Pennsylvania Intergovernmental Cooperation Authority

July 2024

Photo Credit: Kevin Vaughan

PICA Staff Report on the City of Philadelphia’s Five-Year Financial Plan for Fiscal Years 2025-2029

PICA

Pennsylvania Intergovernmental Cooperation Authority

www.picapa.org

Board of Directors

Kevin Vaughan, Chair

Alan Kessler, Esq., Vice Chair

Michael A. Karp, Secretary/Treasurer

Rosalind W. Sutch, CPA, MT, Assistant Secretary/Treasurer

Patrick Burns, Member

Ex-Officio Members

Uri Z. Monson, Representative of the Commonwealth of Pennsylvania, Secretary of the Budget

Rob Dubow, Representative of the City of Philadelphia, Director of Finance

Staff

Marisa G. Waxman, AICP, Executive Director

Rob Call, Deputy Executive Director

Suzanne Staherski, Research and Policy Analyst

Deidre Morgenstern, Administrative Manager

Professional Advisor

Charles E. Swanson, PhD, Economist, Temple University Department of Economics

Contents

This report was produced with assistance from ChatGPT 4.0. All content was checked and edited by PICA Staff.

PICA

Pennsylvania Intergovernmental Cooperation Authority

1500 Walnut Street, Suite 1600, Philadelphia, PA 19102
215-561-9160 | www.picapa.org

July 25, 2024

To the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority:

The staff of the Pennsylvania Intergovernmental Cooperation Authority (PICA) is pleased to provide you with our report on the City of Philadelphia's Five-Year Financial Plan for Fiscal Years 2025 through 2029 (the Plan).

This report provides a comprehensive assessment of the Plan and its compliance with the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the PICA Act). This report:

- Analyzes the revenue, expenditure, and fund balance projections
- Evaluates the reasonableness of the assumptions used to develop those projections; and,
- Assesses potential risks to the Plan

Based on this review, and in accordance with the PICA Act, Section 209(f), "Authority Review and Approval of Plan," **I recommend that the Board approve the Plan as presented.**

The preparation of this report on a timely basis was made possible by the dedicated service of the entire PICA Staff and our economic consultant, Professor Charles Swanson. I would also like to thank the City of Philadelphia's Office of the Director of Finance, the Budget Office, the Department of Revenue, and the Office of the City Controller for their expertise, cooperation, and ongoing assistance.

Sincerely,

Marisa G. Waxman, AICP
Executive Director

Executive Summary

PICA Staff recommend PICA Board approval of the City of Philadelphia's FY25-29 Five-Year Plan because it meets the PICA Act's criteria:

- ☑ Positive fund balances in all years of the Plan
- ☑ Projections of all revenues and expenditures for five fiscal years, including projected capital expenditures, short- and long-term debt incurrence, and cash flow forecasts for the first year of the Plan
- ☑ Revenue and spending projections based on reasonable assumptions and applied consistently
- ☑ Includes required elements: Mayor's statement, debt service payment schedule, legally-mandated service schedule, description of methods and assumptions, Operating and Capital Budget for FY25, cashflow forecast, City Controller's opinion, and number of employee positions

The City of Philadelphia's Fiscal Health Successes

- Positive fund balances, even during the COVID-19 pandemic

	FY20	FY21	FY22	FY23	FY24 Est.
Fund Balance	$291M	$299M	$779M	$982M	$628M

- Highest credit rating in over 40 years
- Contributing to the Budget Stabilization Reserve
- Progressing towards a fully-funded Pension Fund
- Making the final payment on PICA bonds

Key FY25-29 Plan Risks

- Future labor costs
- Staffing levels
- Pension costs
- Interest rates and inflation
- SEPTA and School District funding shortfalls
- Unexpected events
- Unplanned expenditures and revenue reductions

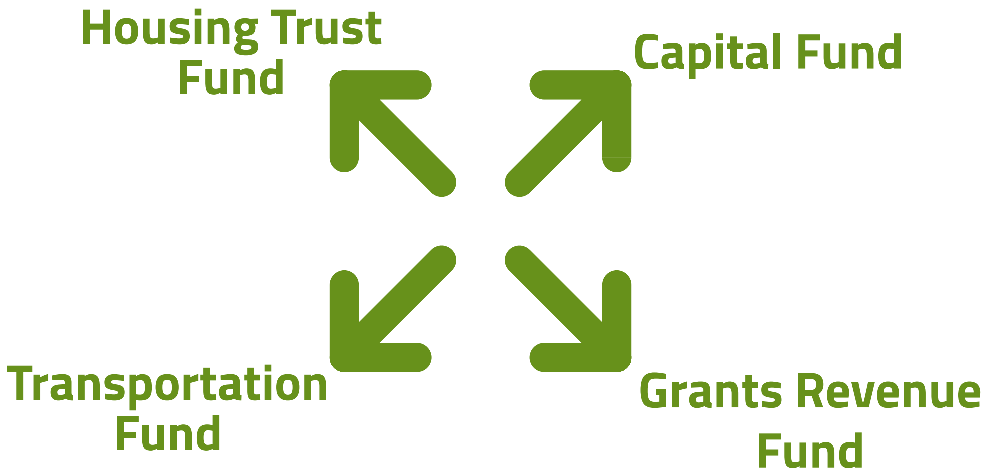
PICA’s Recommendations to the City of Philadelphia

1. Allocate additional resources for expected and unexpected circumstances

The City’s projected reserves in relation to revenues are cause for serious concern in later years of the Plan

2. Seek structural balance

3. Enhance financial transparency of additional City funds



Section 1: Purpose of the Report and Plan Requirements

Purpose of the Report and Plan Requirements

In the early 1990s, the City of Philadelphia (the City) was in fiscal crisis. The City's precarious fiscal condition meant that it was denied access to capital markets to invest in infrastructure or smooth its cashflow. In 1991, the Pennsylvania Legislature passed the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (PICA Act) to bolster the City's fiscal condition and restore its access to capital markets.

The PICA Act created the Pennsylvania Intergovernmental Cooperation Authority (PICA) to issue bonds to assist the City. To support the City's ongoing fiscal stability, the PICA Act requires the City to produce annually a Five-Year Financial Plan (the Plan). As mandated in the Act, the Plan must include:

- Projected revenues and expenditures of the principal operating funds of the City based on consistently applied reasonable and appropriate assumptions and methods of estimation for five fiscal years.
- Efforts to eliminate any projected deficit for the current fiscal year, balance current and future fiscal year budgets through sound budgetary practices, provide procedures to avoid a fiscal emergency condition in the future, and enhance the ability of the City to access short- and long-term credit markets.
- Debt service projections for existing and anticipated City obligations, a schedule of payments for legally mandated services projected to be due during the term of the Plan, and a schedule showing the number of authorized employee positions accompanied by estimates of wage and benefit levels.

This report is PICA's evaluation of the City's Five-Year Financial Plan for Fiscal Years 2025 to 2029 (the Plan) as submitted to PICA on June 25, 2024. The framework for producing and evaluating the Plan is provided by the PICA Act. The objective of this report is to analyze whether the Plan meets the criteria in the PICA Act, identify potential risks, evaluate spending and personnel trends, assess indicators of financial health, and make a recommendation for approval or disapproval of the Plan by PICA's Board of Directors.

Section 2: Existing Conditions

- What's past is prologue, with the City's fiscal and economic history shaping the present and expectations for the future. The following section provides an overview of how the City has been raising and spending funds in recent years, its fiscal condition, and the economic and demographic factors that shape and are shaped by the City's financial choices. Understanding how the City has performed and whether trends demonstrate fiscal improvement, stability, or decline is necessary grounding for an assessment of the reasonableness of the City's assumptions about the future. FY24 spending and collections amounts are estimates, as full-year, actual data is not yet available. Figures for FY25-29 are projections based on the City's Five-Year Plan.

2.1 Fiscal Indicators

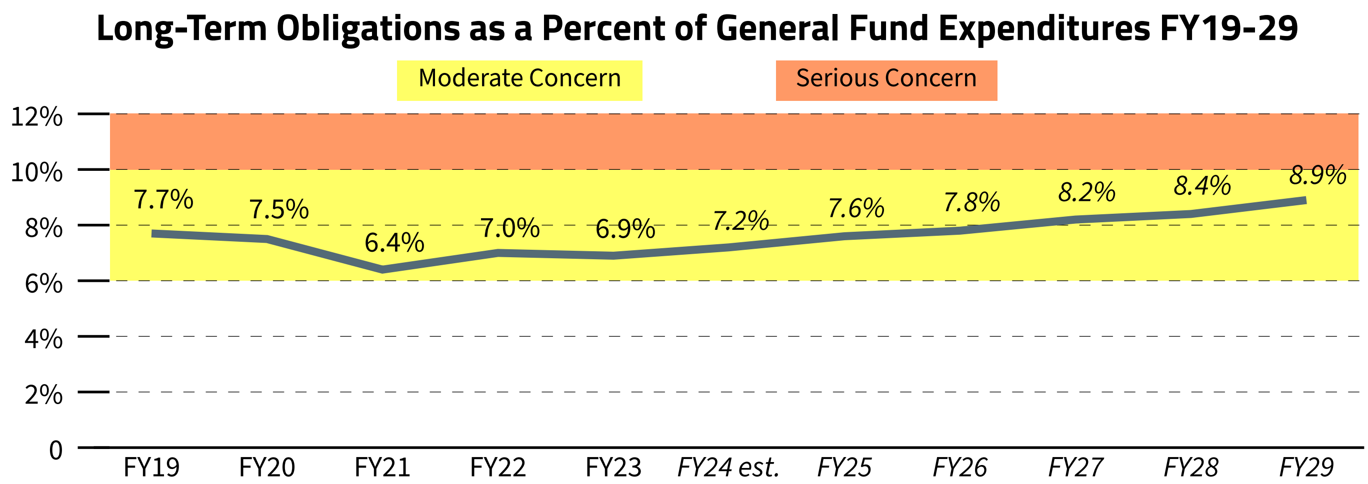
PICA uses a group of indicators to monitor the City of Philadelphia's fiscal condition and support its analysis of proposed Five-Year Financial Plans. Although a single data point can reveal if a city is in distress (ex. a negative fund balance), assessing relative fiscal health and the trajectory a city is on requires more varied inputs. While the selection and interpretation of measures is subjective, reviewing these indicators provides a context for PICA Staff to evaluate the reasonableness of the assumptions contained in the proposed Five-Year Plan. PICA developed this set of indicators based on measures used elsewhere to assess municipal fiscal stability, and input from City of Philadelphia financial leadership and other regional subject matter experts.

In this section, past performance on nine indicators is presented, along with benchmarks for what level of concern is warranted and where that measure is headed based on projections in the City of Philadelphia's FY25-29 Financial and Strategic Plan, when available. The measures included are grouped into five categories: Debt, Fiscal Management, Pension, Reserves, and Revenues.

While, for most of the indicators, there are not specific targets or thresholds that are legally mandated or universally identified as "correct," PICA has identified thresholds to categorize whether the City's performance raises minimal, moderate, or significant concern. As PICA's entire reason for existing is to maintain and enhance the City's fiscal stability, it will always have at least a minimal concern about any indicator.

Category	Indicator	Minimal Concern	Moderate Concern	Significant Concern
Debt	Long-term Obligations as % of Spending		X	
Fiscal Management	Credit Rating	X		
Fiscal Management	Operation Surplus/Deficit as % of Revenues			X
Pension	% of Pension Funded			X
Reserves	Change in Fund Balance			X
Reserves	Fund Balance as % of Revenue			X
Reserves	Total Reserves for Unacticipated Conditions			X
Revenues	Change in Tax and Local Government Non-Tax Revenue	X		
Revenues	Wage Tax Collections as % of Estimates	X		

Debt Indicator: Long-Term Obligations as a Percent of Spending



Description

The Long-Term Obligations as a Percent of Spending indicator is calculated as tax-supported debt service budgeted in the Sinking Fund (Class 200 + Class 700) plus the Pension Obligation Bond repayments budgeted in the Office of the Director of Finance divided by total General Fund spending. This captures most of the City's long-term obligations, but some non-debt service payments budgeted elsewhere are omitted (ex. pension costs other than bond repayment and the $15 million annual payment for the Convention Center). The City has a debt policy which aims to keep tax-supported debt (excluding the Pension Bonds) below six percent of General Fund expenditures, which it has achieved consistently in the past five years.

Why is it Important?

A trend of higher debt service expenditures as a share of spending is unfavorable as it may mean less revenue will be available for meeting current operating needs and additional capital asset repair and replacement. This metric helps identify potential risks associated with debt levels and future liabilities, enabling informed decisions on borrowing and investment. A high ratio indicates that a significant portion of the budget is dedicated to servicing debt, which can limit funds available for essential services like public safety, neighborhood services like parks and trash pickup, and infrastructure maintenance. This can lead to a doom loop where deferred capital investments cause infrastructure to deteriorate, increasing future costs and necessitating further borrowing. Monitoring and managing this ratio helps avoid such a negative cycle, ensuring that both current and future needs are adequately met.

Benchmarks

- Moderate Concern: Long-Term Obligations are between 6 and 10 percent of spending
- Significant Concern: Long-Term Obligations are over 10 percent of spending

Past Performance: FY19-23

Over the past five years, the ratio of long-term obligations to spending has generally been declining, with a significant dip in FY21 as the City refinanced its Pension Obligation Bonds, deferring a portion of the costs to conserve resources as it navigated COVID-19. A trend of a declining share of spending dedicated to long-term obligations is positive as long as it also continued making adequate investments to maintain its infrastructure. Fun Fact: in FY23, the City made the final payment on the PICA bonds issued in the early 1990s.

Future Projections: FY24-29

Over the course of the FY25-29 Plan, the City is planning to increase the share of spending dedicated to long-term obligations but remain below the range where PICA would have significant concerns through FY29, the year in which a balloon payment on the Pension Obligation Bonds is due. Other debt service will grow by $87 million between FY24 and FY28, reaching $412 million that year, before declining to $384 million in FY29. The City projects achieving its target of spending six percent or less of General Fund expenditures on long-term obligations (excluding Pension Bonds) through FY26 and again in FY29, but anticipates exceeding that target in FY27 and FY28.

The fact that FY29 includes a one-time balloon payment for the Pension Obligations Bonds and that those bonds will be fully repaid in 2035 means that the trajectory for growing the share of spending that must be allocated to long-term obligations can be reversed in future Five-Year Plans, provided that additional commitments made in the intervening years do not increase the share of overall spending that is needed for long-term obligations.

Discussion

The City is projected to continue to have long-term obligations that are between 6 and 10 percent of overall spending, the range at which **PICA has moderate concern about the ratio of long-term obligations to spending**, given the pressure this situation places on the General Fund budget. The City has demonstrated that in times of intense budgetary pressure reducing these costs may be necessary to maintain services. For example, in FY21, when the revenue losses and new service demands associated with the COVID-19 pandemic needed to be addressed and federal relief had not yet become available, the City restructured its Pension Obligation Bonds which lowered costs for one year but raised costs in future years. This was a solution to a short-term shock but had negative future impacts. Evaluations of future borrowings, other long-term commitments, and refinancings should balance the benefits of the associated spending with reducing the share of spending that is allocated to long-term obligations to below six percent to ensure adequate capacity to address service needs and navigate revenue disruptions that emerge.

Fiscal Management Indicator: Credit Rating

Description

This indicator reflects independent assessments by rating agencies of the City's ability to meet its financial obligations. There are three primary rating agencies, Moody's, Fitch, and S&P, each of which has a scale to assign ratings from highest quality with minimal risk to lowest quality with high likelihood of default. Additionally, outlooks of positive, negative, and stable can be assigned to indicate whether a city is improving, declining, or holding steady with respect to its credit worthiness.

Why is it Important?

There are significant benefits to improving the City's credit rating, including the ability to attract more investors, get lower interest rates on new issues, and refinance existing high-cost debt for savings when market conditions are favorable. Lower credit ratings result in higher interest rates and more difficulty in accessing capital markets, which means that a city will pay more for whatever it is using the borrowed money for than if it had a better credit rating. Dismal credit ratings can result in no investors being willing to lend to a city – that was the situation that led to the creation of PICA in the early 1990s. PICA was able to borrow when the City of Philadelphia could not.

Benchmarks

- Moderate Concern: Negative Outlook
- Significant Concern: Ratings Decrease

Past Performance: FY19-23

With recent ratings upgrades, including a Fitch upgrade from A to A+ in June 2024, the City of Philadelphia currently has its highest ratings in more than four decades. Although still trailing most other large US cities, this recent improvement and maintaining A-level ratings since 2013 is a major achievement.

