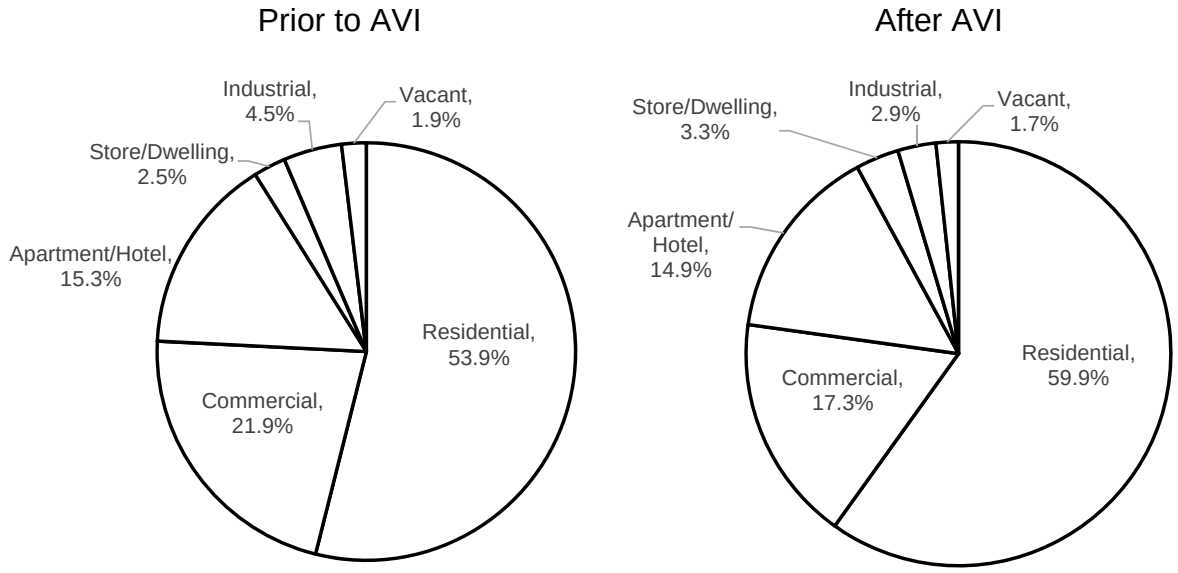
The more than 400-page analysis, done in conjunction with the consulting firm Econsult Corporation, predicts that the Actual Value Initiative will generally

either benefit or have little impact on the majority of homeowners next year in nearly all of the city's 10 Council districts.[3]

A May 2013 Pew Charitable Trusts report[4] found that, as expected, the AVI shifts more of Philadelphia's property tax burden onto homeowners. This is because residential property assessments were far more out-of-date than commercial property assessments throughout the city. Under AVI, the residential property in Philadelphia would account for a greater share of the city's overall property value, and thus the tax burden, and commercial property would account for less (see Exhibit 4).

Exhibit 4

Share of Taxable Value in Philadelphia by Property Type



Source: *The Shift in the Tax Burden,* The Pew Charitable Trusts (May 2013).

This difference of 6 percentage points would result in $72 million in additional taxes for homeowners as a group, making AVI not revenue neutral for them. On the other hand, the commercial sector, which includes shopping centers and Center City office buildings, would see an overall tax reduction of about $55 million for the sector. Industrial properties, a smaller segment of the tax base, would see a drop of $20 million. A third business-related sector, apartments and hotels, would experience a decline of $4 million.

Pew calculated that a $30,000 homestead exemption, which had been discussed but had not yet passed City Council, would reduce the increase in the residential tax burden to about $29 million and reduce the commercial tax burden to

[3] Based on press reports.
[4] *The Shift in the Tax Burden,* The Pew Charitable Trusts (May 2013).

$37 million. All of these estimates take into account the higher tax rate that would be needed to keep the property tax system revenue neutral.

Tax-abated properties are also expected to pay less. Pew estimates that, collectively, tax-abated properties will contribute $3 million less to the property tax pool under AVI. This is attributable to the fact that most tax-abated properties have more up-to-date assessments than older residential properties.

Also in May 2013, the City Controller released a report his office contracted for with Robert P. Strauss, Professor of Economics and Public Policy, The Heinz College, Carnegie Mellon University.[5] This review of the City's 2014 reassessment found that the Actual Value Initiative did not improve the accuracy, uniformity, or fairness of assessments and that assessments were actually more accurate under the prior system. A summary of the report findings can be found in Exhibit 5.

In short, the report found that the 2014 proposed assessments are "extremely non-uniform, and extremely regressive" (meaning that more expensive properties tend to be valued at less than 100 percent of market value, while less expensive properties tend to be valued at more than 100 percent of market value). As a result, the report concluded that black areas of Philadelphia are over-assessed, while white areas are under-assessed. The report attributed these errors to a very large proportion of residential properties not having sound data with which to model and assess their market values.

While the Mayor's Office has criticized the Strauss report as being politically motivated (the City Controller has been critical of the AVI effort and is running for re-election in November 2013), various press organizations have also found significant disparities when comparing the new valuations against actual sales.[6]

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[5] *A Sales Ratio Study of the 2013 Certified & 2014 Proposed Real Estate Assessments*, by Robert P. Strauss and Bingbing Hou, May 2013.

