

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

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ECONOMIC IMPACT STATEMENT

Proposed Headquarter Hotel Tax Increment
Financing District – 1441 Chestnut Street

NOVEMBER 2013



City Controller
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**PROPOSED HOTEL TIF (BILL #130686)
CONTROLLER'S ECONOMIC IMPACT STATEMENT**

As required by §17-1100 of the Philadelphia Code, our office has reviewed the analysis performed by PIDC of the proposed "Headquarter Hotel Tax Increment Financing District" for an "anchor hotel" to be built at 1441 Chestnut Street.

In sum, PIDC's analysis indicates that this proposed deal would yield a net benefit to the City on several fronts: it would create many jobs in both the construction and service sectors; it would produce a marquee hotel that would meet demand from our Convention Center; and the long-term revenue benefits will likely outweigh the short-term revenue costs. Because of the way the TIF loan is structured, as a recourse loan, the developer and not the City would be liable should the project fail to be completed. In short, the City's risks seem relatively low and the rewards could be substantial.

But like all such proposals, "the Devil is in the details." The detail that concerns us the most regards the permanent jobs that will be created once the hotel is up and running. PIDC's analysis, based on numbers received from the developer, claims that the project will produce 450 permanent jobs with average annual earnings of \$40,000. In Year One (2017) of the hotel's operation, this would yield total average wages of \$18 million, projected to rise by 2.5% per annum. In Year One, this translates into just over \$660,000 in wage tax revenues. Over the 20 years of the TIF, PIDC projects over \$17 million in wage tax receipts, more than half of the tax revenue that will accrue to the City's General Fund over the life of the TIF. So it is important, from a revenue standpoint, to scrutinize these projections.

The wage figures used in the PIDC analysis seem optimistic. The vast majority of a hotel's employees are hourly service workers such as housekeepers and desk clerks; indeed, according to figures provided to our office by PIDC, 380 of the 450 employees, about 85%, will be hourly employees. According to research analysts at UniteHere, even in really "hot" hotel markets such as Boston, hourly hotel employees generally only average about 30 hours a week or 1,560 hours a year – 75% of full-time.

According to the Bureau of Labor Statistics as well as available collective bargaining agreements, the hourly wage for service workers in Philadelphia-area hotels ranges from \$8.63 to \$15.06 per hour for Maids and Housekeepers, with the median at \$11.12, while the salary range for a hotel manager is \$38,100 to \$93,000, with the median at \$64,400.

PIDC's projections, then, are predicated on the assumption that all of the projected 380 service employees at the proposed hotel will work a full 2,080-hour work-year and that the average wage will be at the highest end of the scale, yielding just over \$31,300 per year per employee. In order for the \$40,000 average to be attained, PIDC also must assume that the 70 salaried employees earn an average of \$93,000 per year, the highest end of the scale in the BLS data for the region. Given these assumptions, taxable earnings for the permanent employees in 2017 will be about \$18 million.

Yet, as noted, there is evidence to suggest that the average hourly hotel employee works about 1,560 hours per year, not 2,080. If this is the case, an hourly employee at the top end of the scale, \$15.06 an hour, would earn about \$23,500 a year.

Absent any written guarantee that the hotel will pay wages at the top of the scale, and in light of the evidence regarding the industry's norm of less-than-full-time employment for hourly workers, we have produced a range of likely revenue projections. Under all scenarios in Table 1 below, we have used 3 of PIDC's assumptions: that wages for permanent employees will increase by 2.5% a year starting in 2018;

that the wage tax rate will remain stable from 2018 until 2033; and that 65% of permanent employees will be City residents and 35% will reside outside the City.

In Scenario A, we have used PIDC’s assumptions about wage rates. In Scenario B, we have utilized BLS figures for median earnings, assuming full-time employment. In Scenario C, we have utilized BLS median figures but have assumed 1,560 hours per annum for the hourly employees.

In Scenario B the total wage tax revenue over the life of the TIF is about 20% lower than PIDC’s figure, \$13.5 million rather than \$17 million. In Scenario C, total wage tax revenue is \$11.7 million, about 32% lower than PIDC’s figure.

In sum: We support this proposal, but we have reservations regarding PIDC’s Wage Tax revenue projections as presented. We urge the administration to consider a second analysis of the revenue expectations as presented.

TABLE 1

*A: 380 hourly employees @ \$15.06/hr, 2,080 hours/year; 70 salaried employees at \$93,000 per annum
 B: 380 hourly employees @ \$11.12/hr, 2,080 hours/year; 70 salaried employees at \$64,400 per annum
 C: 380 hourly employees @ \$11.12/hr, 1,560 hours/year; 70 salaried employees at \$64,400 per annum*

YEAR	Earnings- A	WT-A	Earnings-B	WT-B	Earnings-C	WT-C
2014	\$31,800,000 ¹	\$1,159,158	\$31,800,000	\$1,159,158	\$31,800,000	\$1,159,158
2015	\$31,800,000	\$1,157,989	\$31,800,000	\$1,157,989	\$31,800,000	\$1,157,989
2016	\$31,800,000	\$1,143,226	\$31,800,000	\$1,143,226	\$31,800,000	\$1,143,226
2017	\$18,000,000	\$660,249	\$13,286,000	\$487,337	\$10,930,000	\$400,918
2018	\$18,450,000	\$666,602	\$13,618,150	\$492,026	\$11,203,250	\$404,776
2019	\$18,911,250	\$683,267	\$13,958,604	\$504,327	\$11,483,331	\$414,895
2020	\$19,384,031	\$700,349	\$14,307,569	\$516,935	\$11,770,415	\$425,267
2021	\$19,868,632	\$717,857	\$14,665,258	\$529,859	\$12,064,675	\$435,899
2022	\$20,365,348	\$735,804	\$15,031,890	\$543,105	\$12,366,292	\$446,796
2023	\$20,874,482	\$754,199	\$15,407,687	\$556,683	\$12,675,449	\$457,966
2024	\$21,396,344	\$773,054	\$15,792,879	\$570,600	\$12,992,335	\$469,416
2025	\$21,931,252	\$792,380	\$16,187,701	\$584,865	\$13,317,144	\$481,151
2026	\$22,479,533	\$812,190	\$16,592,393	\$599,486	\$13,650,072	\$493,180
2027	\$23,041,522	\$832,495	\$17,007,203	\$614,473	\$13,991,324	\$505,509
2028	\$23,617,560	\$853,307	\$17,432,383	\$629,835	\$14,341,107	\$518,147
2029	\$24,207,999	\$874,640	\$17,868,193	\$645,581	\$14,699,635	\$531,101
2030	\$24,813,199	\$896,506	\$18,314,898	\$661,721	\$15,067,126	\$544,378
2031	\$25,433,529	\$918,918	\$18,772,770	\$678,264	\$15,443,804	\$557,988
2032	\$26,069,367	\$941,891	\$19,242,089	\$695,220	\$15,829,899	\$571,937
2033	\$26,721,101	\$965,438	\$19,723,142	\$712,601	\$16,225,646	\$586,236
TOTALS	\$470,965,148	\$17,039,519	\$372,608,809	\$13,483,291	\$323,451,504	\$11,705,932

¹ The earnings and wage tax revenue figures in the first 3 years of the project are almost exclusively for construction workers. Because they will likely be covered by a Project Labor Agreement with the Building and Construction Trades, it is probable that these numbers are accurate.