Future Performance: FY25-29

The City of Philadelphia does not project future ratings, but the outlooks by Fitch, S&P, and Moody's are either stable or positive. Factors working in the City's favor, according to Moody's latest rating, include continued tax base recovery post-pandemic. Moody's identified factors that could lead to a downgrade which include a material drawdown on fund balance (which the FY25-29 Plan does). The City anticipates that rating agencies are unlikely to revise credit ratings for cities until it is clear how they have navigated the end of federal COVID-19 relief funding. In S&P's

PHILADELPHIA CREDIT RATINGS FY19-24			
FISCAL YEAR	MOODY'S	STANDARD & POOR'S	FITCH
FY19	A2	A	A-
FY20	A2	A	A-
FY21	A2	A	A-
FY22	A2	A	A-
FY23	A1	A	A
FY24	A1 (stable)	A (positive)	A+ (stable)

Philadelphia's trend of improving ratings and outlooks is a tremendous achievement.

April 2023 rating, they noted that the City's rating could be lowered if the budget is structurally unbalanced following the total drawdown of the American Rescue Plan funds, but that the rating could be raised if the combined reserves between the General Fund balance and Budget Stabilization Reserve are at strong levels and recurring revenues keep pace with recurring spending. When Fitch upgraded the City's rating, they noted that maintaining reserves at or above ten percent of spending over time could contribute to a further upgrade, while increasing long-term liabilities without commensurate growth in personal income or resources or a decline in General Fund reserves below five percent of spending could result in a downgrade. Maintaining the City's progress on pension funding will also be key to sustaining and enhancing the City's credit rating.

Discussion

With recent upgrades and no negative outlooks, **PICA has minimal concern for the City's credit ratings** but would like to see improvement to levels attained by other large US cities. Chicago is the only one of the 20 largest US cities with lower ratings than Philadelphia. Particularly in an environment of high interest rates, the City must continue to prioritize fiscal health to maintain and enhance its credit ratings.

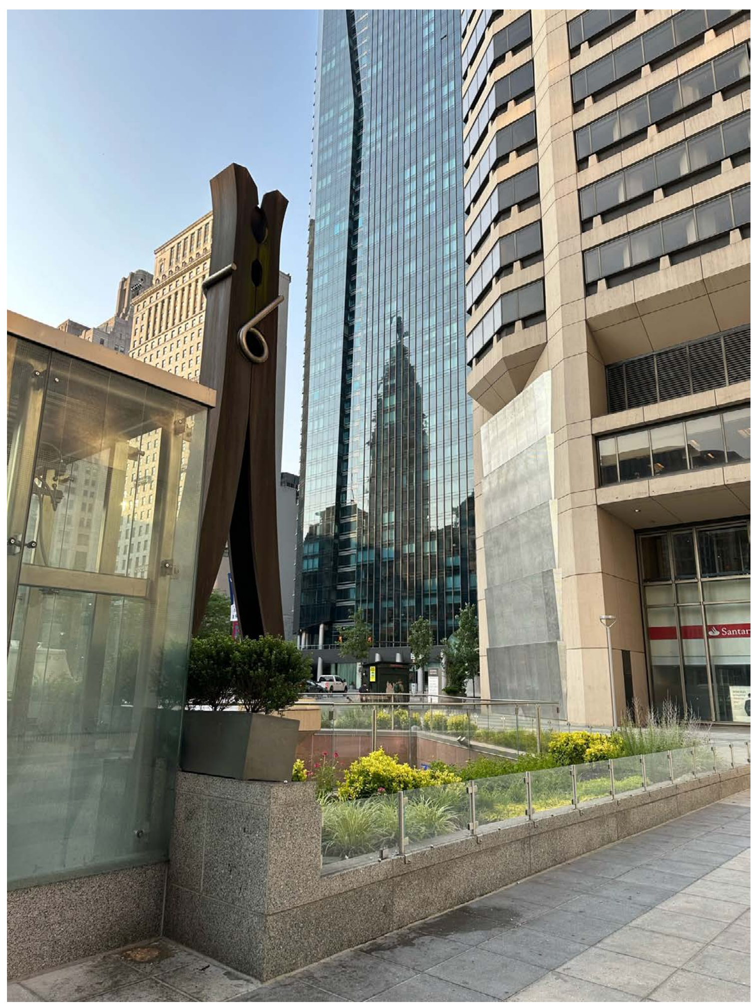
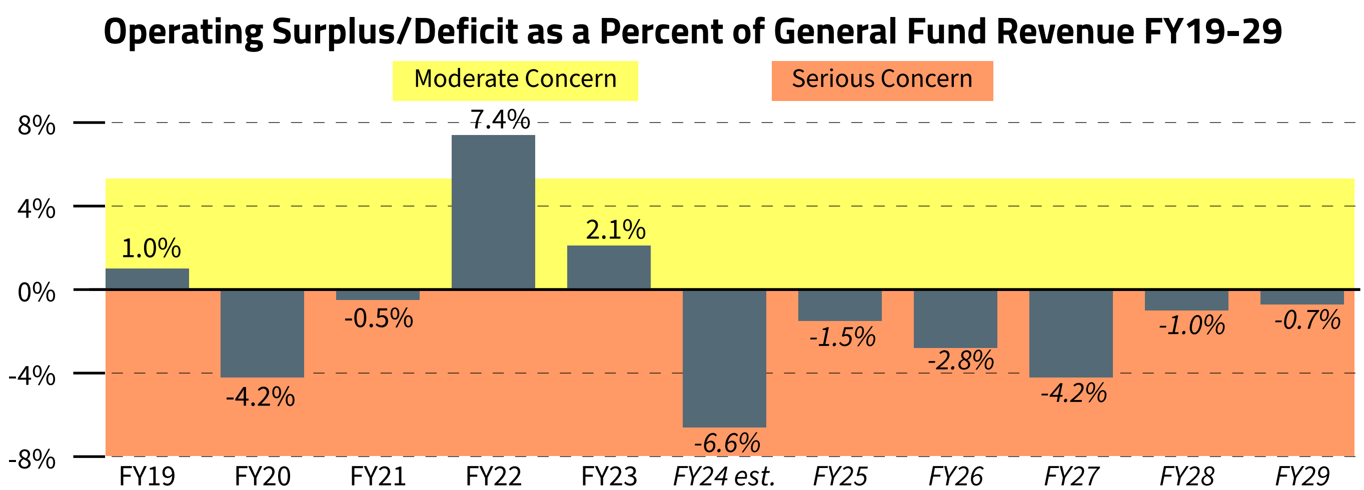


Photo Credit: Kevin Vaughan

Fiscal Management Indicator: Operating Surplus/Deficit as a Percent of Revenues



Description

This indicator is calculated as total General Fund revenues less total expenditures, divided by total revenues. It provides an indication of structural balance and the scale of an operating surplus/deficit compared to the current budget year.

Why is it Important?

This indicator is important because it identifies if an operating deficit exists and the relative size of such deficit. An operating deficit indicates that a city is spending more than it earns, which is unsustainable in the long run and can lead to increased borrowing and higher interest costs. When paired with a low fund balance, or reserves, a city has limited financial cushion to absorb unexpected expenses or revenue shortfalls. This lack of financial flexibility can jeopardize a city's ability to provide essential services, respond to emergencies, and invest in critical infrastructure. Additionally, it can negatively impact a city's credit rating, making future borrowing more expensive and further exacerbating fiscal challenges. Recurring operating deficits, particularly when a city is starting with a modest fund balance, can lead to an inability to have a balanced budget, which is a requirement of the PICA Act.

Benchmarks

- Moderate Concern: Low percentage (between 0 and 5 percent)
- Significant Concern: Negative percentage

Past Performance: FY19-23

The City of Philadelphia had operating surpluses in three of the prior five years, with deficits occurring in the first two fiscal years of the COVID-19 pandemic. In the last year before the pandemic, a one percent operating surplus was achieved. The City had its largest operating surplus over this period, 7.4 percent of revenues, following the receipt of federal relief.

Future Performance: FY24-29

The City plans to spend more than it collects in each year of the FY25-29 Plan, with the largest expected operating deficit in FY24. The last two years of the plan come closest to structural balance but are still deficits.

Discussion

The City's strategy to draw down on the American Rescue Plan funds for as long as allowable, as opposed to spending all the funds the year they were received, was a prudent policy to avoid fiscal cliffs and allow local revenues to recover. In that context, operating deficits reflect a prudent approach to dealing with an ongoing challenge with a one-time infusion of federal relief. Low percentages are less concerning when there are significant fund balances and other reserves, but as Philadelphia's combined fund balance projections and Budget Stabilization Reserve are less than 17 percent of revenues, this indicator takes on greater significance. **PICA has significant concern about operating deficits as a percent of revenues**. Continuing to plan for operating deficits each year, particularly while the City falls below its targeted fund balance of at least 6 to 8 percent of revenues, reflect policy choices that do not prioritize maintaining and improving the City's fiscal stability.

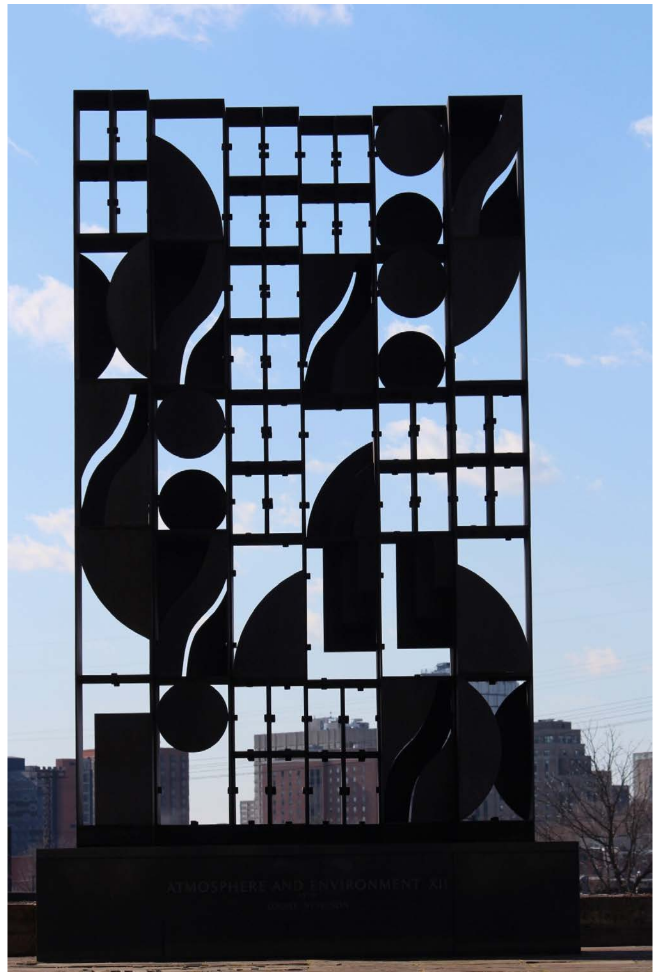


Photo Credit: Kevin Vaughan

Pension Indicator: Percent of Pension Funded

Description

This indicator measures the Pension Fund's net position as a percentage of total pension liability.

Why is it Important?

Payment of pensions to retired employees is an obligation that cannot be shirked, even if it creates pressure on other priorities, resulting in fewer services or higher taxes. The City of Philadelphia's General Fund already allocates a significant share of the budget to pensions (13 percent in FY24), but if this level of spending is not adequate to meet pension requirements, higher allocations could be required in the future. Achieving a high funding percentage indicates a well-managed pension system, ensuring that a city can fulfill its commitments without imposing additional financial burdens on future budgets. Conversely, a low funding percentage suggests potential shortfalls, which could require increased contributions from a city's budget, diverting resources from essential services and infrastructure projects. Adequately funded pensions also enhance a city's credit rating, reducing borrowing costs and promoting overall financial stability. Maintaining a healthy pension fund helps secure the financial future of retirees while safeguarding a city's fiscal health.

Benchmarks

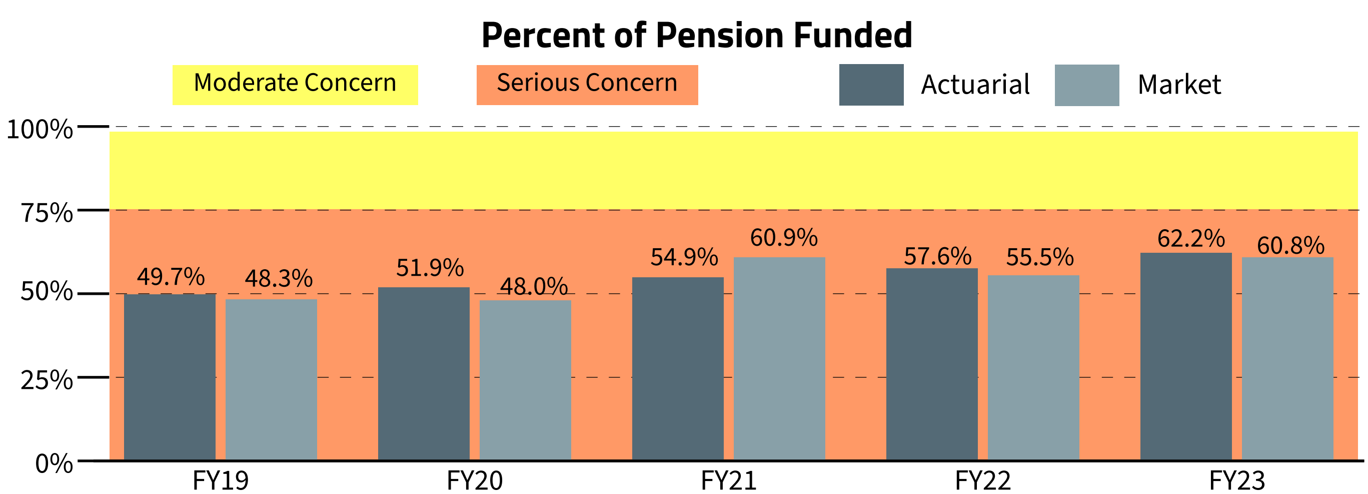
- Moderate Concern: Less than 100 percent
- Significant Concern: Less than 75 percent

Past Performance: FY19-23

The funding percentage increased by 12.5 percent from FY19 to FY23. After adopting a new funding policy aimed at increasing the funding percentage, unfunded liabilities have decreased consistently.

Future Performance: FY24 and Beyond

The City's actuary projects that the pension system will be 80 percent funded by 2029 and 100 percent funded by 2033. Achieving this will require continuing to direct Sales Tax receipts and increased employee pension contributions beyond the state-mandated amount annually to the Pension Fund, while also lowering the assumed rate of return and minimizing manager fees through greater use of index funds.

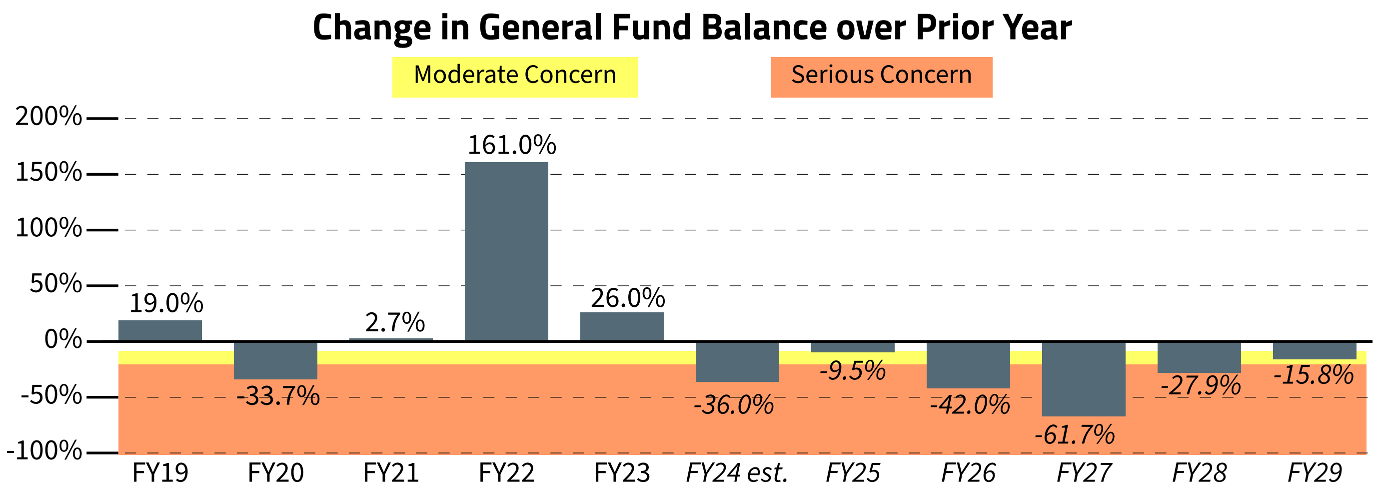


Discussion

The funded status of the City's Municipal Retirement System remains one of the most critical financial challenges faced by the City. Tremendous progress has been made in recent years to raise the funding level and PICA commends City leadership, City employees, City Council, City unions, Pension Board members, Pension Board staff, and the Pennsylvania State Legislature for the effort and resources that continue to be dedicated to stabilizing the Pension Fund. See PICA's May 2024 Fact Sheet on Philadelphia's Pension Fund for more background on how that progress was made and why it is so important. Even with this progress, **PICA is significantly concerned with the percent of the pension funded**. Continued commitment to achieving 100 percent funding by 2033 through the ongoing skillful management of the funds and dedication of resources is essential.