[6] E.g., *A look inside how AVI values were determined for Philly*, February 25, 2013; *Axis Philly: Is your tax assessment fair?,* February 26, 2013; *Fair? Accurate? Not AVI*, March 27, 2013.

Exhibit 5

Summary of Major Findings
A Sales Ratio Study of the City of Philadelphia's 2013 Certified and 2014 Proposed Real Estate Assessments
A Report to the Controller of the City of Philadelphia

Robert P. Strauss[a] with the assistance of Ms. Bingbing Hou

May 2013

1. OPA's proposed 2014 taxable property values, when compared to OPA-determined actual, arms length sales prices for the same properties, adjusted for inflation, are highly variable in quality. That variability is well beyond standards set by the International Association of Assessing Officers. Based on OPA data for assessed values and arms length prices over $1,000, the variability, or coefficient of dispersion (COD) for taxable residential properties rose from 82% for the 2013 values to 112% for proposed taxable 2014 values. IAOO recommends, by contrast, that such variability between assessed and actual, arms length sales prices not exceed 5 to 15% for residential properties in older urban areas. (See map of results by zip code and Council District, Figure 1 below).
2. The OPA determination of whether a transaction was done at arms length, crucial to developing accurate models, and interpreting reassessment results, appears to have been stopped by OPA in April, 2012.
3. The overall level of assessment, for both actual 2013 assessments and for proposed 2014 assessments is significantly correlated with 2010 Census ethnicity of the underlying geographic areas. Using 5 digit zip codes of residential properties, both 2013 and proposed 2014 median levels of assessment show that as zip code areas become more African American, the median level of residential assessment rises, and that as zip code areas become more Caucasian, the median level of residential assessment falls. This is a statistically significant result for residential properties.
4. In both actual 2013 and proposed 2014 residential assessed values, there is statistically significant evidence that more expensive taxable residential properties, as measured by the OPA determined sales price, are assessed at lower levels than less expensive taxable properties.
5. Common sense dictates that a reassessment that relies primarily on statistical modeling is only as good as the data about property characteristics that are used to predict the 2014 assessed values. An examination of OPA data on exterior and interior characteristics indicates that many of the taxable properties to be reassessed are missing data on crucial characteristics. For example 29.9% of taxable residential properties in the universe of 457,400 taxable residential properties are coded as having zero stories or the number of stories is missing; 99.6% of these properties are missing an evaluation of Building Workmanship, and 45.9% are missing a score of the type of property site. The number of total rooms in the universe of 457,400 taxable residential properties was missing in 26% of OPA's records; 97% had no floor plans data, and 53% of the universe of these taxable residential properties had no information about the presence or absence of air conditioning.
   Other measures such as Exterior Condition show very little differentiation in quality evaluation by OPA , and may be unduly optimistic: 87% of the 457, 400 taxable residential properties were graded as having "Average" or "Above Average" condition.
6. Compared to the in-process court-ordered reassessment of real estate in Allegheny County of about 544,000 taxable properties, the AVI initiative in the City of Philadelphia is doing an inferior job in terms of improving assessment uniformity and fairness. The level of non-uniformity in Philadelphia's residential reassessment results are double those of Allegheny County, and the level of regressivity in Philadelphia's reassessment results are even higher.

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Property Tax Assistance Programs

Philadelphia property owners can receive property tax relief through several state and city programs. In addition to various payment plans and abatements for new construction or renovations, Philadelphians can also receive property tax assistance through:

Commonwealth Programs:

Property Tax/Rent Rebate Program. The Property Tax/Rent Rebate Program is one of five programs supported by the Pennsylvania Lottery. The rebate program benefits eligible Pennsylvanians age 65 and older; widows and widowers age 50 and older; and people with disabilities age 18 and older. The income limit is $35,000 a year for homeowners and $15,000 annually for renters, and half of Social Security income is excluded. The maximum standard rebate is $650, but supplemental rebates for qualifying homeowners can boost rebates to $975 (see below).

Supplemental Property Tax Rebates. Beginning with the 2007 Property Tax Relief Program, slots revenues are used to fund supplemental property tax rebates[7] for residents of Philadelphia, Pittsburgh and Scranton, as well as homeowners in other areas of the Commonwealth having no more than $30,000 in household income, while paying more than 15 percent of their income in property taxes. The supplemental rebate represents a 50 percent increase over the standard $650 Lottery-funded rebate.

State Veterans' Exemption. Veterans (or their surviving spouses) who have a 100 percent service-connected disability may qualify for the Commonwealth's Real Estate Tax Exemption. Applicants with an annual income of $85,168 or less are eligible for the exemption.

Philadelphia Programs:

Homestead Exemption. In June 2013, the Philadelphia City Council approved and the Mayor signed a homestead exemption, for people who own their home and live in it. The Homestead Exemption offers real estate tax savings to Philadelphia homeowners by reducing the taxable portion of their property assessment by $30,000, starting in tax year 2014.

