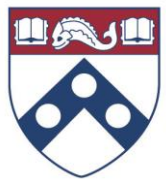


# What is the Net Fiscal Impact of the Abatement?

March 6, 2014



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# Ten-Year Tax Abatement

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- Much debate around the future of the Abatement has centered around whether it is a net cost or net benefit to Philadelphia.
  - City gives a break on property taxes, but what exactly does it get in return?
  - There is both a “debit” and “credit” side to the City’s ledger, concerning the Abatement
- However, neither critics nor supporters of the Abatement have provided any hard numbers supporting their position.
- We decided to answer this question using a case study of a representative Abated development.
  - Step through every taxable event to measure the net cost/benefit.



# Westrum's Brewerytown Square





# Brewerytown Square in 2004:

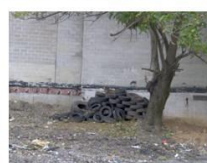


# Brewerytown Square Today:





# Case Study: Brewerytown Square



# Brewerytown Square

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- 144 market-rate townhome units located at the intersection of 31<sup>st</sup> and West Thompson Streets in the Brewerytown neighborhood of Philadelphia.
- Westrum Development Company, acquired the site in 2004 and began transferring its first completed units in 2005.
- The units in this new development community were targeted at middle-income buyers that came mostly from outside of the urban core and wanted to live in a new community that would allow them to take advantage of the City's Ten Year Tax Abatement.
- Sales of all finished units were completed by 2010.
- We believe it is a good, representative case study because it is priced and targeted at the middle of the housing spectrum, and is located in a transitioning neighborhood.

# Taxes Abated

- The “cost” of the Abatement is measured in how much property taxes are abated (i.e. foregone) during the 10 year’s of the abatement’s life.

## Property Taxes Foregone (Abated)

Total Abated Value	\$22,176,000	Source: Phila. Ofc. Of Property Assessment
x Property Tax Rate	1.34%	Source: Phila. Dept. of Revenue
<hr/>		
=Property Taxes Abated Annually	\$297,158	
x 10 years	x10	
<hr/>		
=Property Taxes Abated Over 10 Years	\$2,971,584	

**During the effective ten-year life of the Abatement, Philadelphia forewent \$2,971,584 in abated property tax revenues.**

# Taxes Received

- The “benefit” of the Abatement is measured in how much new taxes are generated during the abated development’s construction phase and the subsequent 10 year’s of the abatement’s life.