Photo Credit: Kevin Vaughan

Reserves Indicator: Change in Fund Balance



Description

This indicator identifies changes (positive and negative) in the General Fund balance from the prior year.

Why is it Important?

A declining fund balance over time, even when the ratio of fund balance to revenues in a given year is strong, can be a sign of fiscal stress. A declining fund balance is important to track for a city government because it signals diminishing financial reserves, which can jeopardize a city's ability to manage unexpected expenses or revenue shortfalls. This trend indicates potential fiscal instability and reduces a city's capacity to respond effectively to emergencies, economic downturns, or natural disasters. A shrinking fund balance may also lead to increased borrowing costs, as credit rating agencies view it as a sign of weakened financial health. Furthermore, a declining fund balance can force a city to cut essential services, delay infrastructure projects, or raise taxes, all of which can negatively impact residents and overall economic growth. Monitoring this trend allows for timely corrective actions to restore fiscal balance and maintain public trust in a city's financial management. Generally, rising fund balances are positive, but a swift jump that is not expected to recur could lead to fiscal cliffs that need to be managed. Significant, sustained increases in fund balances beyond levels needed to cushion against the unexpected may also signify missed opportunities to reduce financial burdens on residents and business or increase service quality or quantity.

Benchmarks

- Moderate Concern: Declines in at least 3 of 5 prior years of 10 to 20 percent
- Significant Concern: Declines in at least 3 of 5 prior years of over 20 percent

Past Performance: FY19-23

The City's fund balance dipped and soared over the past five years owing to the COVID-19 pandemic. Fiscal Year 2020 saw a tremendous drop off in revenues in the final quarter, contributing to a 34 percent decline in fund balance compared to FY19. With careful fiscal management, a resilient local economy, and an absolutely essential infusion of federal relief funds, Philadelphia managed to avoid fund balance declines in any other of the past five years.

Future Performance: FY24-29

With the requirement to obligate American Rescue Plan funds by December 31, 2024, the City proposes to draw down on its fund balance in each year of the FY25-29 Plan, following an estimated 36 percent reduction in fund balance in FY24, after the City's highest ever fund balance in FY23. Over the life of the FY25-29 Plan, the City expects to reduce the fund balance between 9 and 67 percent each year.

Discussion

With an average annual decline in fund balance of 32 percent and declines planned for each year of the Plan, **PICA is significantly concerned about the proposed changes in fund balance.** The planned, ongoing decline in fund balance indicates that spending will outpace revenue collections on a recurring basis, a condition that cannot be sustained indefinitely. While the trigger for this trend, a pandemic followed by federal relief, was unprecedented, continued reliance on fund balance to fill gaps on a significant scale rather than seeking structural balance in each year of the Plan represents a significant risk to the City being able to meet the PICA Act's requirement for balanced budgets in the future.

Photo Credit: Kevin Vaughan

Reserves Indicator: Fund Balance as a Percent of Revenues

Description

This indicator measures the amount of funds available that have no related liabilities/obligations as a percentage of revenues. The larger the fund balance, the easier it is to absorb negative changes in revenue and spending and provide time to make financial and operational adjustments. The PICA Act requires a balanced budget but does not specify a required level of fund balance as a percentage of revenues. The Government Finance Officers Association (GFOA) recommends maintaining a fund balance of nearly 17 percent of revenues/expenditures, about two months of spending. The City of Philadelphia has set a target for its General Fund balance of at least 6 to 8 percent of revenues.

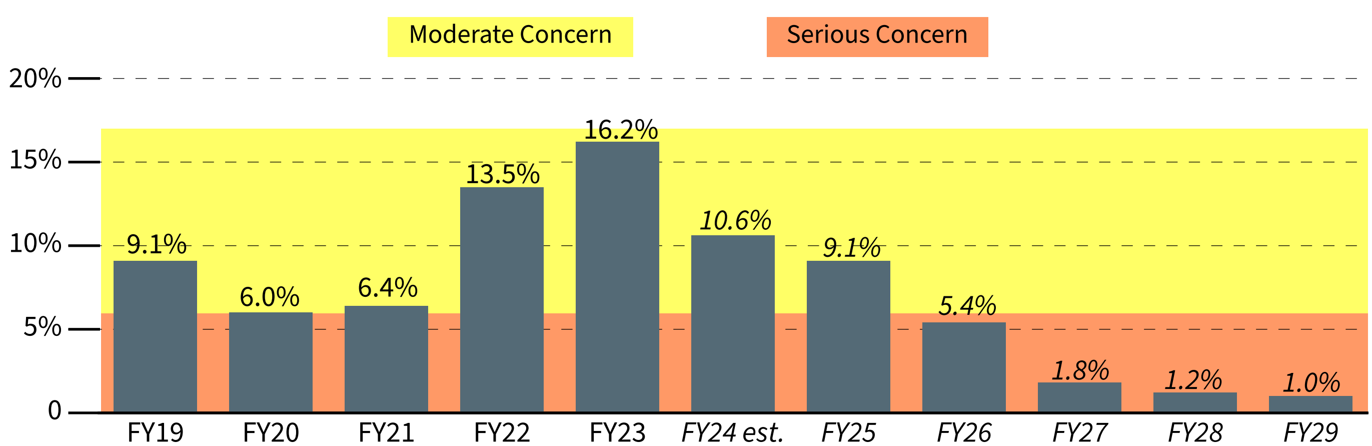
Why is it Important?

The fund balance provides a cushion against unanticipated drops in revenue or increases in spending. A fund balance can be complemented by a rainy day fund, like Philadelphia's Budget Stabilization Reserve. An inadequate fund balance means tough trade-offs when conditions unexpectedly deteriorate. Trade-offs may initially include delays, such as hiring freezes and deferred maintenance, while the situation is assessed and responses developed and implemented. When solutions cannot be implemented timely and adequately, more difficult choices may be required, including reducing service levels, laying off staff, and raising taxes. A healthy fund balance indicates sound financial management and provides a buffer against economic fluctuations, allowing a city to maintain essential services and infrastructure investments without resorting to drastic measures such as borrowing or cutting services. It also reflects a city's ability to plan for future needs and obligations, contributing to overall financial stability. Moreover, a robust fund balance positively influences a city's credit rating, reducing borrowing costs and enhancing a city's capacity to invest in long-term projects. In essence, the fund balance serves as a financial safety net, ensuring the city's resilience and sustainability.

Benchmarks

- Moderate Concern: Less than 17 percent
- Significant Concern: Negative or very low (less than 6 percent)

General Fund Balance as a Percent of Revenues



Past Performance: FY19-23

The City of Philadelphia met its goal of having a fund balance of at least 6 to 8 percent of its revenues in each of the past five years. This is quite an achievement compared to the City's fund balances in prior periods and particularly in the context of the COVID-19 pandemic. These fund balances stem from a mix of desired and undesired factors. Access to American Rescue Plan funds and resiliency in the City's local economy and tax base contributed to the fund balances, which is positive. Spending was lower than planned, mostly on personnel costs as the City, like other public sector employers, struggled to hire. This has been a negative factor creating positive fund balances. Those underspends are felt as community needs unmet and services undelivered.

Future Performance: FY24-29

The City expects to meet its goal for fund balance in FY24 and FY25, and then fall dramatically below its target of at least 6 to 8 percent of revenues in the remaining years, including projected fund balances that are less than one percent of revenues for FY27 through FY29.

Discussion

While Philadelphia has a track record of conservative budgeting and actual fund balances that often exceed initial projections and has been building other reserves in the Budget Stabilization Reserve, the City should be planning to meet its own goals, which are already half the level recommended by the GFOA. Although the PICA Act only requires that the fund balance be greater than zero, **PICA is significantly concerned with the fund balance as a percent of revenues.** The City has chosen to prioritize other policy objectives over its already modest goals for its fund balance, which is a risk to the City's overall fiscal stability. As the years that fall below six percent are in the later years of the Plan, there is time for adjustment.

Reserves Indicator: Total Reserves for Unanticipated Events as a Percent of Revenues

Description

This indicator is the sum of the Budget Stabilization Reserve, Fund Balances, and any other undesignated reserves as a percentage of revenues. It does not include reserves for specific uses, such as the Labor Reserve and Capital pay-as-you-go funds.

Why is it Important?

Maintaining total reserves, not just fund balance, is crucial for a city's fiscal health because it encompasses all forms of financial safety nets, including emergency reserves and other contingency funds. These reserves provide a comprehensive financial cushion that ensures a city can weather various economic challenges, such as natural disasters, economic downturns, grant funding losses, or unexpected expenditures, without compromising essential services.

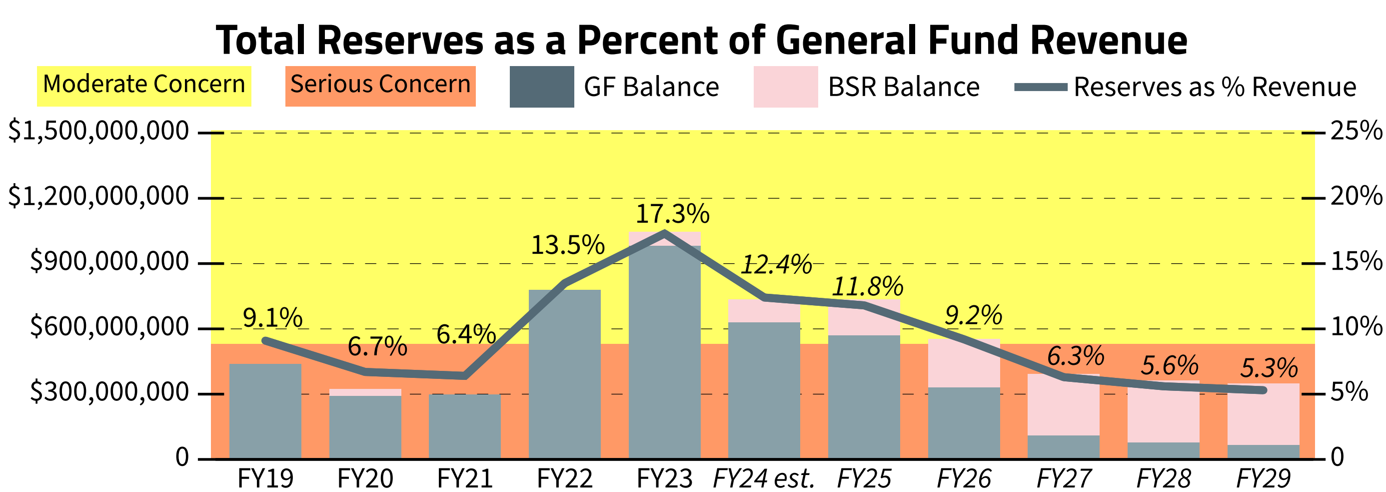
By maintaining diverse reserves, a city can avoid over-reliance on borrowing, thereby reducing debt levels and interest costs. This holistic approach to financial management promotes fiscal stability, instills confidence among residents and investors, and can enhance a city's credit rating, leading to more favorable borrowing terms and financial sustainability.

Benchmarks

- Moderate Concern: Less than 25 percent
- Significant Concern: Negative or very low (less than 9 percent)

Past Performance: FY19-23

In FY22 and FY23, the City not only met its goal of having at least 6 to 8 percent of revenues in its fund balance but went above that threshold. In two of the past five years, the City also ended the fiscal year with funds in the Budget Stabilization Reserve. During this period, the City's total reserves rebounded after the City had to utilize the Budget Stabilization Reserve in FY21 due to the pandemic and was able to make a new deposit into that rainy day fund in FY23. Prior years' actual results do not show funds that were set aside in other reserves, such as the Recession and Reopening Reserve, as those are either spent during the year or incorporated into the fund balance at the end of the year if unspent.



Future Performance: FY24-29

The City's projections through FY29 anticipate a steady decline in total reserves, even assuming that there are deposits into the Budget Stabilization Reserve and no withdrawals. The Budget Stabilization Reserve's principal will grow to $283 million by FY27 and then is expected to hold at that level through FY28 and FY29. Total reserves will be less than nine percent of revenues, a percent above the City's goal for General Fund Balance alone, in FY27, FY28, and FY29.

Discussion

PICA has set higher benchmarks for total reserves than for the fund balance on its own. PICA would view this indicator as beyond the realm of concern if Philadelphia could achieve the top end of its fund balance target (eight percent) plus having the GFOA-recommended 16.7 percent set aside as well, even if the distribution between the types of reserves varies. Although the PICA Act only requires that the fund balance be greater than zero, **PICA is significantly concerned with the total reserves as a percent of revenues.** In the later years of the Plan, the combined reserves are planned to fall short of the goals for just the fund balance alone. The City has chosen to prioritize other policy objectives over its already modest goals for its reserves, which is a risk to the City's overall fiscal stability.

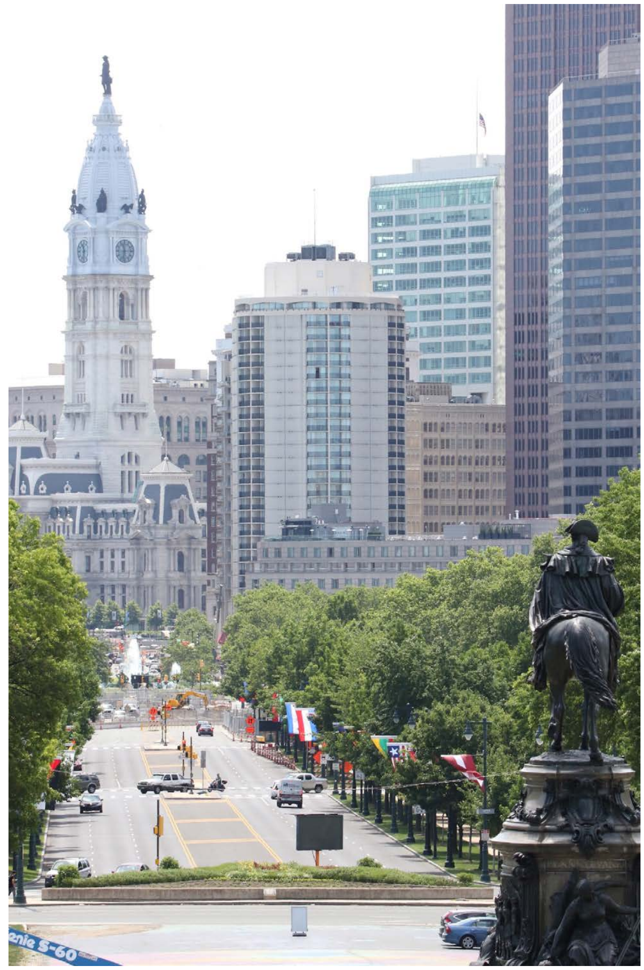
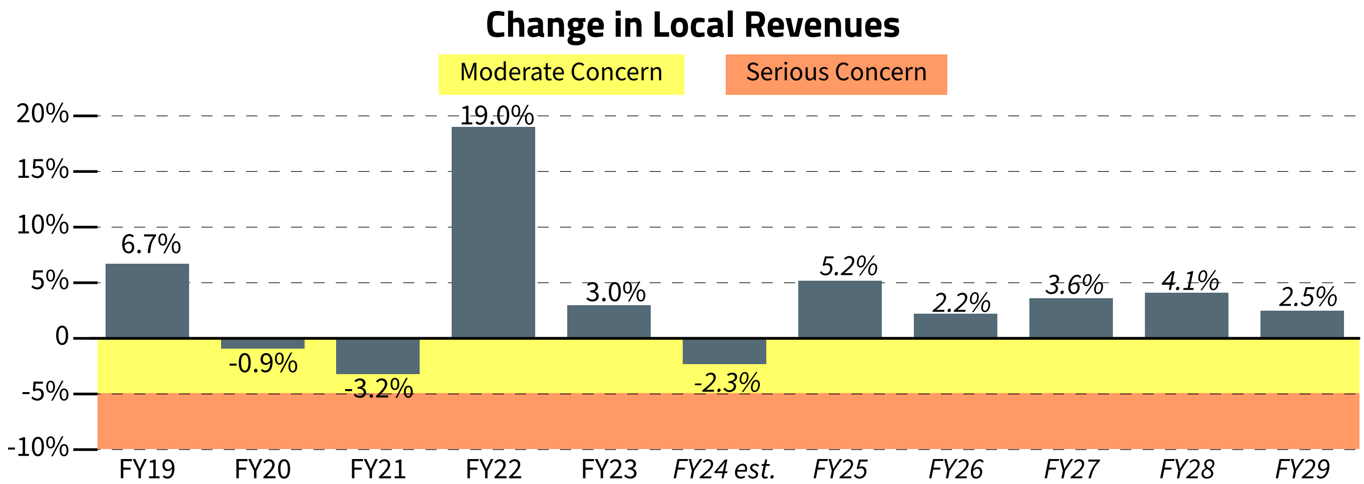


Photo Credit: Kevin Vaughan

Revenue Indicator: Change in Tax and Locally Generated Non-Tax Revenues



Description

This indicator identifies a change (+ or -) in Tax (including PICA Tax) and Locally Generated Non-Tax revenue actuals from the prior year.