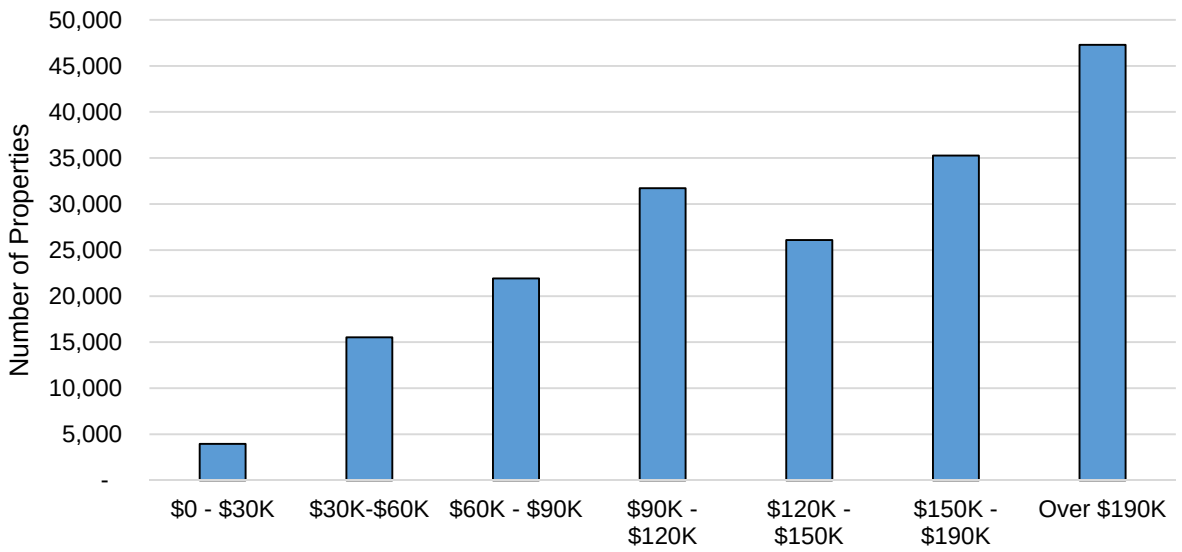
As shown in Exhibit 6, a $30,000 homestead exemption will effectively reduce the property tax of homeowners to zero, and should reduce the property tax owed by about 14,300 additional homeowners to less than half of what they would otherwise

[7] Supplemental to Lottery funding.

owe. For another 21,500 homeowners, the homestead exemption will reduce their property taxes by between half to one-third of what they would otherwise owe.[8]

Exhibit 6

AVI Values of Homestead Properties in Philadelphia
(2014 Tax Values)



Source: Developed by LB&FC staff from City of Philadelphia AVI data (abated values).

The homestead exemption is particularly significant for Philadelphia which, as Table 6 shows, has a relatively high percentage of home ownership compared to other large Eastern US cities.

Table 6

Home Ownership Rates in Large Eastern US Cities

	% Owner Occupied
Philadelphia	59%
Detroit.....	55%
Pittsburgh.....	52%
Baltimore.....	50%
Chicago.....	44%
Washington.....	41%
Boston.....	32%
New York	30%

Source: City-data.com.

[8] Philadelphia officials reported 207,000 homestead applications had been filed as of September 13, 2013, the last day to file an exemption for the 2014 tax year. Philadelphia officials believe as many as 320,000-340,000 homes may qualify for the homestead exemption.

Gentrification Relief. Those most likely to be affected by higher property taxes under AVI are long-time residents in recently "gentrified" area of the city. For these residents, moving to a tax system based on market value could mean tax increases of over 300 percent due to the increased desirability—and hence market value—of their neighborhoods.

To address this issue, in June 2103 City Council passed a bill that offers property tax relief to qualified owner occupants of real estate in gentrified or gentrifying areas of the city. The bill sets forth specific requirements that a person must meet in order to avail themselves of the gentrification protection, chief among which is an income threshold: an owner-occupant's family income cannot exceed 150 percent of the median area family income as defined by the United States Department of Housing and Urban Development.

For qualified owner-occupants, the bill would cap and freeze assessments for 10 years for longtime owner-occupants whose assessments have risen more than 300 percent under the Actual Value Initiative. The Mayor signed the bill, but its enactment is still pending approval from the Pennsylvania State Legislature. City Council also passed a bill that would allow eligible property owners to defer any amount exceeding 2 1/2 times their current bill.

Senior Citizen Low Income Special Real Estate Tax Provision (Senior Tax Freeze). Seniors (65+) on low incomes can qualify (for 2014) if their total income is $23,500 or less for a single person or $31,500 or less for a married couple. Once you qualify, you do not need to reapply every year. For the year that you file for the tax freeze, if your assessment or tax rate increases, you will receive additional credit to keep your net tax the same.

Property Tax Delinquency Rates

Philadelphia has had a longstanding problem with property tax delinquency. A 2013 report by the Pew Charitable Trusts found that as of April 2012, the city and school district were owed $292.3 million in delinquent taxes on 102,789 properties. That figure increases to $515.4 million when interest and penalties are included. Pew reported that about one-quarter of those properties had been delinquent for more than a decade.

Of 36 cities studied in the Pew report, Philadelphia had the fifth highest delinquency rate in 2011, the last year for which statistics were available. In Philadelphia, 9 percent of 2011 property taxes went uncollected in that year, whereas the median delinquency rate in the 36 cities included in the study was 4.1 percent.

The study found that many of the cities with lower delinquency rates than Philadelphia adhere to stricter timetables for imposing enforcement measures

against delinquent property-owners—timetables usually set by the state—and are more willing to take properties away from owners who do not pay their taxes. The report also notes, however, that many of these cities have lower percentages of poor people, stronger real estate markets, and higher shares of homeowners who pay their taxes automatically through mortgages.