## Total Taxes Received

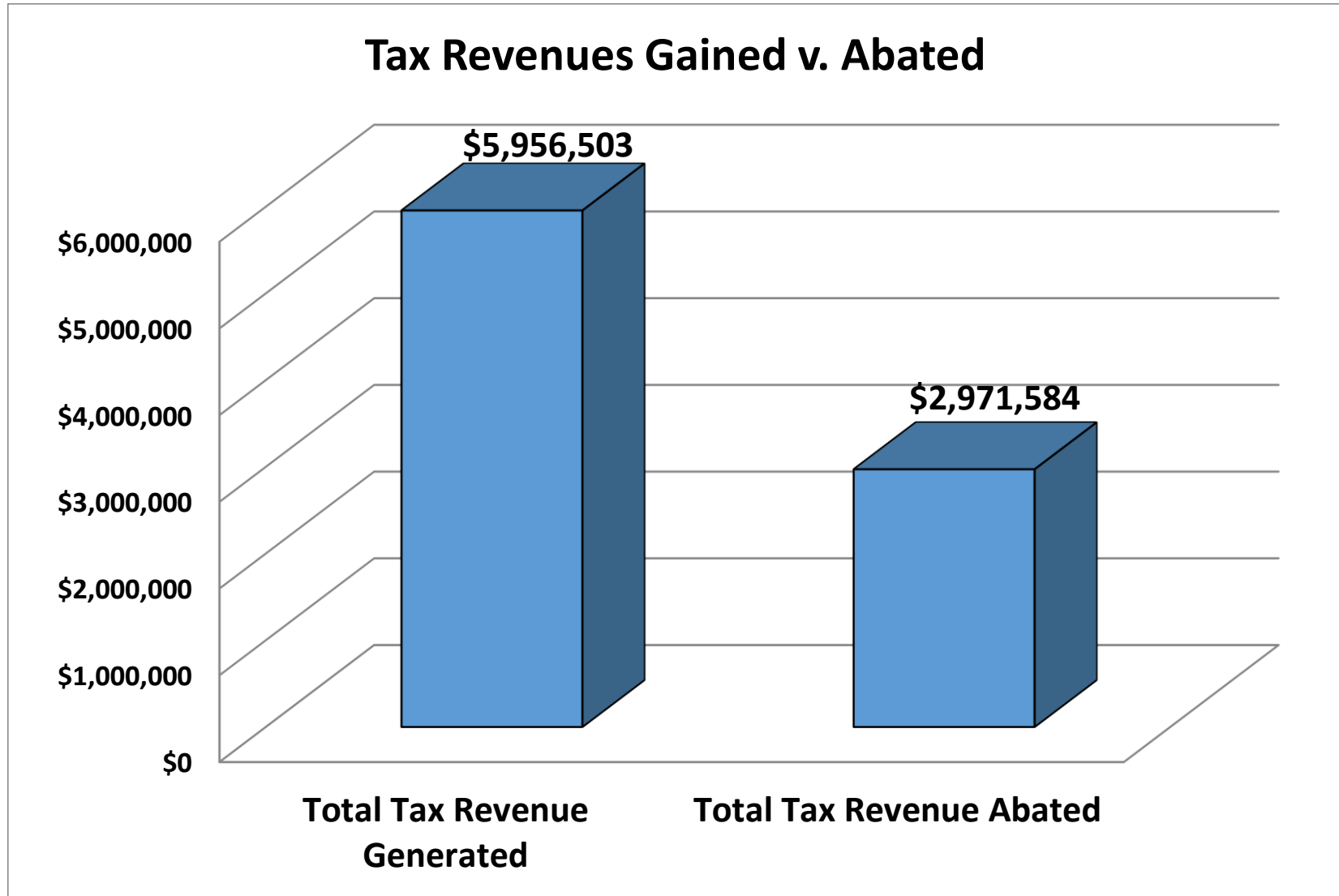
Transfer Tax Revenue	\$1,404,152
+BIRT Tax Revenue	\$138,445
+Wage Tax Revenue	\$3,384,543
+Outdoor Advertising Tax Revenue	\$20,687
+Property Tax Revenue	\$470,183
+Sales Tax Revenue	\$538,493
<b>=Total Tax Revenue</b>	<b>\$5,956,503</b>

**Total tax revenue generated to Philadelphia by Brewerytown during both its development and operations phases is \$5,956,503.**