Why is it Important?

Local revenue collections, from taxes and other sources, reflect the revenue policy choices, operational capabilities, and health of the local economy, which is in part impacted by the policy and operational decisions of the local government. Local government revenues are crucial to fiscal stability because it directly affects the government's ability to fund essential services and infrastructure projects. Stable or increasing revenues ensure that a city can maintain public services such as education, public safety, transportation, and healthcare, which are vital for the well-being of its residents and overall economic growth. Conversely, declining revenues can lead to budget shortfalls, forcing a government to make difficult choices such as cutting services, delaying infrastructure projects, or increasing taxes.

Moreover, consistent revenue streams provide the government with the financial flexibility to address unexpected expenses and economic fluctuations, reducing the need for emergency borrowing and minimizing the risk of accumulating unsustainable debt. Changes in revenue may also impact a city's credit rating, with stable or growing revenues likely to result in better ratings and lower borrowing costs. Overall, monitoring and managing changes in local government revenues are essential for ensuring long-term fiscal health, public trust, and a city's ability to meet both current and future needs.

Benchmarks

- Moderate Concern: Negative or zero growth in at least 3 of 5 years
- Significant Concern: Drops over 5 percent in at least 3 of 5 prior years

Past Performance: FY19-23

The City of Philadelphia saw growth in its locally generated tax and non-tax revenues in three of the past five years. The declines occurred in the first two fiscal years impacted by the COVID-19 pandemic and were relatively small (one percent in FY20 when one quarter was impacted by the pandemic and three percent in FY21). FY22 saw a tremendous rebound with revenues surpassing the last pre-pandemic year, FY19, and FY23 saw continued growth, albeit a more moderate three percent.

Future Performance: FY24-29

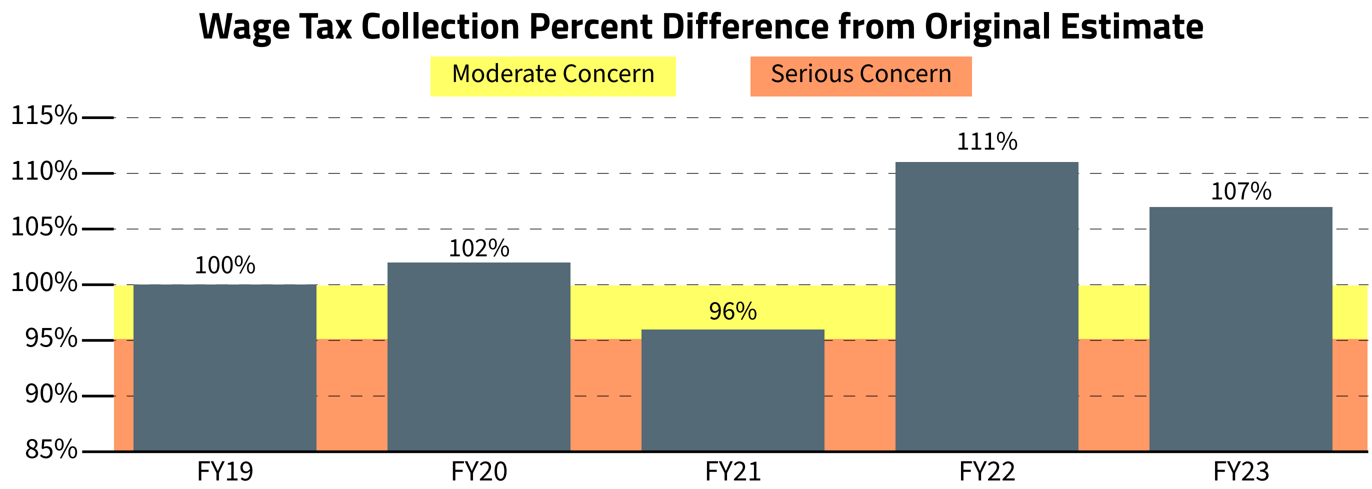
If collections turn out as projected, FY25 and forward are expected to see growth of locally generated tax and non-tax revenues between 2 and 5 percent in each year. The decline in FY24 is almost entirely attributable to removing the Parking Tax from the General Fund and shifting those revenues to the Transportation Fund. Tax revenues (including those from the PICA Tax) are expected to grow steadily. There is more variability in the projections for Locally Generated Non-Tax revenues, as those include one-time events, such as significant asset sales in FY28.

Discussion

The resiliency of local tax and non-tax revenues despite the pandemic is hopefully a good indicator that projections for future collections will meet expectations. While Philadelphia cannot control all the factors that impact local collections, the current trend is promising, and its continuation is essential to maintaining balanced budgets. Elsewhere in this report, PICA evaluates the reasonableness of the City's revenue projections and finds them sound. The combination of appropriate methods of estimation and the resulting expected growth in local revenues in the upcoming years means that **PICA has minimal concern with changes in Tax and Locally Generated Non-Tax revenues**. Given the dependency on these revenues to materialize to maintain balanced budgets, ongoing monitoring remains an important tool to support Philadelphia's fiscal stability.

Photo Credit: Kevin Vaughan

Revenue Indicator: Wage Tax Collections as Percent of Estimate



Description

This indicator compares the actual Wage Tax collections for a fiscal year to the estimate included in the PICA-Approved Five-Year Plan, presented as a percentage.

Why is it Important?

As the largest revenue source from the City, unexpected declines in Wage Tax collections warrant immediate evaluation and action. To maintain a balanced Plan, the City may need to take swift action if Wage Tax collections, which are ongoing through the fiscal year, are not materializing as anticipated. Fluctuations can occur during the fiscal year and should be evaluated at least quarterly. Accurate tracking and regular monitoring of results to expectations helps City officials make informed decisions about resource allocation and adjust sooner rather than later to avoid unexpected shortfalls and need to change operational plans. The Wage Tax also provides insights into Philadelphia's broader economic condition and can help identify trends or issues that may need to be addressed.

Benchmarks

- Moderate Concern: Collections less than original projections in at least 3 of 5 prior years
- Significant Concern: Collections more than five percent lower than original projections in at least 3 of 5 prior years

Past Performance: FY19-23

Even with a global pandemic that caused a shifting of job locations outside the city and job losses, Philadelphia only experienced one fiscal year with actual Wage Tax collections below original estimates, and even in that year the shortfall was less than five percent. The collections do not reflect revenue losses compared to a world without the pandemic, because the City revised it Five-Year Plan following the onset of COVID-19 and continued to adjust its projections in subsequent years.

Future Performance: FY24-29

It is not possible to evaluate performance on this indicator for future years. Through May 2024, 92 percent of the total collections for FY24 was received. PICA will continue to monitor Wage Tax collections at least quarterly.

Discussion

Philadelphia's largest revenue stream has generally been predictable, with only one year in the past five where collections were below the original projection, and that was the first full fiscal year impacted by COVID-19. Elsewhere in this report, PICA evaluates the reasonableness of the City's revenue projections, including the Wage Tax, and finds them sound. The combination of appropriate methods of estimation and track record of Wage Tax collections meeting or exceeding estimates in most years means that **PICA has minimal concerns with the Wage Tax collections as a percentage of the original estimate**. Given the dependency on the Wage Tax to materialize to maintain balanced budgets, ongoing monitoring remains a crucial tool to support Philadelphia's fiscal stability.

Photo Credit: Kevin Vaughan

2.2 Demographic and Economic Indicators

- Philadelphia's fiscal stability impacts and is impacted by the demographic and economic context. Understanding current conditions and trends is necessary to evaluate the reasonableness of the revenue and spending projections, as PICA is required to do. The following seven indicators provide insight into challenges and opportunities the Administration faces as it makes decisions about spending allocations and revenue projections for the next five years. Unless otherwise noted, data for these indicators comes from the US Census 2022 American Community Survey.

Positive Indicators of Economic Development & Demogaphic Change

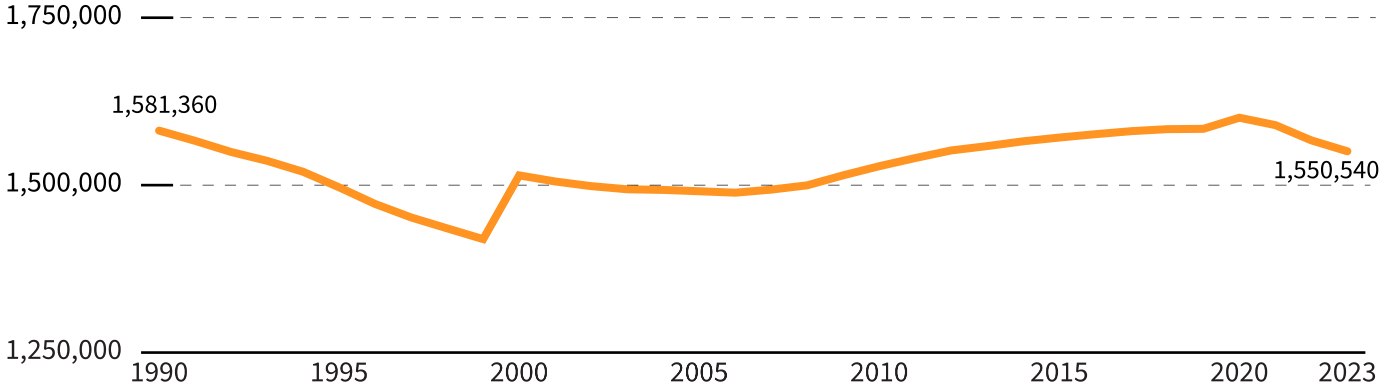
- **Higher median household income than ever before**
- **Growing payroll employment**
- **Lower poverty rate than in previous years**
- **More immigration to Philadelphia is driving labor force growth**

Potential Future Challenges

- **Persistent high poverty, even while improving, translates into a weak tax base and high service demands.**
- **Continued population decline could further weaken the tax base.**
- **Higher unemployment could indicate a struggling local economy**

City Population

Philadelphia Population 1990 - 2023



Source: U.S. Census Bureau, "City and Town Intercensal Datasets: 2000-2010," U.S. Census Bureau, "City and Town Population Totals: 2010-2019," "City and Town Population Totals: 2020-2023."

2023 Estimate: 1,550,542

The most recent population data show Philadelphia's 2023 population to be 1,550,542 residents, a decrease from previous years. Philadelphia's population grew from 1,488,710 residents in 2006 to 1,600,684 residents in 2020, its highest level since the 1980s. Since July 2020, Philadelphia's population has declined by an average of 16,714 residents per year

Why is it Important?

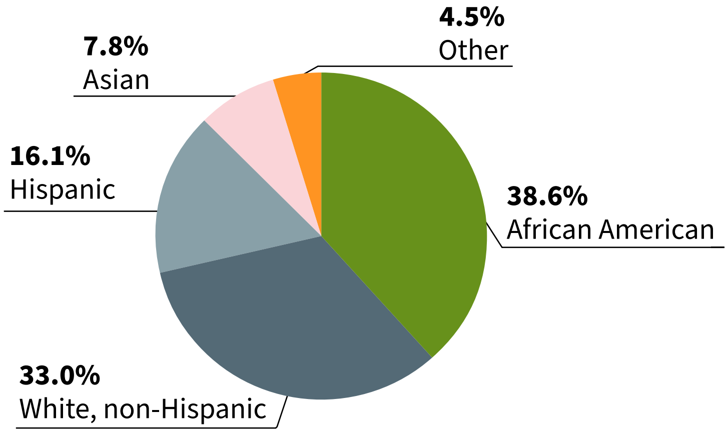
Population decline could have impacts on the City's fiscal health as it may indicate a shrinking tax base, which could result in lower revenues. Population declines could also point to economic, health and safety, or quality of life issues impacting residents that make living in Philadelphia less feasible or desirable.

Demographic Makeup

According to the 2022 American Community Survey, Black or African American individuals account for the largest racial or ethnic group in Philadelphia at 38.6 percent of the population. White, non-Hispanic residents are the second largest group, making up 33 percent of the population. These two groups represent a smaller portion of the population compared to previous decades as Hispanic and Asian populations have grown to account for 16.1 percent and 7.8 percent of Philadelphians, respectively. Since 1990, the percentage of Philadelphians that are Hispanic has tripled and the Asian population more than doubled. The Black or African American population decreased slightly and White residents' share shrunk from 52.1 percent of the population in 1990.

Immigration, particularly from Asia, Latin America, and the Caribbean, has played a pivotal role in this demographic shift and the city's population

Racial and Ethnic Composition of Philadelphia



Source: U.S. Census Bureau American Community Survey, "ACS 1-Year Estimates Detailed Tables," Table B03002.

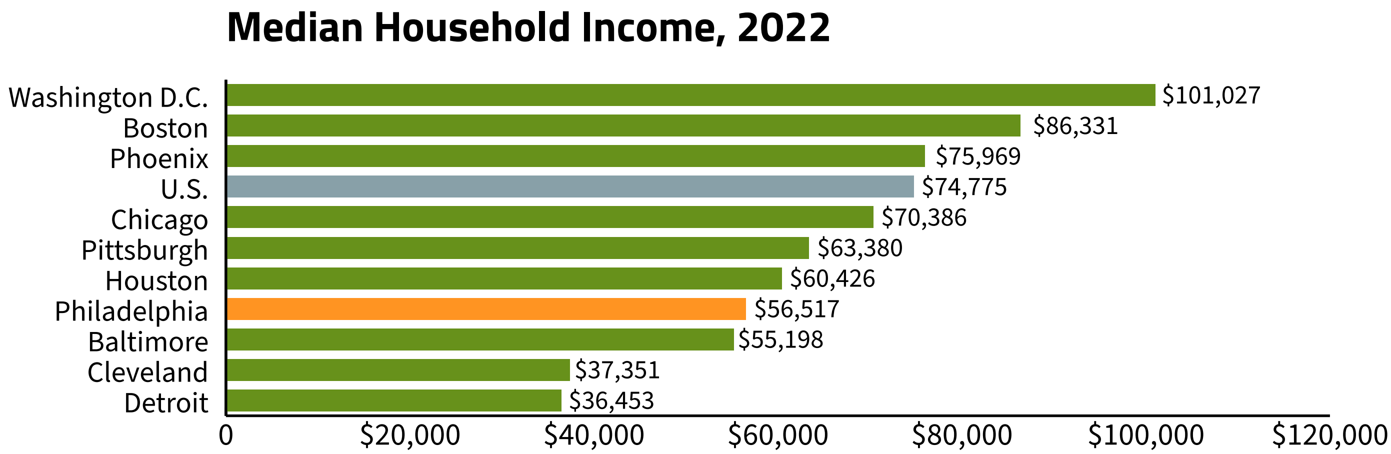
Photo Credit: Kevin Vaughan

growth from 2000 to 2020. According to a recent report by Pew Charitable Trusts, the number of U.S.-born residents has declined since the 1950s and is at its lowest point since 1910. Over 15 percent of Philadelphia's residents were born outside of the US, the highest percentage since in the 1940s, and nearly 75 percent of Philadelphia's labor force growth is attributable to its immigrant population.

Why is it Important?

Understanding the racial and ethnic composition of Philadelphia provides insight into residents' service needs and opportunities for growth that impact the City's fiscal policy choices. Different communities have varying poverty and unemployment rates as well as wealth and income gaps. Some racial and ethnic groups are impacted disproportionately by tax policies, fees, and fines. This demographic composition also shows how demands for City services may change over time; for example, a larger immigrant population may require language-accessible services from the City. Because immigration has played a key role in the City's population stabilization and growth since the 1950s, the City may choose to invest more in programs that serve immigrant populations to reverse its population decline since 2020. Changes in national immigration policy may impact future growth opportunities for Philadelphia.

Median Household Income



Source: U.S. Census Bureau American Community Survey, ACS 1-Year Estimates Detailed Tables, Table S1903

2022: $56,517

In 2022, the median household income in Philadelphia was $56,517. While this is higher than any previous year, it is far below the national median of $74,755 and lower than many comparable cities. Median household income differs between racial and ethnic groups. White, non-Hispanic Philadelphian have the highest median household income at $81,968, followed by Asian households with $61,985. Black or African American residents' median household income was below the overall city median at $42,747, and Hispanic households have the lowest median income at $42,654.

Why is it Important?

The demographic group with the lowest median household income, Hispanic Philadelphians, has grown the fastest while the group with the highest median income, White households, has shrunk the most. Households with lower incomes have less resources available to spend flexibly and contribute to taxes. Revenue projections and tax policy decisions are impacted by the City's relatively weak tax base and inequities in how the tax burden is distributed amongst groups.