The Pew report estimates that Philadelphia should be able to collect at least $155 million, or about 30 percent of the $515.4 million owed, over the course of several years. To achieve this goal would require that the tax collectors be well-funded and use all of their statutory powers, including foreclosure, more aggressively than in years past. But Pew concluded that as much as 70 percent of the $515.4 million is most likely uncollectable.

The Pew report also notes the General Assembly has yet to enact two pieces of legislation designed to enhance the city's collections capability. The city had expected that those proposed laws–which would make it easier for the city to garnish the paychecks of delinquents (SB 973) and to place liens on property that delinquents own outside of Philadelphia (HB 388)–to be signed into law by mid-2013.[9]

[9] HB 388 passed the General Assembly and has been signed into law. SB 973 remained in the General Assembly as of the end of November 2013.

III. Issues Regarding the Use of PTRF Funds for Wage Vs. Property Tax Reductions

Using PTRF Funds for Property Tax Reductions

Under Act 2006-1 (Sp. Sess. 1), the City of Philadelphia is required to use its allocation of Property Tax Relief Fund monies to reduce wage and net profits taxes on residents and nonresidents. Resolution 86 asks us to consider whether, especially in light of the changes brought about by the AVI, the citizens of Philadelphia would be better served if the PTRF funds were used instead to reduce property taxes.

Table 7 shows the amount a Philadelphia homeowner would pay in combined wage and property taxes under current law (i.e., resident wage tax of 3.928 percent, property tax rate of 1.34 percent, and a $30,000 homestead exemption).

Table 7

Total Resident Property and Wage Tax Payments Under Current Law*

	AVI Appraised Value of House/Condo					
Annual wage	$30,000	$60,000	$120,000	$240,000	$480,000	$960,000
$0	$ 0	$ 402	$ 1,206	$ 2,814	$ 6,030	$12,462
$30,000	1,178	1,580	2,384	3,992	7,208	13,640
$60,000	2,357	2,759	3,563	5,171	8,387	14,819
$90,000	3,535	3,937	4,741	6,349	9,565	15,997
$120,000	4,714	5,116	5,920	7,528	10,744	17,176
$150,000	5,892	6,294	7,098	8,706	11,922	18,354
$180,000	7,070	7,472	8,276	9,884	13,100	19,532
$210,000	8,249	8,651	9,455	11,063	14,279	20,711
$240,000	9,427	9,829	10,633	12,241	15,457	21,889

* Resident Wage Tax, 3.928%; Property Tax, 1.34%; Homestead Exemption, $30,000.

Source: LB&FC staff calculations.

Across the Board Property Tax Reduction. Table 8 shows the amount Philadelphia homeowners at various earned income and home value levels would pay in combined wage and property taxes if PTRF funds were used to reduce property taxes instead of wage taxes. Under this plan, resident wage taxes would revert to the early 2008 level of 4.219 percent, nonresident wage taxes would revert to 3.724 percent, property tax rates would be reduced to 1.24 percent,[10] and the $30,000 homestead exemption would remain.

[10] To arrive at the 1.24 percent figure, we divided the amount of property tax revenue Philadelphia received in 2012 ($1.15 billion) by the 2014 property tax rate of 1.34 percent to determine total taxable property values. We then divided that figure into $1.064 billion ($1.15 billion minus the $86 million in PTRF monies that would be used to supplement property tax revenues) to arrive at the rate needed to generate $1.064 billion (1.24 percent).

Table 8

Total Resident Property and Wage Tax Payments If PTRF Funds Used to Reduce Property Tax Rates*

	AVI Appraised Value of House/Condo					
Annual wage	$30,000	$60,000	$120,000	$240,000	$480,000	$960,000
$0	$ 0	$ 372	$ 1,116	$ 2,604	$ 5,580	$11,532
$30,000	1,266	1,638	2,382	3,870	6,846	12,798
$60,000	2,531	2,903	3,647	5,135	8,111	14,063
$90,000	3,797	4,169	4,913	6,401	9,377	15,329
$120,000	5,063	5,435	6,179	7,667	10,643	16,595
$150,000	6,329	6,701	7,445	8,933	11,909	17,861
$180,000	7,594	7,966	8,710	10,198	13,174	19,126
$210,000	8,860	9,232	9,976	11,464	14,440	20,392
$240,000	10,126	10,498	11,242	12,730	15,706	21,658

* Resident Wage Tax, 4.219%; Property Tax, 1.24%; Homestead Exemption, $30,000.

Source: LB&FC staff calculations.

Table 9 shows the effect to homeowners from such a shift (homeowners whose combined taxes would be lower are shaded in gray). Homeowners who would have higher combined taxes (i.e., would "lose" if the PTRF were devoted to lowering the property tax) are shown as negative numbers.

Table 9

Amount Philadelphia Homeowners Would Save (Gray Shading) or Have to Pay In Additional (Negative Numbers) Combined Wage and Property Taxes If PTRF Funds Are Used to Reduce Property Tax Rates

	AVI Appraised Value of House/Condo					
Annual wage	$30,000	$60,000	$120,000	$240,000	$480,000	$960,000
$0	$ 0	$ 30	$ 90	$210	$450	$930
$30,000	-87	-57	3	123	363	843
$60,000	-175	-145	-85	35	275	755
$90,000	-262	-232	-172	-52	188	668
$120,000	-349	-319	-259	-139	101	581
$150,000	-437	-407	-347	-227	14	494
$180,000	-524	-494	-434	-314	-74	406
$210,000	-611	-581	-521	-401	-161	319
$240,000	-698	-668	-608	-488	-248	232

Source: LB&FC staff calculations.