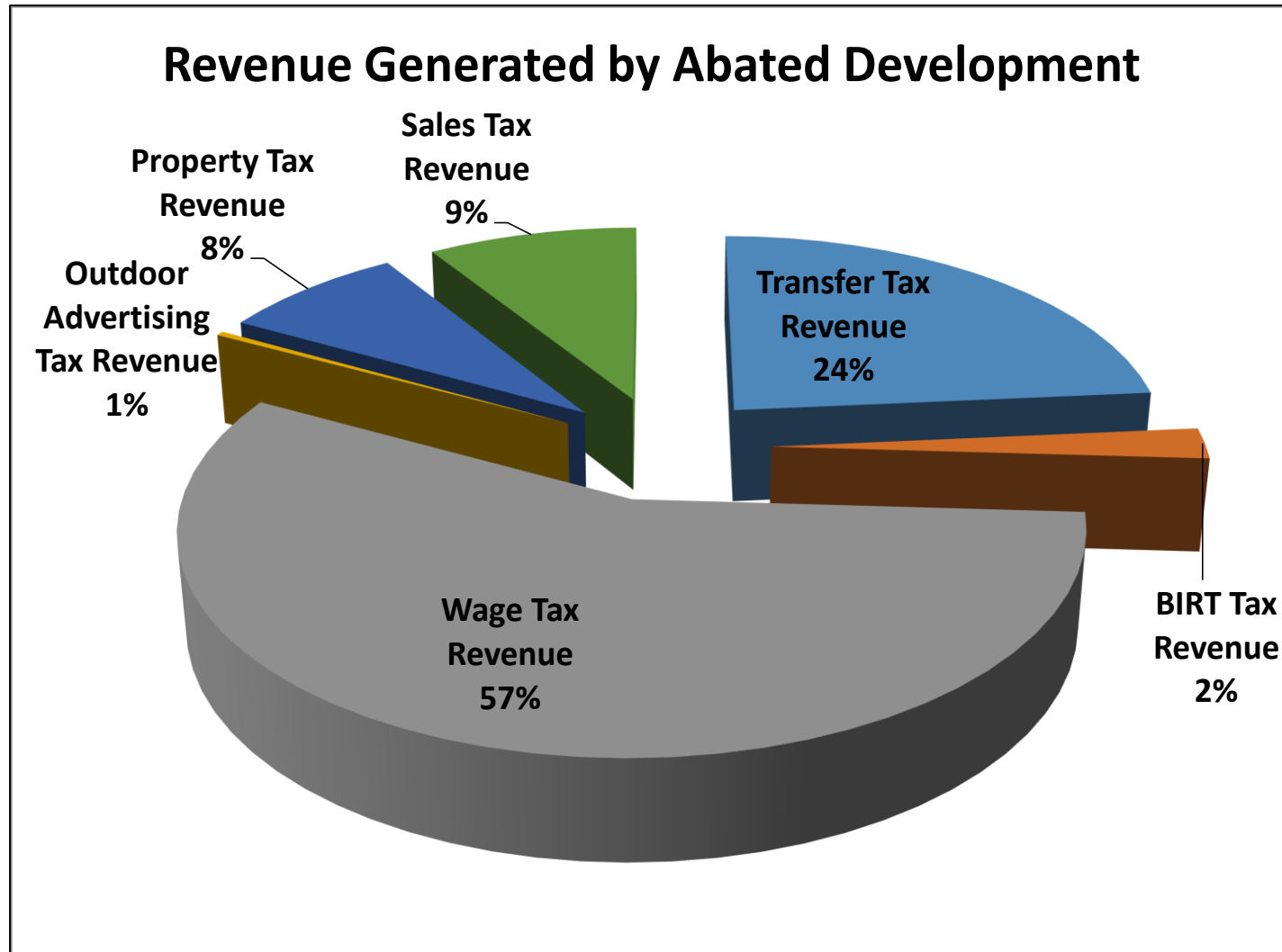
# Net Fiscal Impact: +\$3m

## Tax Revenues Gained v. Abated



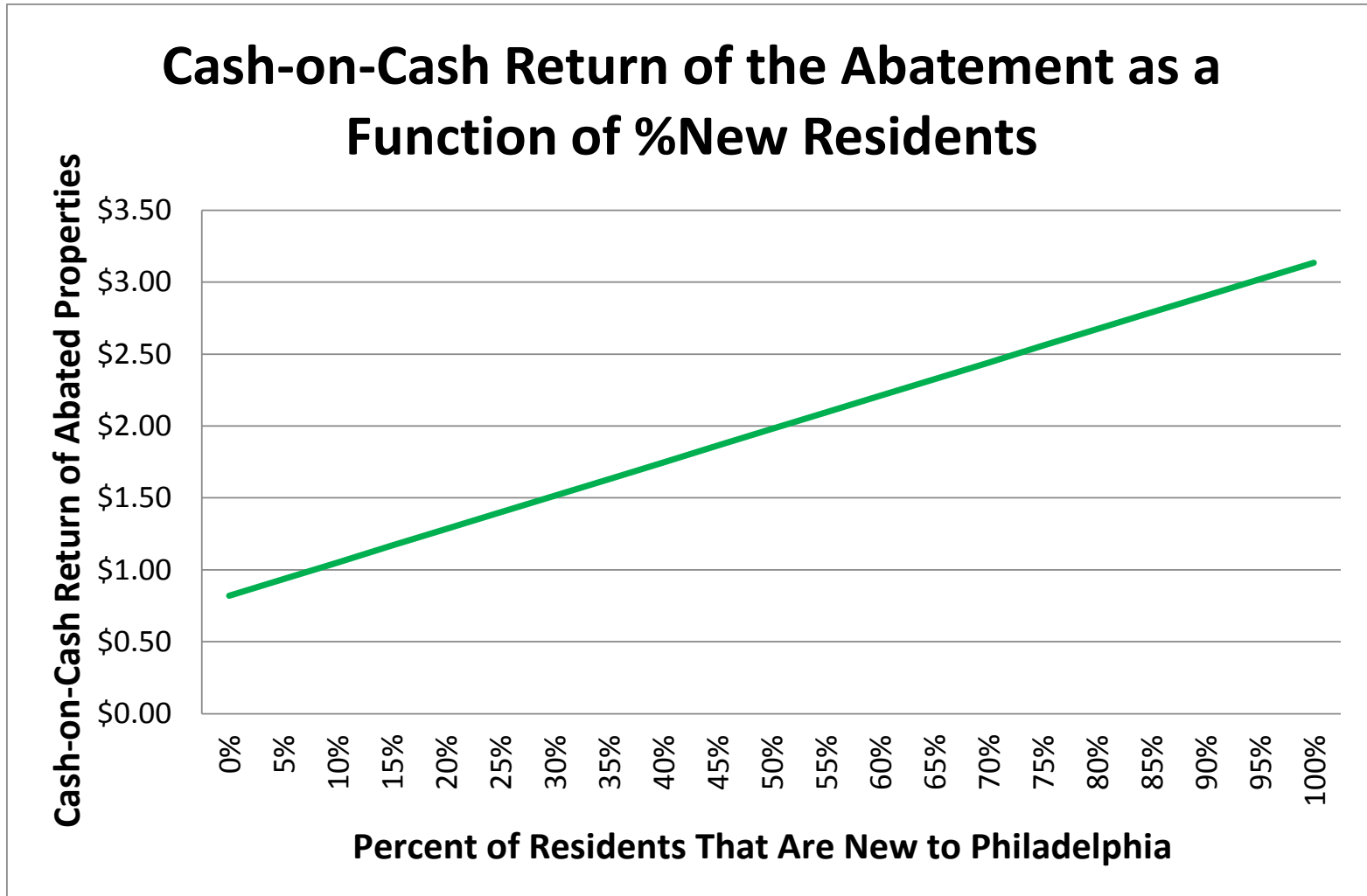
***Cash-on-Cash Return of \$2 !!***

# Revenue Sources from Abated Development



***Wage and Transfer Taxes constitute over 50% of new revenues.***

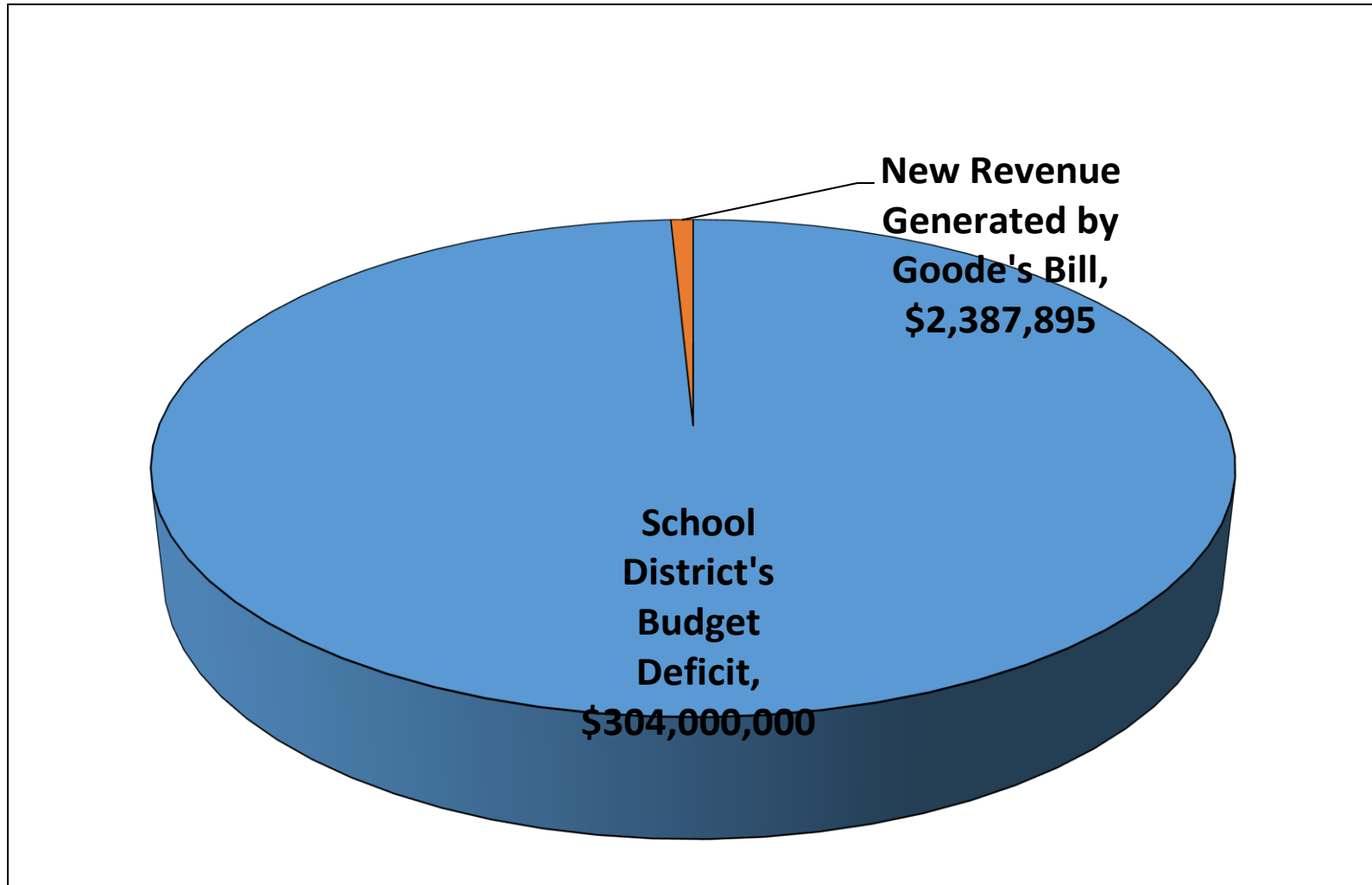
# Case Study: Brewerytown Square



Cash-on-Cash Return can be as high as \$3.35



# How will Goode's bill affect School funding?



Goode's bill projected to reduce School's budget deficit by less than 1%.

# Summary

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- During the Abatement's 10-year life, it does appear to more than pay for itself: \$2 Cash-on-Cash return.
- Then, additional revenues are yielded when the Abatement expires: new property tax revenues.
- However, the magnitude of the yield is heavily dependent upon:
  - How many occupants are new residents and workers to the City;
  - Whether or not these occupants are owners and not renters.
- Best case scenario: 100% new owner-occupants and workers can yield a Cash-on-Cash return as high as \$3.35.
- We used very conservative assumptions; e.g. only examined taxable events *directly* attributable to the Abated project.
- Finally, current levels of development are insufficient to provide any significant new revenues to the School District if Goode's bill is implemented.
- Full report here:

<http://www.fels.upenn.edu/fels-research-consultings-housing-report>