Payroll Employment Opportunities

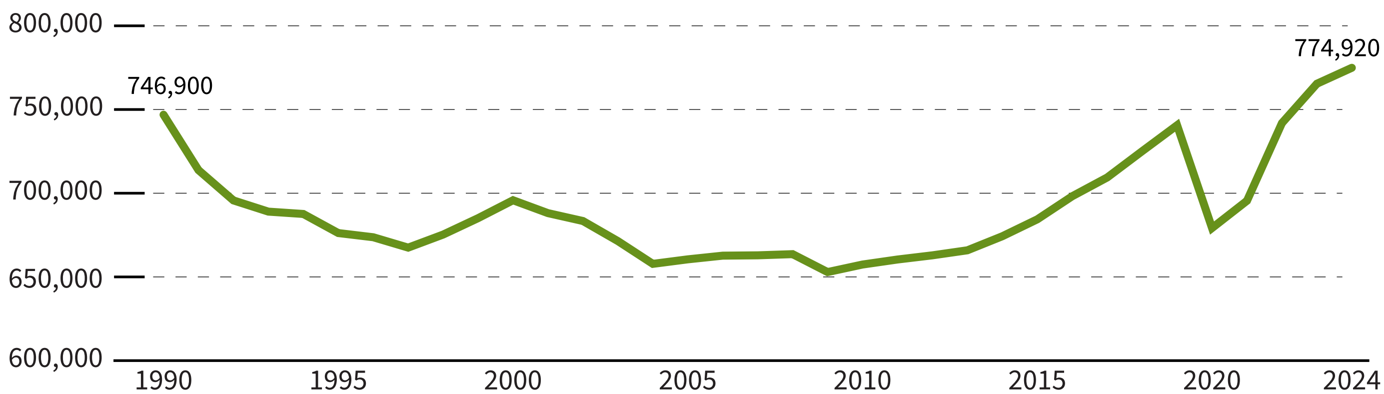
May 2024: 781,100

The number of payroll employment opportunities in Philadelphia reached an all-time high of 784,600 in November 2023, indicating post-pandemic recovery. Preliminary data from May 2024 estimate that there are 781,100 payroll jobs in Philadelphia.

Why is it Important?

The General Fund's primary revenue stream is the Wage Tax, a tax on the wages of residents regardless of job location and commuters to Philadelphia. The level of payroll employment (and the wages paid to those employees) drive collections. Understanding trends in job opportunities that drive employment growth is necessary for both making revenue projections and evaluating service needs.

Total Nonfarm Payroll Jobs in Philadelphia, Annual Average



Source: Bureau of Labor Statistics, "Philadelphia City/County, PA"

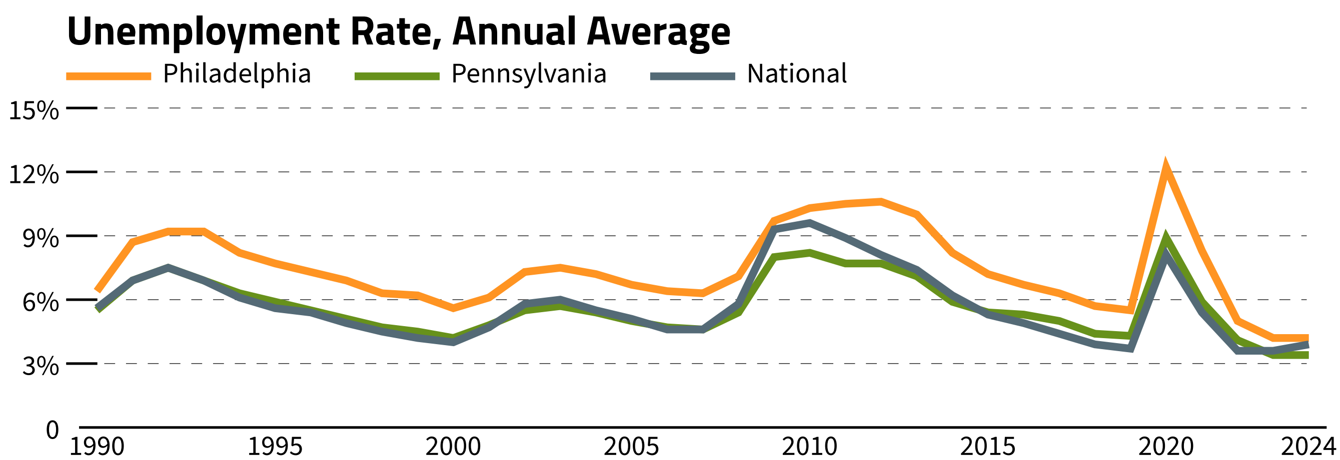
Unemployment Rate

May 2024: 4.3%

The most recent preliminary data indicate an unemployment rate of 4.3 percent for Philadelphians in May 2024. This is an increase over April, when unemployment was at 3.8 percent, and higher than the national unemployment rate of 4.0 percent in May.

Why is it Important?

A higher unemployment rate may indicate a struggling local economy. People who are employed can spend more and rely less on relief programs. More economic activity is good for the City's fiscal health because revenues driven by employment and consumer activity, like the Wage and Sales Taxes, increase.



Source: Bureau of Labor Statistics, "Economy at a Glance" for Philadelphia City/County, PA, Pennsylvania, and United States

Poverty Rate

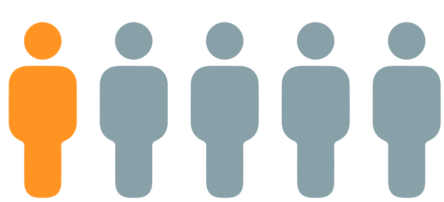
2022: 21.7%

As of 2022, Philadelphia's poverty rate was 21.7 percent and its deep poverty rate was 9.7 percent. According to federal guidelines, a household of four is considered to be living in poverty if its 2022 income was less than $27,750 and in deep poverty if it was under $13,875. Though these numbers indicate high rates of poverty, they are at their lowest point in years.

Why is it Important?

Philadelphia's relatively high poverty rate translates into a weak tax base and higher service demands. As a result, revenue projections and service delivery plans need to reflect the economic condition of residents and taxpayers to be reasonable.

About 1 in 5 Philadelphians live in poverty.



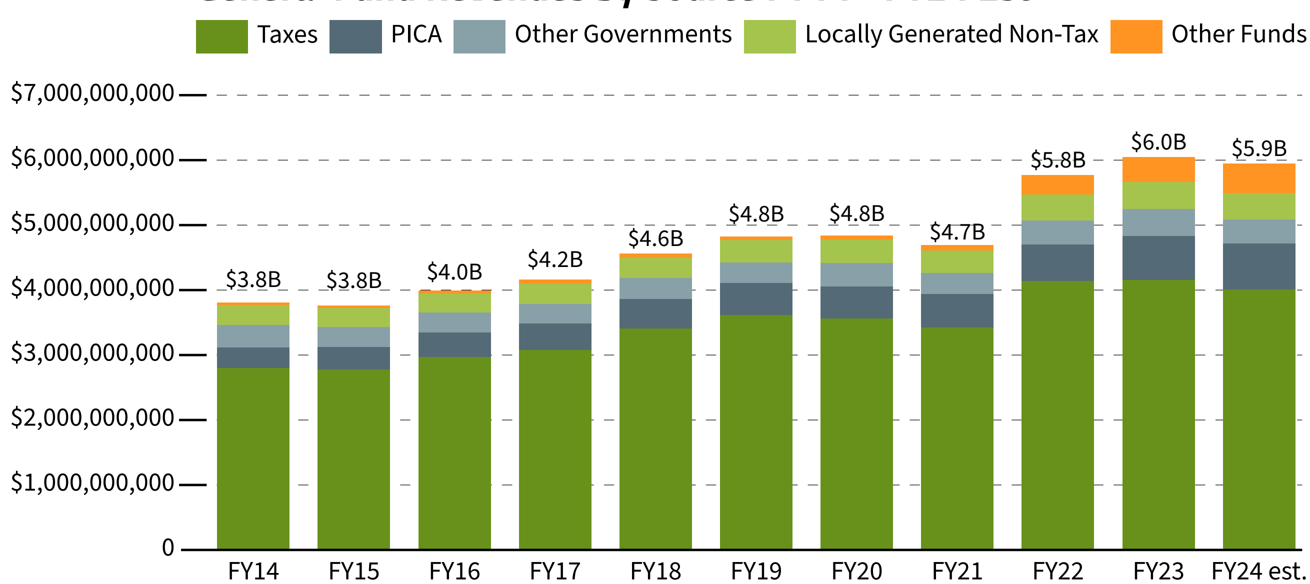
2.3 Revenue Trends by Covered Fund

General Fund

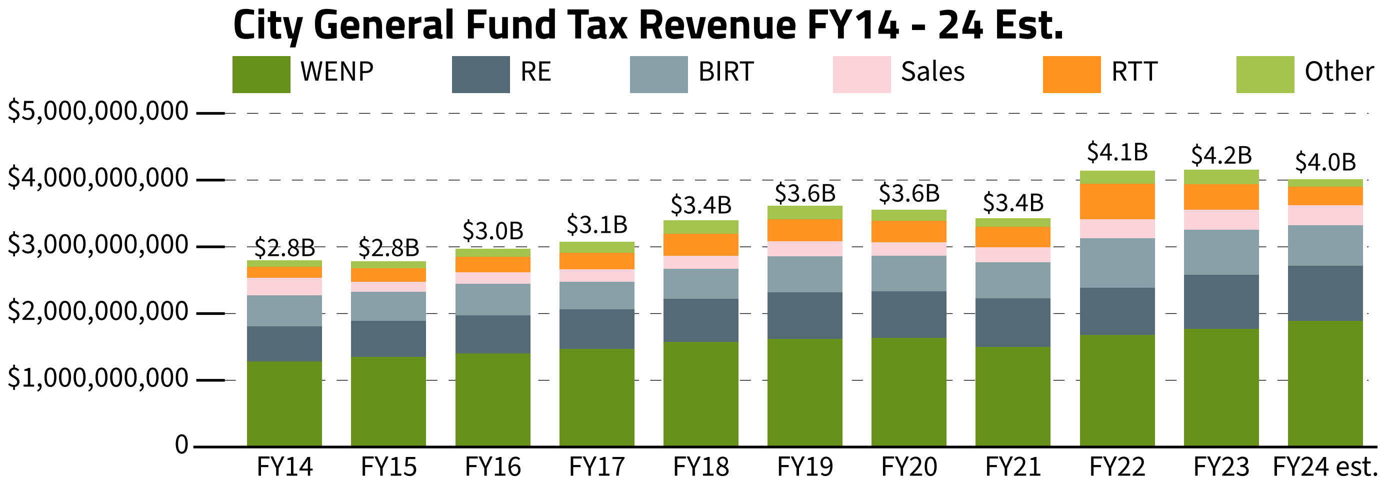
The City of Philadelphia receives revenue from a variety of sources, including taxes, Locally Generated Non-Tax (LGNT) revenue, the state and federal governments, and from other City funds. The total amount of revenue collected has increased from \$3.81 billion in FY14 to an estimated \$5.95 billion in FY24 at an average rate of 4.8 percent, outpacing the average inflation rate over this period of 2.8 percent. While inflation rose 32 percent since July 2014, City revenue increased by 56.2 percent. This may be attributed to various factors, including the introduction of new tax types, like the Philadelphia Beverage Tax, changes in grants, such as the \$1.4 billion received from the federal government's American Rescue Plan, and changes in tax rates and local economic activity. The FY25-29 Plan projects City revenue to grow from \$6.27 billion in FY25 to \$6.56 billion in FY29, increasing a total of 10.3 percent over this period at an average annual rate of 2.0 percent.

In FY23, over \$6 billion was collected for the first time in the City's history. FY24's projected total revenue anticipates a slight decrease (1.7 percent) from this high point. This decrease is primarily attributable to the creation of the Transportation Fund, which shifted the Parking Tax and various Streets Department-related sources of LGNT revenue and revenue from other governments from the General Fund to the Transportation Fund. If General Fund and Transportation Fund revenues are considered together, the combined revenues for FY24 are projected to be 0.3 percent higher than FY23.

General Fund Revenues by Source FY14 - FY24 Est.



Tax Revenue



How do we measure volatility?

To measure revenue volatility, PICA analyzed how much tax revenue tends to vary each year compared to the average change over the decade. A higher standard deviation indicates greater year-to-year fluctuations in revenue, while a lower standard deviation suggests more stable revenue over time. This is a useful measure for understanding the consistency and predictability of tax revenue trends.

Wage, Earnings, & Net Profits

- **Tax Base:** Earned income for everyone who lives or works in Philadelphia
- **Tax Rate:** 3.75% for residents, 3.44% for non-residents
- **Relevant Policy Changes:** Small annual rate reductions over this period
- **Volatility:** Low - the standard deviation from the average annual percentage change is 5.0%

Nearly 50 percent of the City's tax revenue comes from the Wage, Earnings, and Net Profits Taxes. Of the $4.01 billion in tax revenue the City estimates it will collect in FY24, $1.89 billion is expected to be from the Wage, Earnings, and Net Profits Taxes. Except for FY21, which was most heavily impacted by the COVID-19 pandemic, Wage, Earnings, and Net Profits collections have increased every year since FY14, despite small annual rate reductions, at an average annual growth rate of 4.1 percent. This is slightly less than the average annual percent change for Total Wages in Philadelphia County from 2013 through 2023 of 4.3 percent and below the national average annual change in Total Wages of 5.2 percent.

The PICA Tax constitutes 1.5 percent of the resident Wage Tax. These funds are collected by the City and sent to PICA by way of the Commonwealth. In the past, PICA deducted debt service payments the City owed on PICA bonds before returning the remaining PICA Tax revenue to the City. PICA Tax revenue sent to the City is categorized as Revenue from Other Governments. Since the City made its final debt service payment in June 2023, all PICA Tax revenue is currently remitted to the City, as PICA has adequate reserves to cover operating expenses at least through FY25.

The FY25-29 Plan projects the Wage, Earnings, and Net Profits Taxes to continue growing annually at an average rate of 3.9 percent, reaching almost $2.3 billion in FY29. No changes in tax rates are included in the Five-Year Plan.

Real Estate

- **Tax Base:** Taxable property in Philadelphia
- **Tax Rate:** 1.3998% of assessed property value, split between the City and School District of Philadelphia
- **Relevant Policy Changes:** Since FY14, the City has used the Actual Value Initiative (AVI) for reassessing properties based on market value. Starting in FY25, the City's share of the Real Estate Tax will decrease from 56 percent to 55 percent
- **Volatility:** Low - the standard deviation from the average annual percentage change is 5.1%

Real Estate Tax revenue is the second-largest tax revenue source for the City. From FY14 to FY24, Real Estate Tax collections grew from $526 million to an estimated $826 million, at an average annual growth rate of 4.7 percent. Except for FY22, Real Estate Tax revenue has increased every year since FY14 and is projected to continue to do so through FY29. The FY25-29 Plan projects Real Estate Tax revenue to increase by 12 percent in FY25 to $925 million. With lower growth rate assumptions in FY26-29, the Plan projects revenue to increase at an overall average of 4.5 percent, surpassing $1 billion in revenue in FY29. Growth rates are impacted by the City's multiple relief programs, including the Homestead Exemption, Longtime Owner Occupant Program (LOOP) discounts, Tax Increment Financing (TIF) districts, the Senior Citizen Tax Freeze program, and a ten-year abatement on the value of new construction.

Business Income and Receipts Tax (BIRT)

- **Tax Base:** The gross receipts and net income of every individual, partnership, association, limited liability company (LLC), and corporation engaged in a business, profession, or other activity for profit within the city and whose taxable gross receipts exceed $100,000
- **Tax Rate:** 5.81% of Net Income; 1.415 mills on Gross Receipts.
- **Relevant Policy Changes:**
  - Incremental net income rate reductions annually from 2014 through 2024 with a one-year pause due to COVID.
  - Adoption of Single Sales Factor Apportionment in 2015, removing property and payroll from the calculation.
  - Exemption from tax for the first $100,000 of gross receipts and proportionate amount of net income, implemented in 2016.
  - Starting in tax year 2020, businesses with less than $100,000 in gross receipts no longer need to file, eliminating the administrative burden for the majority of Philadelphia businesses.
- **Volatility:** High - the standard deviation from the average annual percentage change is 15.1%

The Business Income and Receipts Tax (BIRT) has historically been the third largest source of tax revenue for the City. BIRT is a volatile revenue stream and projections are difficult to estimate due to market volatility, how and when businesses claim profits, and refund issuances. From FY14 to FY24 (est.), BIRT had an annual average growth rate of 3.8 percent; however, with a 15.1 percent standard deviation in the average annual percentage change, growth rates vary greatly from year to year. For example, in FY22 BIRT grew 38.5 percent, the only year BIRT collections surpassed Real Estate revenues, but then fell by over ten percent in FY23. Because business profits are reported in April, it is not possible to predict accurately early in the fiscal year what BIRT collections will be by the end of that year.