As Table 9 shows, using the PTRF for broad-based property tax reduction primarily benefits homeowners with high-value homes, particularly if they also have low levels of earned income. Commercial and other nonhomestead properties would also benefit from this approach as the property tax rate would be reduced to 1.24 percent for all property owners, not just homestead properties.

Homestead Exemption Increased to $60,000. Table 10 shows the amount various Philadelphia homeowners would pay in combined wage and property taxes if PTRF funds were used to expand the current $30,000 homestead exemption to $60,000. Under this plan, resident wage taxes would revert to the early 2008 level of 4.219 percent, nonresident wage taxes would revert to 3.724 percent, property tax rates would remain at 1.34 percent, and the homestead exemption would be expanded from $30,000 to $60,000.

Table 10

Total Resident Property and Wage Tax Payments If PTRF Funds Are Used to Expand Homestead Exemption to $60,000*

	AVI Appraised Value of House/Condo					
Annual wage	$30,000	$60,000	$120,000	$240,000	$480,000	$960,000
$0	$ 0	$ 0	$ 804	$ 2,412	$ 5,628	$12,060
$30,000	1,266	1,266	2,070	3,678	6,894	13,326
$60,000	2,531	2,531	3,335	4,943	8,159	14,591
$90,000	3,797	3,797	4,601	6,209	9,425	15,857
$120,000	5,063	5,063	5,867	7,475	10,691	17,123
$150,000	6,329	6,329	7,133	8,741	11,957	18,389
$180,000	7,594	7,594	8,398	10,006	13,222	19,654
$210,000	8,860	8,860	9,664	11,272	14,488	20,920
$240,000	10,126	10,126	10,930	12,538	15,754	22,186

* Resident Wage Tax, 4.219%; Property Tax, 1.34%; Homestead Exemption, $60,000.

Source: LB&FC staff calculations.

We estimate the additional cost to expand the homestead exemption from $30,000 to $60,000 would be approximately $80 million. This amount would be sufficient to allow an expanded $60,000 homestead exemption for 207,000 homesteads (i.e., the approximately 182,000 homesteads listed on OPA's website plus the additional 25,000 homestead applications Philadelphia officials reported were received prior to September 13, 2013, the deadline to submit homestead exemption applications for the 2014 tax year).

Philadelphia officials reported that they believe, in total, approximately 320,000 homeowners may be eligible for the homestead exemption program. If all 320,000 homeowners eventually enrolled in the program, we estimate total additional annual costs to expand the homestead exemption from $30,000 to $60,000 for

all 320,000 homesteads (i.e., beyond what the current $30,000 exemption would cost) would be about $120 million. This does not, however, factor in the additional property taxes that will be gained in future years as abated properties move to the tax rolls at their full AVI values.

Table 11 shows which homeowners would save money in taxes from using the PTRF to expand the homestead exemption to $60,000 (positive numbers shaded in gray). Table 11 also shows which Philadelphia homeowners would "lose" if PTRF were devoted to an expanded homestead exemption, and by how much (negative numbers).

Table 11

Amount Philadelphia Homeowners Would Save (Gray Shading) or Have to Pay in Additional (Negative Numbers) Combined Wage and Property Taxes If PTRF Funds Are Used to Expand Homestead Exemption to $60,000

	AVI Appraised Value of House/Condo					
Annual wage	$30,000	$60,000	$120,000	$240,000	$480,000	$960,000
$0	$ 0	$402	$402	$402	$402	$402
$30,000	-87	315	315	315	315	315
$60,000	-175	227	227	227	227	227
$90,000	-262	140	140	140	140	140
$120,000	-349	53	53	53	53	53
$150,000	-437	-35	-35	-35	-35	-35
$180,000	-524	-122	-122	-122	-122	-122
$210,000	-611	-209	-209	-209	-209	-209
$240,000	-698	-296	-296	-296	-296	-296

Source: LB&FC staff calculations.

As Table 11 shows, using the PTRF to expand the homestead exemption primarily helps homeowners with low levels of earned income (under $60,000) with homes having appraised values of $60,000 or more.

Prior Studies Assessing the Relative Merits of Wage and Property Tax Reductions

Among the reports and studies we reviewed over the past 18 years, we found widespread agreement that a reduction in resident and nonresident wage taxes is preferable from an economic growth standpoint to a reduction in city property taxes. In general, finance experts agree that property taxes do less damage to a local economy than income, wage, or business taxes because real estate, unlike residents or jobs, cannot move to avoid being taxed. These studies/reports include:

Inman, Robert P., University of Pennsylvania (1995)

Professor Inman, a public finance economist at the University of Pennsylvania, found that a 1 percentage point increase in Philadelphia's wage tax results in a 13 percent drop in the number of jobs in the city.[11]

Pennsylvania Economy League (1999)

In March 1999, the PEL released a report entitled *The Sterling Act: A Brief History.*[12] The report noted the Philadelphia wage tax has undergone a number of legislative and court challenges, but retains a major role in Philadelphia's revenue base. The report also found that the wage tax "continues to force business and jobs to leave Philadelphia's boundaries, while deterring any meaningful regional answers to economic development issues." The report cites the imposition of the city wage tax as one of several factors that has contributed to a steady population decline within Philadelphia's borders, from 2,071,605 in 1950 to 1,478,002 in 1996.

