

PICA Fact Sheet: Philadelphia's Rainy Day Fund

What is a Rainy Day Fund?

Rainy Day Funds are resources set aside when times are good for use when things go wrong. These funds can function like an insurance policy for when revenues are lower than expected or costs skyrocket due to outside events (like a pandemic). Many cities and states have formal Rainy Day Funds that are required by law and have rules about when and how money is deposited and withdrawn. These Rainy Day Funds are separate from the Fund Balance, which has more flexibility around how much is in there and what it can be used for.

The City of Philadelphia established its Rainy Day Fund, called the Budget Stabilization Reserve, in 2011 but didn't make its first deposit of \$34 million until FY20. The onset of the COVID-19 pandemic dramatically impacted the City's tax collections while necessitating new services, like quarantine and isolation spaces, COVID testing, and remote learning sites for students, leading to the City withdrawing the funds a short time later. As of December 2023, there is \$107 million in the City of Philadelphia's Budget Stabilization Reserve.



Why is a Rainy Day Fund Important?

- **It's a Financial Cushion.** As the COVID-19 experience illustrated, having funds available to maintain services through an unexpected event is critical. Without adequate reserves, a bad situation becomes worse if critical services go undelivered right when people need them most. Having funds on hand lets the City weather a short-term emergency or buys time to figure out the best policy path if the triggering events will have sustained impacts on revenues or operations.
- **It's a Credit Booster.** Rating agencies who assess the City's ability to repay borrowed funds and the investors lending those funds like to see a government have an adequate Rainy Day Fund. It provides comfort that even if the unexpected happens, bondholders are still likely to be repaid. This comfort can translate into lower borrowing costs, freeing up funds for other uses. Rating agencies and potential bondholders consider Rainy Day Funds within the context of other available reserves, as well as a government's flexibility to raise revenue and manage expenses.

How Does Money Go into Philadelphia’s Budget Stabilization Reserve?

In May 2023, Philadelphia voters approved changes to the formula used to calculate if and how much money should be deposited into the Budget Stabilization Reserve (BSR). The amount of the deposits for the upcoming year are tied to the current year fund balance based on the following schedule:

Fund Balance (as % of General Fund Revenues)	Budget Stabilization Reserve Deposit
Less than 3%	No Deposit
3%-5%	0.75%
5%-9%	1.00%
9%-17%	All funds over 8% until cap is met

The updated formula caps the total amount in the BSR at 17% of projected revenues for the current fiscal year based on the projection as of the first business day after February 14th, as reported in the 2nd quarter’s Quarterly City Managers Report. If that cap has not been met, the deposit for the next fiscal year is based on a percentage of the projected fund balance for the current fiscal year (again, as projected on the first business day after Valentine’s Day – nothing is more romantic than fiscal stability) and the projected revenues for the next fiscal year.

- Projected FY24 Fund Balance as % of FY24 Revenues: 8.5%
- Required BSR Deposit: 1% of FY25 Revenues

Based on projections from February 15, 2024, the FY25 deposit into the BSR is locked in at 1% of the FY25 projected revenues, even if the actual fund balance and revenues for FY24 differ from the projections. The General Fund revenue projection in the proposed FY25-29 Plan released March 14, 2024, would result in a \$58 million deposit for FY25.

When & How Can the Rainy Day Fund Be Used?

The distinction between Rainy Day Funds and the fund balance or other resources is that there are more criteria for expenditure. Tapping into Philadelphia’s BSR requires City Council approval and a Certification from the Director of Finance.

There are two scenarios that can lead to a withdrawal from the BSR:

- **A drop in revenues of at least 1% compared to the Mayor’s estimate.**
 - In that case, Council must approve a transfer ordinance and the Director of Finance must certify the 1% or greater drop in revenues.
- **A need to avoid a major disruption in the delivery of City services or need to provide emergency programs to protect the health, safety, and welfare of City residents.**
 - In this instance, the Director of Finance must certify that is the case and that certification must be approved by either two-thirds of City Council or PICA (or any other agency of the Commonwealth with responsibility for ensuring the fiscal stability of the City – but we’re the only game in town at the moment).

What Are Other Cities Doing?

- Baltimore has had a Budget Stabilization Reserve since 1993. At the end of FY22, it held \$158.4 million (7.8% of General Fund expenditures). Withdrawals from Baltimore's BSR must be replenished within 5 years.ⁱ
- Las Vegas maintains a Fiscal Stabilization Reserve, capped at 10% of the prior year's spending. This is separate from the General Fund unrestricted ending fund balance that should equal 25% of current year expenditures (\$707 million in fund balance and \$1.6 billion in spending approved for FY24).ⁱⁱ They don't gamble when it comes to fiscal stability.
- Los Angeles has a Reserve Fund and a Budget Stabilization Fund. Deposits into the Budget Stabilization Fund come from growth in economically sensitive taxes beyond average growth from the past 20 years. Withdrawals happen when growth falls short of the 20-year average. The Reserve Fund is unrestricted cash set aside for revenue shortfalls and unforeseen expenses and should contain at least 5% of the City's General Fund. Combined, they contain \$800 million.ⁱⁱⁱ

About this Fact Sheet

The graphic used in this report was generated by Marisa Waxman using ChatGPT's DALL-E feature.

ⁱ Baltimore City, [Summary of the Adopted Budget Fiscal Year 2024](#)

ⁱⁱ City of Las Vegas, [Final Budget for Fiscal Year 2024](#)

ⁱⁱⁱ City of Los Angeles, [Controller's Fiscal Health Dashboard](#)