Current estimates are that $607 million was collected in BIRT in FY24. This is a 9.9 percent reduction from FY23. The FY25-29 Plan projects modest BIRT growth over the five years of the Plan, growing from $616.7 million in FY25 to $688.7 million in FY29, at an average annual rate of 2.6 percent (see Section 3, "Analysis of Plan Projections"). However, BIRT collections are not expected to reach FY23 levels again until FY29, nor does the Plan anticipate a return to the FY22 high of almost $750 million.

Realty Transfer Tax

- **Tax Base:** Sales or transfers of real estate located in Philadelphia
- **Tax Rate:** 3.278% of the sale price or assessed value or the property, plus any assumed debt. An additional one percent tax is levied by the Commonwealth of Pennsylvania
- **Relevant Policy Changes:** Increased by 0.1% in 2017 and 0.178% in 2018
- **Volatility:** Very High - the standard deviation from the average annual percentage change is 29.5%

The Realty Transfer Tax (RTT) is another volatile revenue stream as it is dependent on the real estate market and impacted by the volume of sales and prices. RTT collections grew at high rates from FY15 to FY18 but fell in FY19 through FY21. Because of low interest rates following the COVID-19 pandemic and the December 2021 deadline before changes to the ten-year tax abatement went into effect, FY22 saw tremendous RTT growth of 77 percent ($537M collected), but subsequently dropped by 29 percent ($379M collected) in FY23 when interest rates rose significantly. Current estimates for FY24 show reductions of another 28.2 percent ($272 million collected). From FY14 to FY24, RTT grew at an average annual rate of 8.6 percent, but with significant spikes and falls.

The FY25-29 Plan projects modest RTT growth over the next five years, from $306 million in FY25 to $345 million in FY29 at an average annual rate of 4.9 percent.

Sales Tax

- **Tax Base:** Sales of taxable goods and services, collected and remitted by retailers and vendors.
- **Tax Rate:** 2%
- **Relevant Policy Changes:** The Supreme Court's *South Dakota v. Wayfair* ruling increased the ability to enforce and collect Sales Tax from online retailers.
- **Volatility:** High - the standard deviation from the average annual percentage change is 17.3%

The Philadelphia Sales Tax is collected by retailers and service providers and remitted to the Commonwealth. The first one percent of the local Sales Tax goes to the City, and the remaining one percent is shared by the School District of Philadelphia and the City. The School District's share is capped at $120 million annually and the remainder of the shared one percent goes toward the City's pension fund.

Like BIRT and RTT, Sales Tax revenue is expected to be lower in FY24 when compared to the prior fiscal year. Estimated at $300 million, FY24 collections are expected to reflect a 0.6 percent decrease from FY23. Sales Tax collections have grown at an average annual rate of 3.2 percent since FY14, when City Sales revenues totaled $263 million. While impacted by inflation, Sales Tax revenue growth slightly outpaced the average inflation rate over this period by 0.4 percent.

The FY25-29 Plan projects sustained growth from $317 million in FY25 to $386.4 million in FY29, increasing at an average annual rate of 5.2 percent.

Other Taxes (including Amusement and Beverage)

The City has a number of taxes with collections that are a significantly smaller share of revenues, including the Philadelphia Beverage Tax, Amusement Tax, Construction Impact Tax, and others. The Amusement and Beverage Taxes are the largest of this group.

The Amusement Tax has recovered well since the COVID-19 pandemic and is expected to generate $38 million in FY24, more than $10 million over pre-pandemic collections. From FY14 to FY24, Amusement Tax revenue grew from $20 million to an estimated $38 million, a 92 percent increase. The FY25-29 Plan projects Amusement Tax revenue will reach almost $46 million by the end of the Plan, with an average annual growth rate of 3.6 percent.

Established in FY17, the Philadelphia Beverage Tax is expected to generate over $70 million in FY24 (estimate). The FY25-29 Plan projects 1.2 percent growth in FY25 and negative growth rates in subsequent years, for an average annual growth rate of negative 0.3 percent. Negative growth rate expectations reflect a nationwide reduction in consumption of sweetened beverages and were anticipated at the time the tax was implemented.

Revenue from Other Taxes, including the Construction Impact Tax introduced in FY22, grew from $4 million in FY14 to an estimated $7.3 million in FY24 at an average annual rate of 9.4 percent. The FY25-29 Plan projects Other Taxes to grow by 1.8 percent in FY25 and then slow in FY26-29. Other Taxes are projected to grow slightly from $7.5 million in FY25 to $7.6 million in FY29 at an average annual rate of 0.7 percent.

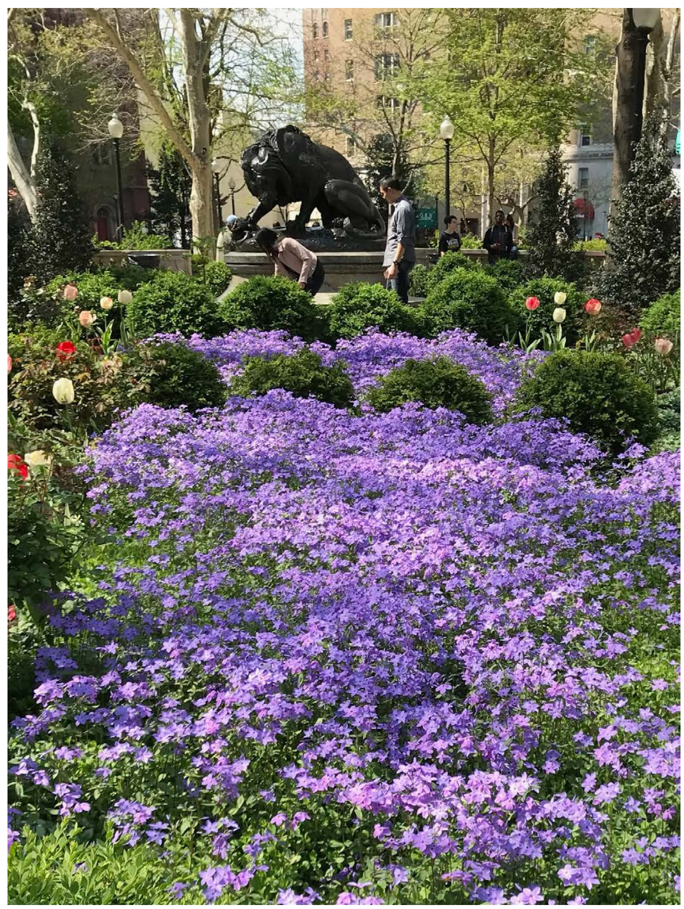


Photo Credit: Kevin Vaughan

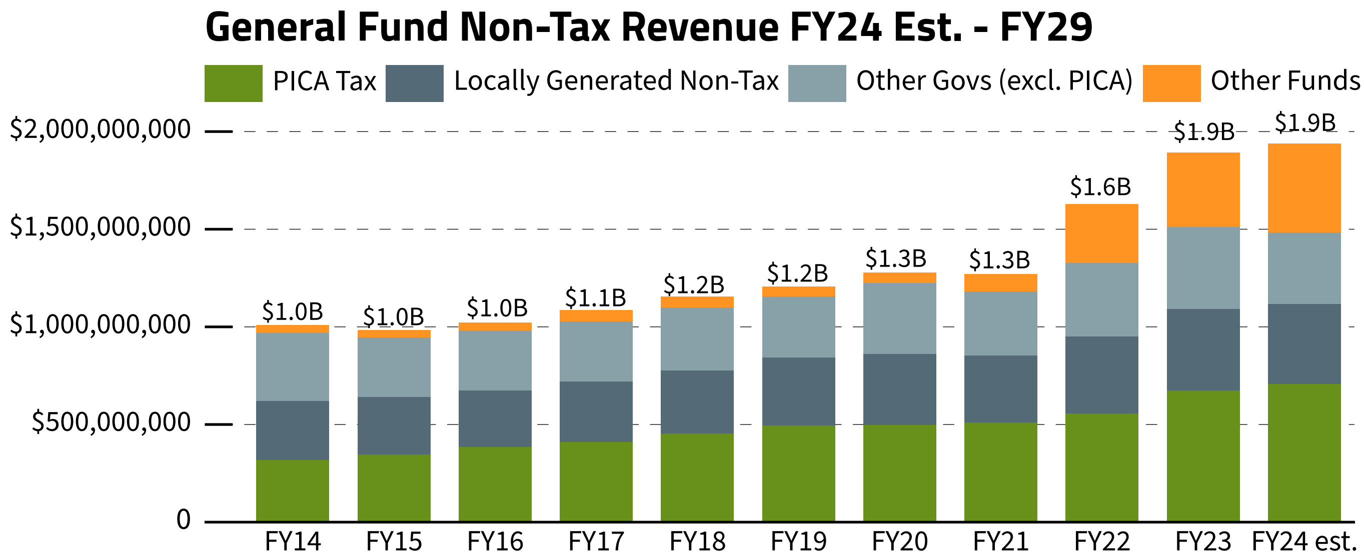


Photo Credit: Daniel / Adobe Stock

Revenue from Other Governments

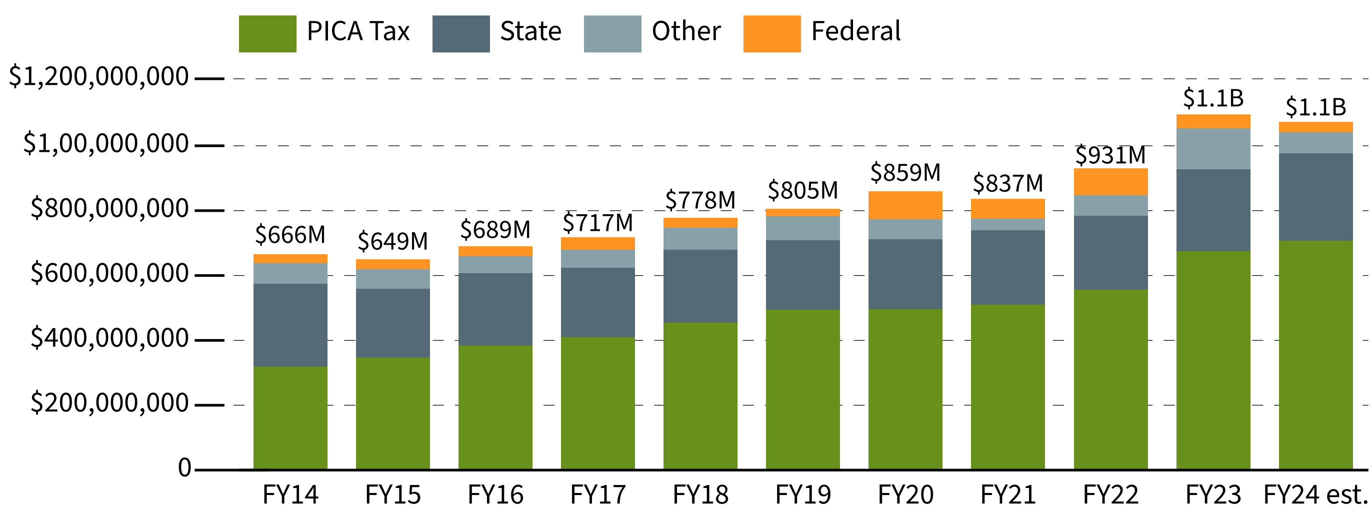
After City tax collections, Revenue from Other Governments accounts for the next highest revenue source. The greatest sources of Revenue from Other Governments are state Wage Tax relief funding, state pension fund aid, state and federal medical assistance funding, and Philadelphia Parking Authority violations and fines. About $1.1 billion in FY23 and an estimated $1.07 billion in FY24 came from other governments. Since FY14, Revenue from Other Governments (including PICA) has grown steadily, at an average rate of 5.1 percent.

Since FY15, over 50 percent of Revenue from Other Governments has come from the PICA Tax, driven by both a growing tax base and declining debt service on the PICA bonds. Revenue from PICA comes from the 1.5 percent income tax on Philadelphia residents as the PICA Tax portion of the Wage and Earnings Tax, collected by the City and remitted to the Commonwealth. Any PICA Tax revenue that PICA doesn't need for debt service or administrative costs is passed back to the City. For FY25, PICA will not keep any revenue from the PICA Tax collections as there are no debt service payments due and PICA has adequate reserves from underspending in prior years to support its operating costs.

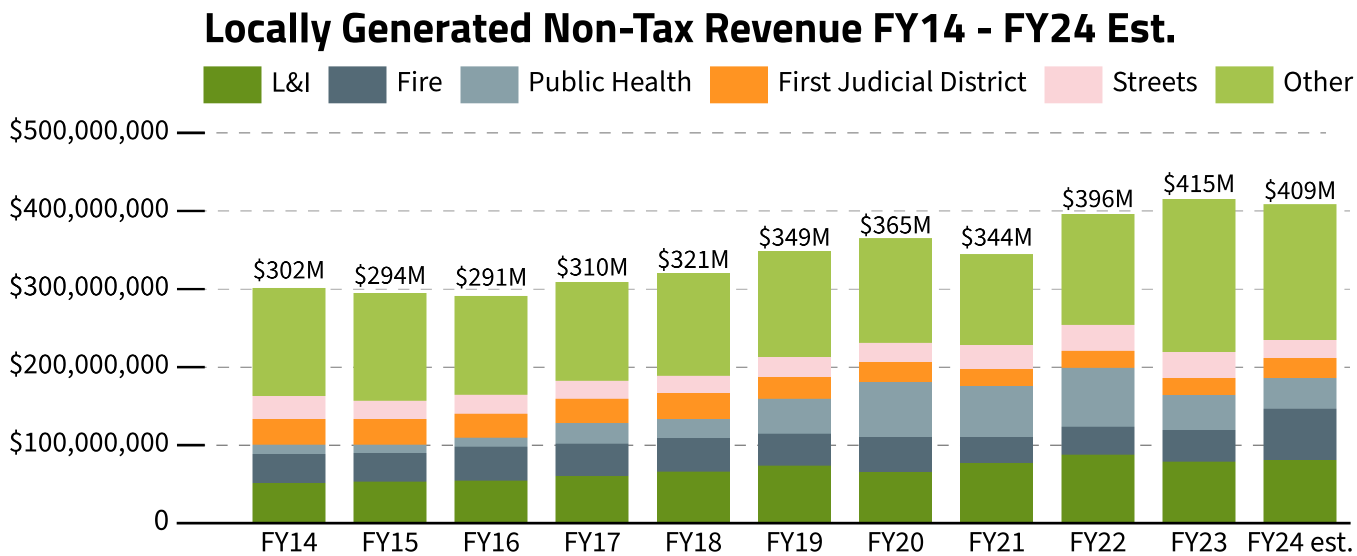
Revenue from the PICA Tax grew from $319 million in FY14 to an estimated $707 million in FY24, increasing annually at an average rate of 8.4 percent. The FY25-29 Plan projects revenue from the PICA Tax to continue growing at a steady pace, reaching almost $856 million in FY29.

Funds from government sources other than PICA grew at an average annual rate of 1.1 percent from $347M in FY14 to an estimated $366.4 million in FY24, with fluctuations since FY20 that are largely attributable to changes in emergency preparedness funding following the COVID-19 pandemic. Sixty-four million dollars were added for emergency preparedness in FY20, which dropped in FY21 before being raised to $55.7 million in FY22. Despite emergency preparedness funding not being restored in FY23, the City received over $22 million more in state Wage Tax relief funding and $59.4 million in other types of Revenue from Other Governments than the previous year. The FY25-29 Plan projects this revenue source to grow to $428.4 million in FY26 before dropping, generating a projected $402.6 million in FY29.

General Fund Revenue from Other Governments FY14 - 24 Est.