Pennsylvania Economy League (2002)

PEL conducted a study suggesting that reducing the wage tax to 3 percent would result in 110,000 new jobs created and a $7 billion-plus increase in overall property values by 2007.[13] Without the cuts, PEL predicted that the city's population would continue to shrink, property values would continue their downward course, and that Philadelphia would lose about 50,000 jobs in the five-year period.

The Maxwell School of Syracuse University (2005)

In May 2005, George Hannum and Carter Hewgley of The Maxwell School of Syracuse University wrote an eight-page memorandum to then-Mayor John Street that concluded:

> Over the past decade, Philadelphia's revenues have increasingly relied on wage and business taxes, a trend that must be stopped. Reducing the taxes on individual wages and businesses, (and subsequently increasing property values), will balance the burden between businesses and homeowners in Philadelphia. … By reducing personal and business taxes, the City will realize an increase in employment, household income, business activity, and property values.

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[11] In *How to Have a Fiscal Crisis: Lessons from Philadelphia*, The American Economic Review, May 1995.
[12] Passed in 1932, the Sterling Act effectively conferred Philadelphia and Pittsburgh with the authority to impose taxes on a variety of and was the first local income tax enabling legislation in Pennsylvania.
[13] *Mayor Street: Heed the Call: Cut the Wage Tax*, Philadelphia Business Journal, March 2002. At the time, the wage tax was 4.54 percent for residents and 3.95 percent for nonresidents.

The memo specifically recommends that Philadelphia reduce the wage tax to 3.0 percent for residents and non-residents by 2015 and incrementally eliminate the business privilege tax by 2017.

Philadelphia Tax Reform Commission (2003)

The Commission, relying on the work of Econsult Corporation,[14] found that in 1997 personal income taxes accounted for 33.3 percent of total tax revenue in Philadelphia, as compared to an average of 8.5 percent for the ten largest U.S. cities. Business income tax revenue contributed 12.4 percent to Philadelphia's tax revenues versus an average of 5.3 percent elsewhere. In contrast, in 1997 property taxes made up just 19 percent of Philadelphia's tax revenue, while overall U.S. cities with more than 300,000 residents obtained 40 percent of their financing from property taxes.

Econsult's econometric research also suggested that 61 percent of the decline in Philadelphia's share of national employment (approximately 172,889 jobs) between 1971 and 2001 could be attributed to the rise in wage tax rates over that period.

The Commission noted that today's workers, customers, and suppliers are highly mobile. As a result, high local business and income taxes directly reduce business profits and encourage flight from the city. However, because land is immobile, the effect of property-based taxes on employment levels, income, and business activity is smaller than that of taxes on personal and business income, according to the Commission.

According to the Commission, economic theory and research indicate that reforming Philadelphia's tax structure will lead to increased property values throughout the city. Therefore, as property values rise, it will be possible for the city to generate additional real estate tax revenue without increasing the tax rate.

The Commission concluded:

> In sum, a broad array of evidence points to the conclusion that reducing Philadelphia's reliance on wage and business taxes could significantly increase the size of its economy while maintaining a tax revenue stream adequate to finance needed public services.

[14] *Choosing the Best Mix of Taxes for Philadelphia: An Econometric Analysis of the Impacts of Tax Rates on Tax Bases, Tax Revenues, and the Private Economy*, Econsult Corporation, October 2003.

Mayor's Task Force on Tax Policy and Economic Competitiveness (2009)

In 2009, the Mayor's Task Force on Tax Policy and Economic Competitiveness released a report entitled *Thinking Beyond Today: A Path to Prosperity*.

The Task Force concluded that Philadelphia would be better served by a mix of taxes that relies less on mobile tax bases (jobs and businesses) and more on revenues from assets that cannot be moved (land and buildings), provided there are accurate and equitable property assessments upon which to base the tax. The Task Force noted that highly mobile service sector jobs, which are a growing share of the national economy, are particularly sensitive to changes in the wage tax. For this reason, the Task Force believed it imperative that wage tax rate reductions continue in order to provide job opportunities in this high-wage sector.

The Task Force also concluded that expenditure reductions and expansion in the commercial and industrial tax base will likely not absorb the entire cost of cuts to the wage and business privilege taxes, necessitating a rate increase to the real estate tax. The Task Force reasoned that, since working Philadelphians will benefit from the wage tax rate reductions, it is appropriate that they bear some of the burden associated with a property tax increase.

The Actual Value Initiative: Overhauling Property Taxes in Philadelphia, The Pew Charitable Trusts (2012)

This report noted the AVI would transform property taxation in Philadelphia in three significant ways: changing the certified market value of every piece of property in the city, the way individual assessments are used to calculate tax bills, and how property owners deal with any big tax increases that might result from the new system.

The report found that in recent years, no large city has set out to change all three at once. And while transformations of property tax systems in other jurisdictions have been the result of court orders and state mandates, Philadelphia is preparing to act on its own volition.