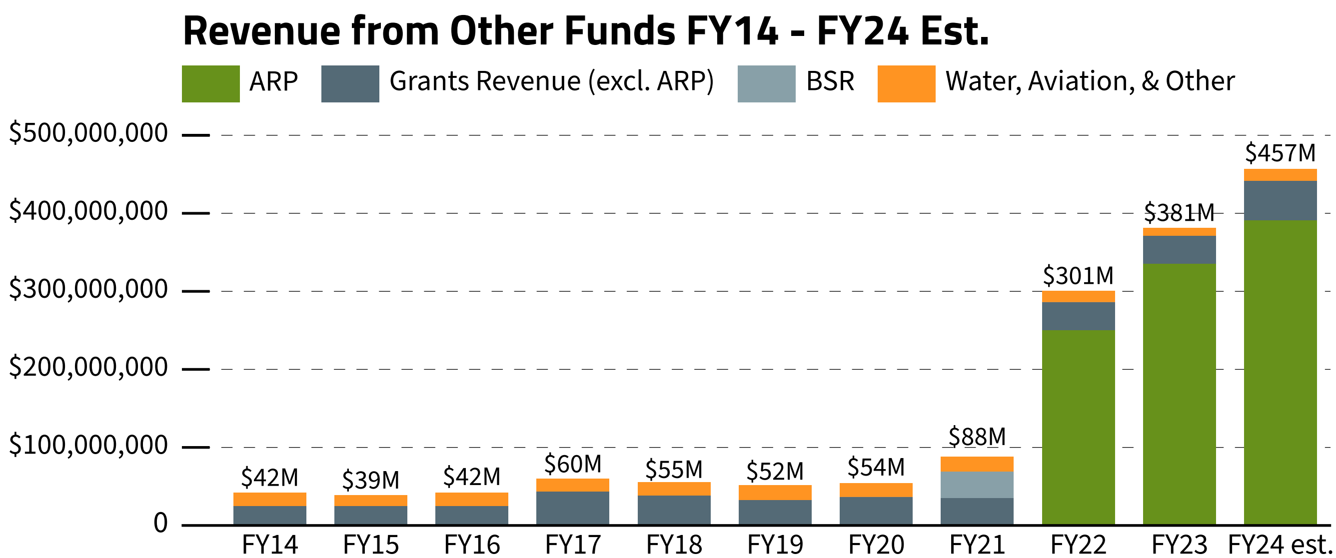
Locally Generated Non-Tax Revenue



Locally Generated Non-Tax (LGNT) revenue is collected through a variety of City fines and fees, reimbursements, sales and leases of City assets, and more. The LGNT sources with the highest revenue are Emergency Medical Services fees, payments for patient care in the Department of Public Health's health centers, licenses and permits issued by the Department of Licenses and Inspections, and interest earnings. FY24 is the first year in which LGNT revenue is projected to be surpassed by Revenue from Other Funds and become the smallest category of revenue.

LGNT revenue has grown from $302 million in FY14 to an estimated $409 million in FY24, at an average rate of 3.2 percent. Notably, the projected LGNT revenue for FY24 is 1.6 percent lower than FY23 collections of $415M due to the transfer of some LGNT revenues to the Transportation Fund, and decreases in Police, Public Health, and City Treasurer LGNT revenue. The FY25-29 Plan shows LGNT revenue decreasing to a low of $366 million in FY26 and then increasing to a high of $425 million in FY28 before dropping to $374 million in FY29.

Revenue from Other Funds



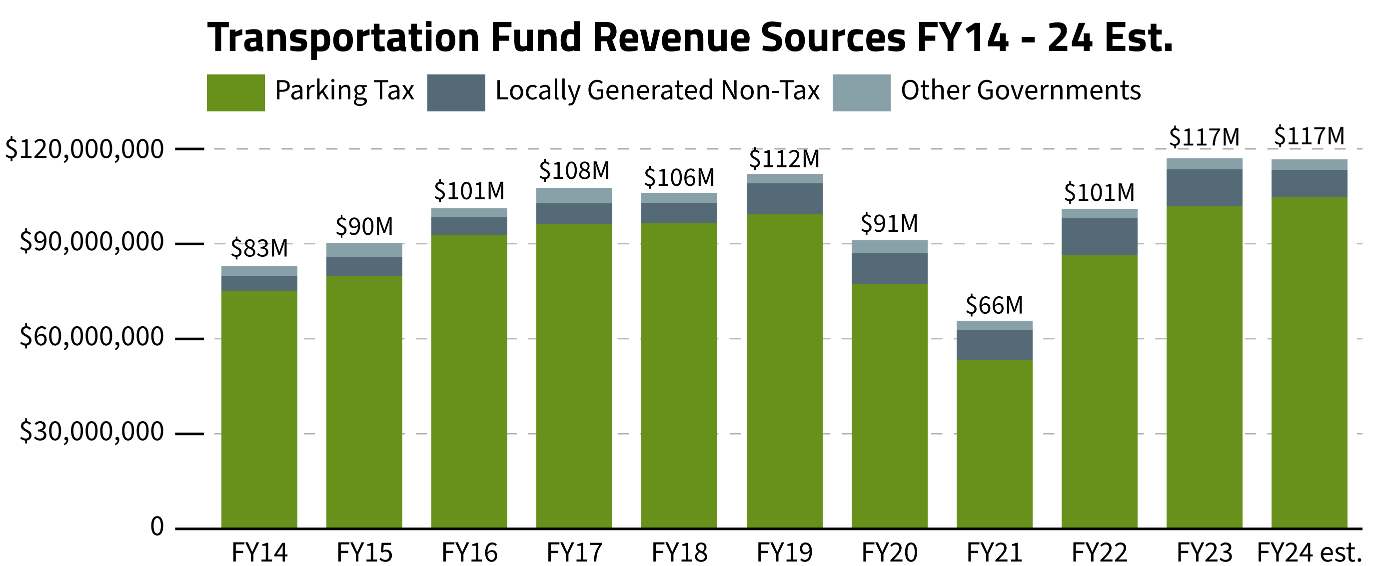
The General Fund receives revenue from other City funds as payment for services provided by departments funded through the General Fund or from the Grants Fund. For example, money is transferred from the Aviation Fund to the General Fund to reimburse costs from the Department of Fleet Service's maintenance support.

Revenue from other funds grew from $42 million in FY14 to $88 million in FY21. The next fiscal year, in FY22, revenue from other funds jumped to over $300 million because of the American Rescue Plan (ARP). After the City received ARP funds from the federal government for revenue replacement, it put this money into the Grants Revenue Fund to be gradually moved over to the General Fund for allocation. In FY24, a total of $455 million is estimated to have been transferred to the General Fund from other funds. The FY25-29 Plan projects Revenue from Other Funds to begin to decline in FY26, dropping to $62 million by FY29 (see Section 3, "Analysis of Plan Projections").

Transportation Fund

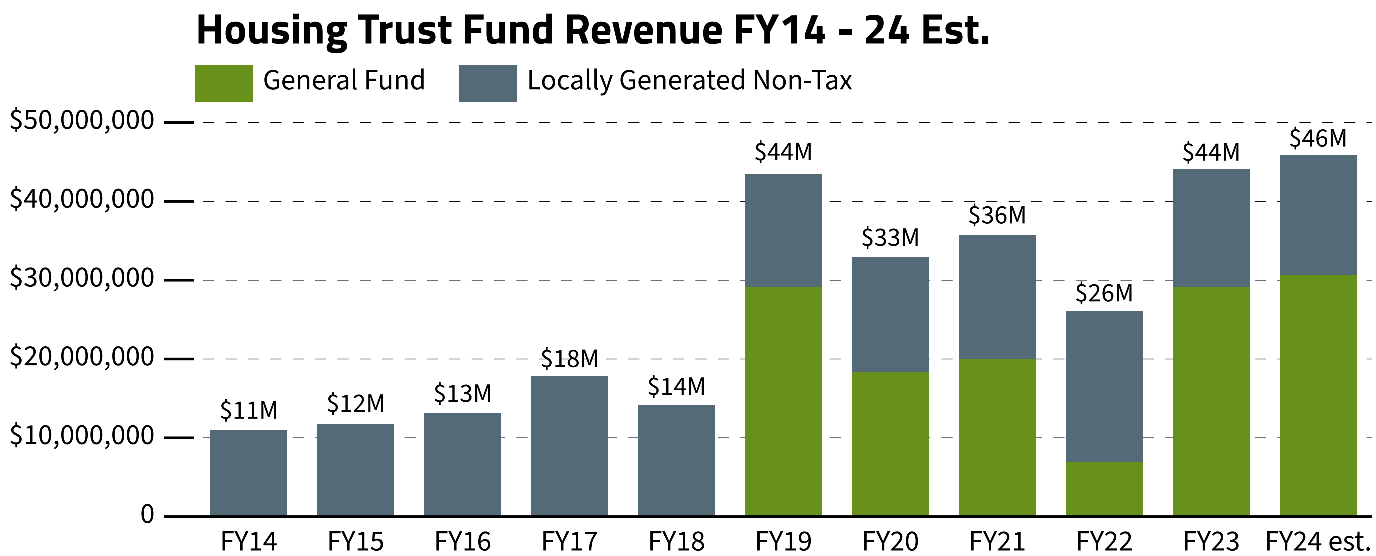
The Transportation Fund was announced in March 2023 and put into effect in FY24. It was created to have a dedicated funding source for street paving, Americans with Disabilities Act (ADA) compliant curb ramp compliance, and transportation needs. The existence of a separate Transportation Fund allows policymakers to make transportation funding decisions separate from the General Fund. The creation of the Transportation Fund was overall revenue- and cost-neutral for the City, allows for easy allocation of funds from any future transportation-related revenue streams, and "could enable the City to access federal, low-interest loan programs that require dedicated revenue streams separate from the General Fund." It is funded by the Parking Tax (which was moved out of the General Fund), LGNT revenue, and some revenue from other governments

Transportation Fund revenue is projected to total $117 million in FY24. This is about the same amount generated in FY23 by the same revenue sources in the General Fund. Parking Tax revenue, which accounts for most of this funding, grew from $75 million in FY14 to an estimated high of $105 million in FY24. The FY25-29 Plan projects Transportation Fund revenue to grow from $120 million in FY25 to $135 million in FY29.



Note: This figure compares FY24 Transportation Fund revenue sources to the same sources in FY14-23, when they were in the General Fund. This includes the Parking and Valet Taxes; Locally Generated Non-Tax Revenue from the Streets Department from survey charges, street permits, right of way fees, and prior year reimbursements; federal funding for highways, bridge design, and the Delaware Valley Regional Planning Commission; and, state funding for snow removal, PennDOT bridge design, and PennDOT highways.

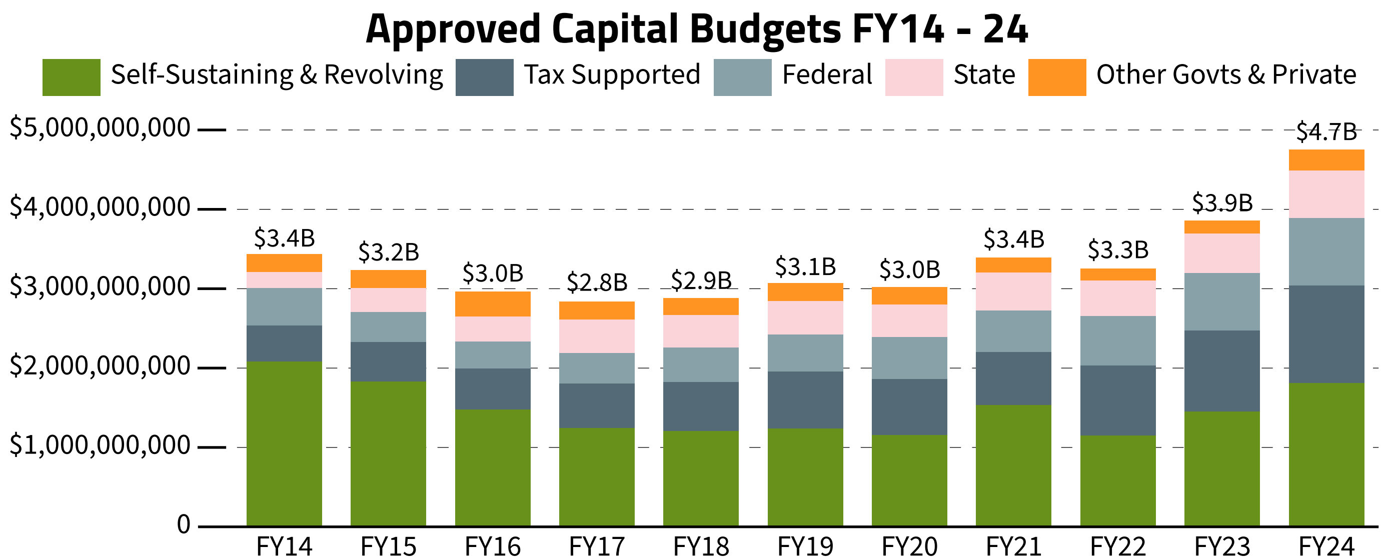
Housing Trust Fund



The Housing Trust Fund (HTF) was established in 2005 as a dedicated funding source for Philadelphians' affordable housing needs. The HTF supports programs for building affordable housing, preserving and repairing homes, and preventing homelessness. It is funded through document recording fees, Real Estate Tax revenue allocated from properties with an expiring ten-year tax abatement (until FY23), and a transfer from the General Fund equivalent to 0.5 percent of the General Fund budget.

The Housing Trust Fund receives both Locally Generated Non-Tax (LGNT) revenue from recording fees and interest earnings and revenue from the General Fund. The LGNT revenue portion increased from $11 million in FY14 to an estimated $15.3 million in FY24, with an average annual growth rate of 4.7 percent and a high point of $19 million in FY22. Since FY19, the HTF has also received funds from the General Fund. Twenty-nine million dollars was contributed from the General Fund in FY19, though FY20-22 contributions were much lower. In FY24, $30.6 million is estimated to have been transferred from the General Fund to the HTF, bringing total revenue for the HTF up to almost $46 million in FY24, higher than any other year. The FY25-29 Plan includes $247.6 million in HTF revenues, growing from $48.4 million to $50.7 million at an average annual growth rate of two percent.

Capital Fund



The Capital Fund is for the City's major infrastructure investments like public buildings and facilities, computer and communication networks, specialized municipal vehicles, and its streets and transit system. Infrastructure investments that cost more than $15,000 and lasts more than five years may be purchased through the Capital Fund. Every year, the six-year Capital Program is created by the staff of the City Planning Commission in partnership with the Budget Office, submitted to the Mayor, approved by the City Planning Commission, and delivered to City Council for approval.

The Capital Fund has many revenue sources that are tax-supported, self-sustaining (generates enough revenue to cover debt service), revolving (funds from property sales), from other governments (including state and federal), or from the private sector. Revenues within these categories are carried forward loans, appropriated from the Operating Budget (PAYGO), new loans, or prefinanced loans.

Over the FY20-24 period, the approved Capital Budget grew by $1.7 billion (57.3 percent) with the greatest increase between FY23 and FY24 ($889 million or 23 percent). At nearly $7 billion over those five fiscal years, self-sustaining City funds represented the largest portion (38.1 percent) of the Capital Budget. Other government funds accounted for 36.5 percent of revenues, or $6.7 billion from FY20 to FY24. Tax-supported funds were the third largest revenue source at $4.5 billion, or 24.6 percent of Capital funds over the FY20-24 period. Private funds represented just four percent ($720.8 million) of FY20-24 Capital Budgets and revolving funds made up less than one percent ($149 million). The top three revenue sources for the FY25-30 Capital Program are new self-sustaining loans, state funds, and new tax-supported loans.

2.4 Spending Trends by Covered Fund

- This section provides an overview of the City's spending trends for the last decade to provide context for the analysis of the FY25-29 Five-Year Plan. Each of the spending classes and covered funds for the FY25-29 Plan discussed here are evaluated in Section 3: Analysis of Plan Projections.

Photo Credit: Kevin Vaughan

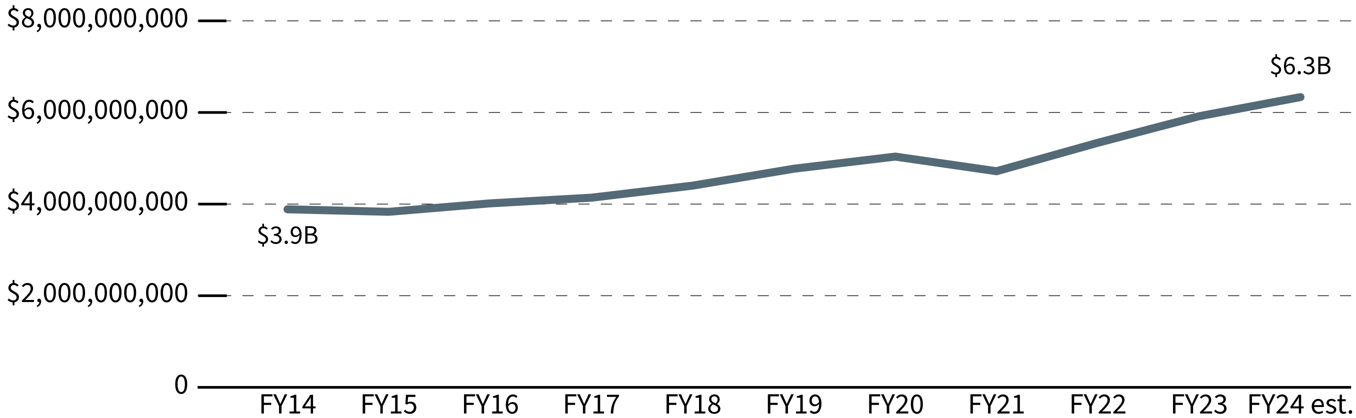
Spending Classes	
CLASS	DESCRIPTION
Class 100 **Personal Services**	Class 100 is for City personnel. It includes spending on salaries, wages, employee benefits, pension obligation bonds, and pension contributions for City employees. Expenditures in this class are the resource for the City's services, both public-facing and behind-the-scenes.
Class 200 **Professional Services**	Class 200 is for spending on contracted services. Many of the expenditures in this class represent services the City relies upon for internal support, like janitorial services, office space leases, technical support, or consulting. Class 200 spending also includes direct service delivery, particularly for health and human services, and funding for service agreements related to debt issuance.
Class 300 and 400 **Materials, Supplies, & Equipment**	Classes 300 and 400 are technically separate expenditure classes for materials and supplies, and equipment, respectively. However, they generally function as a single class of expenditure in budget conversations and are combined in the budget ordinance approved by City Council.
Class 500 **Contributions, Indemnities, & Taxes**	Class 500 is for expenditures directed to outside entities like educational institutions, parties to a legal outcome, or other governments. Contributions move dollars from the City's operating budget to an outside organization or institution, most notably the School District of Philadelphia (SDP). Class 500 includes payments for indemnity costs related to legal claims and judgements against the City and instances when the City (including the enterprise funds) is required to pay taxes.
Class 700 **Debt Service**	Class 700 is primarily the City's General Obligation debt service. These are the amounts required for principal and interest payments on the City's General Obligation bond issuances and other debt backed by the full faith, credit, and taxing power of the City. All Class 700 expenditures are made through the City's Sinking Fund.
Class 800 **Payments to Other Funds**	Class 800 are expenditures that move appropriations between different funds of the City. Most typically these expenditures are utility payments like reimbursing the Water Fund for the water used by the City.
Class 900 **Reserves and Advances**	Class 900 appropriates funds for upcoming expenditures that are anticipated but not fully known, like new labor agreements or the impact of inflation. Typically, funds are transferred via ordinance to the class they are needed once the use is identified. For example, Class 900 Labor Reserve funds are typically reallocated into Class 100 expenditures by department when the terms and costs of new labor agreements are finalized.