The report concluded that one reason Philadelphians have been relatively complacent about longstanding inequities in assessments is that they pay less in property taxes (and more in wage taxes) than residents of many other jurisdictions. On a per capita basis, Philadelphia's property tax produces only about one-quarter the amount generated in Washington, D.C. and one-third of what is collected in Boston and Hartford. These numbers include taxes that help pay for city government and those that fund the school system.

Philadelphia Taxes: Past, Present and Future, Sponsored by The Pew Charitable Trusts and the Center on Regional Politics at Temple University (2013)

In May 2013, the Pew Charitable Trusts and the Center on Regional Politics at Temple University sponsored a seminar on *Philadelphia Taxes: Past, Present and Future*. It featured a presentation by Mr. Thomas Ginsberg, project manager of Pew's Philadelphia research, followed by two panel discussions.

On the first panel, there was broad agreement that Philadelphia's tax structure is heavily dependent on wage and business taxes and is an impediment to economic growth and to job creation in the city.[15] Several of the panelists said they favored reducing those taxes and moving toward a greater reliance on the property tax. Key points made during the panel discussion include:

High Wage Taxes Cost City Jobs. Philadelphia's wage tax has helped drive out or eliminate 173,000 jobs over thirty years. Since 1970, New York, Boston, and Washington, D.C. have all experienced dynamic job growth, up 14, 18, and 25 percent respectively, while Philadelphia is down 25 percent. Each of these cities has lost 58 to 90 percent of their manufacturing base since 1970.

One commentator noted that "We [Philadelphia] tax what moves, while other cities tax what's fixed: land and improvements. They [e.g., Boston, New York, and Washington] have much more dynamic job growth." A second commentator supported that statement, noting "People are not going to work in the city unless the business compensates for their higher wage tax. The bottom line is that this tax is shifted back onto businesses."

Property Taxes Promote Efficiency. Property taxes give property owners an incentive to demand better services and efficiency from the city government. Not only do property owners receive the direct benefits of, for example, improved education, public safety, and parks, improved services also result in an increase in property values.

Wages Taxes Are Regressive. Surveys indicate that Philadelphia has the highest wage tax out of the 50 largest US cities for individuals making less than $100,000. As a proportion of income, the rate decreases for wealthier residents. As a result, the burden of the city wage tax falls disproportionately on lower-level incomes relative to other cities.[16]

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[15] Speakers on the first panel were Robert P. Inman, Richard K. Mellon, Professor, Finance, Economics, and Public Policy, Wharton School, University of Pennsylvania; Paul R. Levy, President and CEO, Center City District; Stephen S. Tang, President and CEO, University City Science Center; Rob Dubow, Finance Director, City of Philadelphia; and economist Joel L. Naroff.

[16] The uniformity clause of the Pennsylvania Constitution requires a single rate for all payers in a similar tax category.

The elected officials, speaking on the second panel, were far less enthusiastic regarding a shift to higher property taxes.[17] They noted that any such shift must be done slowly and with great care so that the taxes do not fall too heavily on homeowners of limited means. In addition, the officials said that many factors besides taxes—including education and training—need to be taken into account in trying to spur the local economy.

Pennsylvania Intergovernmental Cooperation Authority (PICA)

The Pennsylvania Intergovernmental Cooperation Authority's Acting Director supports the use of PTRF monies to support wage tax rate reductions, noting that reallocating the gaming money to real estate tax relief would be contrary to the overall trend of tax policy in Philadelphia for the past nearly 20 years. The PICA Acting Director also noted that it would be contrary to economic research on Philadelphia taxes.

Mayor's Office

In February 2013, Mayoral spokesman Mark McDonald is quoted as saying that using gaming money to reduce property taxes would force the wage tax to go up, and "that's not in line with the recommendations from the Mayor's tax policy task force."

[17] On the second panel were City Councilman David Oh and City Councilwoman Maria D. Quiñones-Sánchez as well as four members of the city's delegation in the state legislature: Rep. Cherelle L. Parker, Rep. John Taylor, Sen. Vincent J. Hughes, and Sen. Anthony H. Williams.

IV. Local Share Assessments and Gaming Economic Development and Tourism Fund

Local Share Assessments

The Pennsylvania Race Horse Development and Gaming Act, as amended, by Act 2006-135 also provides for Local Share Assessments to counties and municipalities. Under the act, four percent of the gross terminal revenue from Category 2 gaming facilities (stand-alone casinos) are local share assessments. The act also provides that the first $5 million in annual local share assessments to a county of the first class (i.e., Philadelphia) is to be distributed to the School District of Philadelphia.

Table 12 shows how Philadelphia's local share assessment has been distributed:

Table 12

Distribution of Sugarhouse Casino's Local Share Assessment

Year	Philadelphia School District	Philadelphia City	Total
2010[a]	$1,825,412.87	$ 0.00	$1,825,412.87
2011	5,000,000.00	3,322,958.88	8,322,958.88
2012	5,000,000.00	4,286,518.55	9,286,518.55
2013[b]	4,652,934.59	0.00	4,652,934.59

[a] Sugarhouse Casino Open Date 09/23/2010.
[b] 2013 represents 1Q and 2Q LSA Distributions.

Source: Pennsylvania Department of Revenue.

The city's share of LSA funds have been placed into the city's General Fund.

Gaming Economic Development and Tourism Fund (GEDTF).

The third source of gaming funds is the Pennsylvania Gaming Economic Development and Tourism Fund, created by Act 2004-71. Each licensed gaming entity within the Commonwealth is to pay an assessment of five percent of its gross terminal revenue into this fund. Under the enabling legislation, for at least the first ten years, GEDTF funds used in the City of Philadelphia can only be used for debt service payments incurred by the city or the Commonwealth for the expansion of the Pennsylvania Convention Center and for reimbursement of Convention Center operational expenses incurred by the city.[18] Act 2007-53 further specifies that, for thirty years, up to $64 million per year in GEDTF funds can be used for these purposes. The maximum total amount the act authorizes for this purpose is $880 million.

As shown in Table 13, as of June 30, 2013, a total of $250.4 million has been disbursed for this purpose. This represents 38 percent of the total amount collected ($651.5 million) statewide for the GEDTF since FY 2006-07.

Table 13

Gaming Economic Development and Tourism Fund
Project Payments to Date (6-30-2013) for Philadelphia

Pennsylvania Convention Center

FY 2007-08	$7,958,837
FY 2008-09	14,169,000
FY 2009-10	61,672,147
FY 2010-11	57,735,484
FY 2011-12	56,556,125
FY 2012-13	52,273,087
GEDTF Payments to Date	$250,364,681
Remaining Encumbrances	$629,635,319

Source: Governor's Budget Office.

[18] The Pennsylvania Convention Center is owned by the Pennsylvania Convention Center Authority, an instrumentality of the Commonwealth of Pennsylvania.

V. Appendix

APPENDIX A

PRIOR PRINTER'S NO. 714 PRINTER'S NO. 1422

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE RESOLUTION

No. 86 Session of 2013

INTRODUCED BY YOUNGBLOOD, DONATUCCI, CLAY, CALTAGIRONE, COHEN, O'BRIEN, THOMAS, ROZZI, V. BROWN, BROWNLEE, KINSEY, MURT, NEILSON, CRUZ, D. COSTA, ROEBUCK AND FABRIZIO, FEBRUARY 11, 2013

AS REPORTED FROM COMMITEE ON GAMING OVERSIGHT, HOUSE OF REPRESENTATIVES, AS AMENDED, APRIL 9, 2013

A RESOLUTION

Directing the Legislative Budget and Finance Committee to study the allocation of gaming revenue provided to Philadelphia from the Property Tax Relief Fund and whether wage tax relief or property tax relief best represents the needs of the residents and taxpayers of the city.

WHEREAS, The 2006 Taxpayer Relief Act and Title 4 of the Pennsylvania Consolidated Statutes created the Property Tax Relief Fund as a way to use gaming revenue to reduce property taxes for homeowners across the Commonwealth; and

WHEREAS, The only exception to the use of gaming revenue to reduce property taxes is in Philadelphia, where gaming revenue is used to reduce the city's wage tax; and

WHEREAS, At the time of passage of the Taxpayer Relief Act, some believed that the taxpayers of Philadelphia would best be served with a reduction in wage tax instead of a reduction in property taxes; and

WHEREAS, A significant amount of the revenue generated by gaming for Philadelphia for wage tax relief is dedicated to nonresidents who work in the city but live in a surrounding county; and

WHEREAS, Thirty-five percent of the city's allocation from the Property Tax Relief Fund is provided for suburban wage tax relief that does not stay within the city; and

Appendix A (Continued)

WHEREAS, Some suburban county residents receive both wage and property tax relief; and

WHEREAS, Financial analysts have said that Philadelphia residents pay less in property taxes and more in wage taxes than residents of many other jurisdictions; and

WHEREAS, The City of Philadelphia is set to implement a new, updated property tax assessment plan in 2013, known as Actual Value Initiative, or AVI; and

WHEREAS, AVI is expected to result in higher property tax assessments for hundreds of thousands of city residents; and

WHEREAS, Many residents could see an increase in property taxes as high as 300%; and

WHEREAS, Notices of the new assessments are expected to be mailed to residents in February 2013, and the new values are expected to be the basis for property tax bills due in 2014; and

WHEREAS, AVI is a new proposal that was not under consideration when the Taxpayer Relief Act and Title 4 were first implemented by the General Assembly; and

WHEREAS, The impacts of AVI on property taxpayers in Philadelphia could have dire impacts on homeowners and communities across the city; therefore be it

RESOLVED, That the House of Representatives direct the Legislative Budget and Finance Committee to study the allocation of gaming revenue provided to Philadelphia from the Property Tax Relief Fund; and be it further

RESOLVED, That the Legislative Budget and Finance Committee study whether wage tax relief or property tax relief best represents the needs of the residents and taxpayers of Philadelphia; and be it further

RESOLVED, THAT THE LEGISLATIVE BUDGET AND FINANCE COMMITTEE INCLUDE ALL GAMING REVENUE THAT THE CITY OF PHILADELPHIA RECEIVES THROUGH THE 2006 TAXPAYER RELIEF ACT AND TITLE 4 OF THE PENNSYLVANIA CONSOLIDATED STATUTES AND WHERE THIS REVENUE IS DISTRIBUTED; AND BE IT FURTHER

RESOLVED, That the Legislative Budget and Finance Committee take into account Philadelphia’s plan to implement AVI and reassess property values on all properties in the city; and be it further

RESOLVED, That the Legislative Budget and Finance Committee report all findings on this matter to the General Assembly no later than six months after the adoption of this resolution.