The City organizes its operating expenditures by grouping similar expenditures together into distinct classes.

Capital expenditures (Class 600) are utilized for items that cost at least $15,000 and will last longer than five years. Because of the shared criteria, capital expenditures are treated as a single class of spending and organized by project within the Capital Budget and Program.

General Fund Spending Trends

General Fund Expenditures FY14 - 24 Est.



The General Fund is the principal operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in other funds. General Fund expenditures increased by $2.4 billion between FY14 and FY24, growing from $3.8 billion in FY14 to an estimated $6.4 billion in FY24. Although General Fund expenditures grew at an annual rate of 5.2 percent over the last decade, recent years have seen larger growth enabled by the availability of American Rescue Plan (ARP) funding. Between FY22 and FY23, expenditures grew 10.9 percent, from $5.3 billion to $5.9 billion.

The composition of General Fund spending by class has changed over recent years. Historically, Class 100 spending has comprised about two thirds of all General Fund expenditures. Another 20 percent has typically gone towards Class 200 spending, with the remaining classes responsible for single digit percentages of General Fund spending. More recently, Class 100 spending has fallen as a percentage of overall General Fund spending while Class 200, Class 300/400, Class 500, and Class 800 expenditures have grown. The following sections of the report provide more detail on what has driven these shifts, but a key driver in recent years has been a challenging labor market that has affected the City's ability to retain and attract staff.

General Fund Expenditures by Class as Percent of Overall General Fund Spending

Class	10-Year Average	5-Year Average	FY24 Estimate
100	65.6%	63.5%	60.0%
200	20.3%	20.4%	22.1%
300/400	2.4%	2.6%	3.2%
500	6.1%	7.5%	7.5%
700	3.4%	3.4%	3.2%
800	2.1%	2.7%	3.8%
900	N/A	N/A	0.2%

Transportation Fund Spending Trends

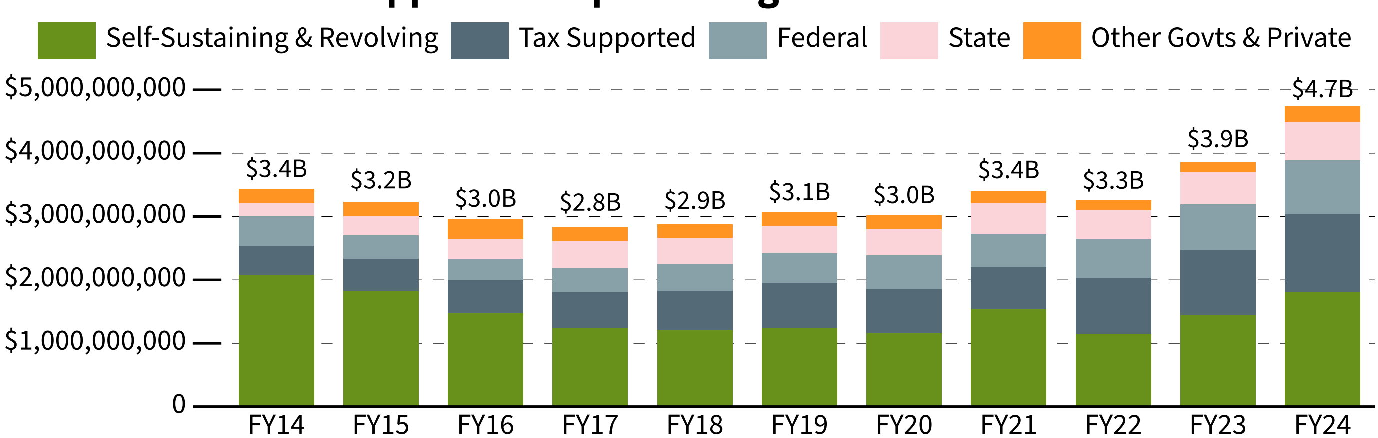
Philadelphia's Transportation Fund was established in FY24 as a dedicated source of funding for maintenance and enhancement of the City's highways, streets, and sidewalks. The Transportation Fund is projected to spend $117 million in FY24. In its first year of existence, the Transportation Fund has a higher proportion of Class 100 expenditures than the General Fund as the work it carries out relies almost exclusively on City employees and the fund has not incurred any indemnities nor debt thus far that would require expenditures in Class 500 and 700.

Transportation Fund Expenditure Summary

Class	FY24 Estimate	Spending by Class as % of FY24 Total
100	$89,501,224	76.5%
200	$15,455,739	13.2%
300/400	$10,019,523	8.6%
500	$0	0.0%
700	$0	0.0%
800	$2,005,983	1.7%
900	$0	0.0%
Total	**$116,982,469**	**100%**

Capital Fund Spending Trends

Approved Capital Budgets FY14 - 24



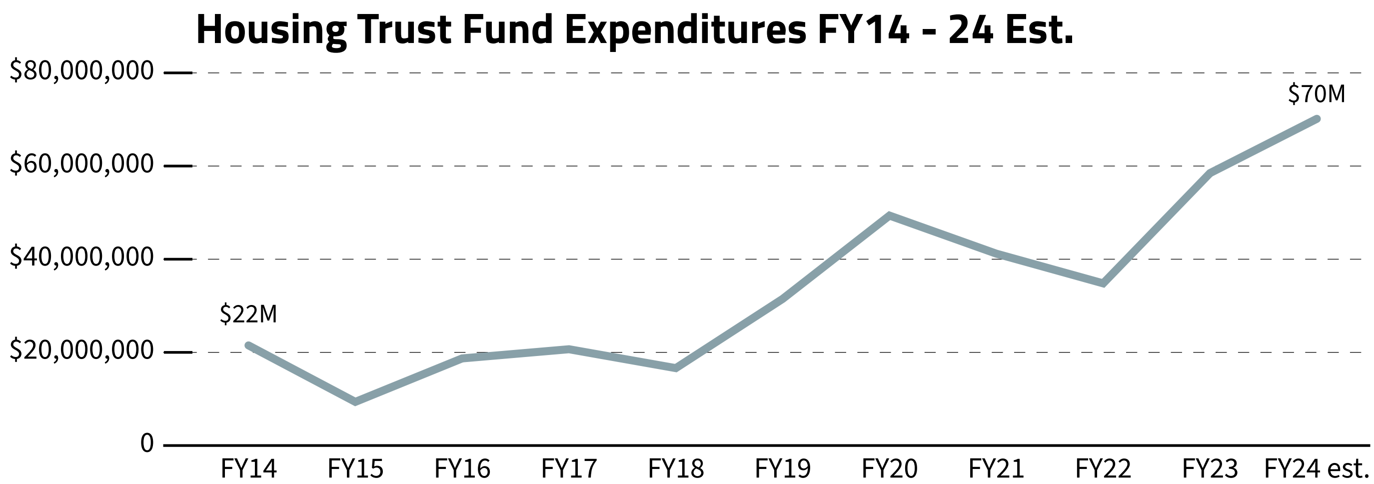
The Capital Fund provides for the construction and renovation of physical and technological infrastructure. Capital projects must meet legal eligibility requirements pursuant to the Philadelphia Home Rule Charter, applicable bond covenants, and any additional requirements stipulated by federal, state, private, and other funding entities. Projects must generally cost at least $15,000 and have a useful life of at least five years.

Capital Fund appropriations for the fiscal year are outlined in each year's Capital Budget. The Capital Budget outlines revenue by source and expenditures by department. Typically, about 40 percent of each year's budgeted capital expenditures are dedicated to the City's Water and Aviation Enterprise Funds, which use self-sustaining short-term and long-term revenue bond financing to fund their capital operations. The other 60 percent of each year's budget is directed to operating departments and City-related institutions. In recent years, the Streets Department's capital expenditure has grown more than any other department, from $541 million in FY20 to more than $1 billion in FY24. This growth is associated with the terms of a 2022 settlement agreement requiring the City to build or remediate 10,000 curb cuts over 15 years.

Capital Fund Expenditures by Department as Percent of Non-Enterprise Capital Spending

Department	5-Year Average	FY24
Streets	35.8%	36.7%
Transit	13.4%	14.3%
Parks and Recreation	10.9%	12.2%
Commerce	9.1%	8.2%
Finance (Improvements to Existing Facilities)	5.7%	7.1%
Managing Director	4.8%	4.0%
Public Health	4.4%	4.6%
Innovation and Technology	4.3%	3.2%
Fleet Services	2.8%	2.5%
Police	2.5%	1.6%
Public Property	2.3%	1.9%
Zoo	1.3%	0.7%
Prisons	1.0%	1.1%
Fire	0.7%	0.6%
Free Library	0.5%	0.7%
Homeless Services	0.2%	0.2%
Art Museum	0.2%	0.2%
Sustainability	0.1%	0.1%
Records	0.0%	0.0%
Total All Non-Enterprise Departments	**100.0%**	**100.0%**

Housing Trust Fund Spending Trends



The Housing Trust Fund (HTF) was created in 2005 to provide a dedicated source of municipal funding for affordable housing. Between FY21 and FY23, 78 percent of all government housing dollars spent in Philadelphia came from the federal government. Federal housing dollars must be used in accordance with federal guidelines and regulations. Using local funds for affordable housing investment can allow for more flexibility than state, federal, or grant sources. There are specific requirements for how HTF dollars can be expended. One half of annual HTF spending is targeted towards very low-income families and individuals earning at or below 30 percent of Area Median Income (AMI). The other half is targeted towards low- and moderate-income households.

The City began directing more General Fund dollars to the HTF in FY19, first depositing revenue generated by expired Real Estate Tax abatements before enactment of a Charter change that now requires 0.5 percent of General Fund expenditures be deposited into the HTF each year beginning in FY22. Unlike the General Fund or Transportation Fund, HTF spending is concentrated in Class 200 with minimal spending on City employees. Although HTF Class 100 allocations have grown in recent years, they still represent less than seven percent of overall HTF expenditures.

General Fund Expenditures by Class as Percent of Overall General Fund Spending

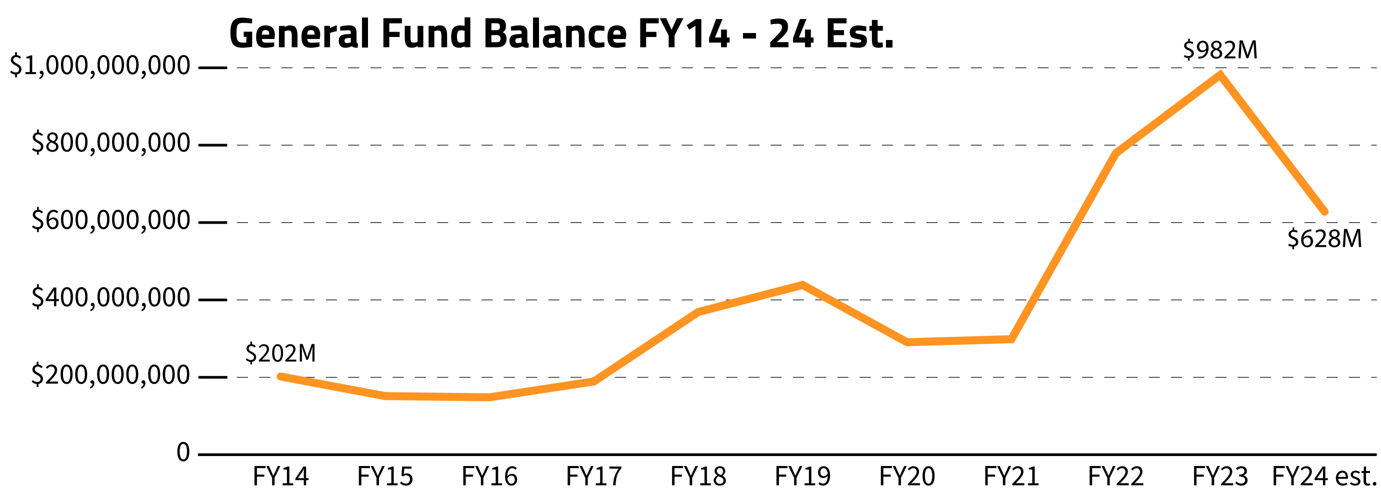
Class	10-Year Average	5-Year Average	FY24 Estimate
100	3.5%	3.0%	6.0%
200	96.5%	96.9%	93.8%
300/400	0.0%	0.1%	0.2%
500	0.0%	0.0%	0.0%
700	0.0%	0.0%	0.0%
800	0.0%	0.0%	0.0%
900	0.0%	0.0%	0.0%

2.5 Reserves and Other Approaches to Fiscal Resiliency

- Healthy fund balances and financial reserves are key to municipal fiscal stability. Unexpected events can require increased spending or cause sudden declines in revenue – often both. Even routine variances that cities may prepare for, like inflation, can have costs that are not fully quantified when the budget is passed. Without healthy fund balances and adequate reserves, a bad situation becomes worse if critical services go undelivered right when people need them most. Reserves buy governments time to assess the situation, evaluate the severity and expected duration, and make thoughtful adjustments if necessary.

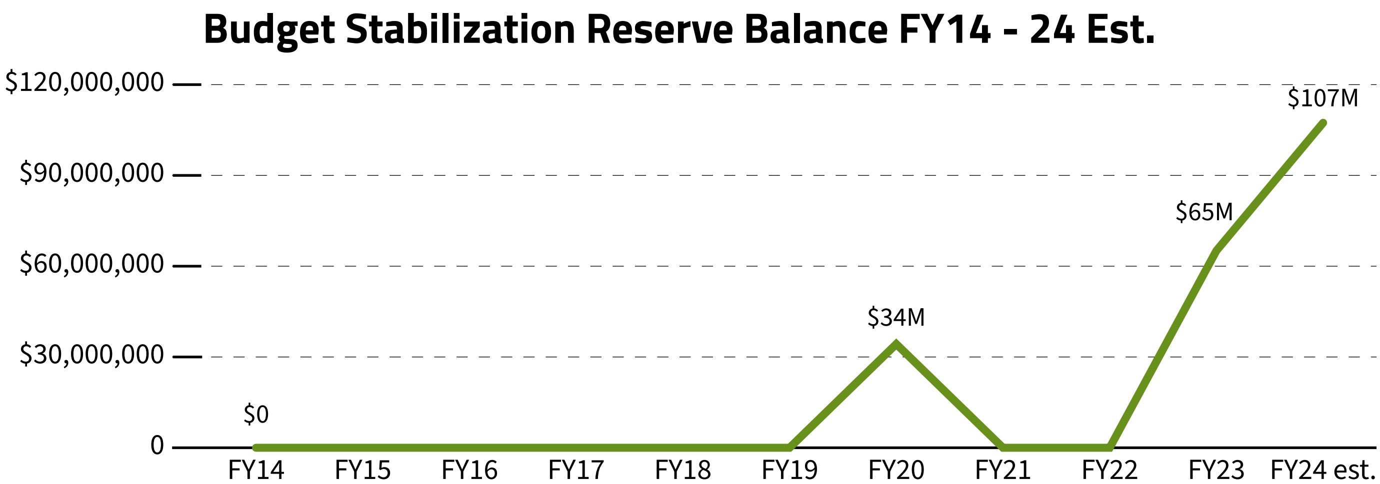
  In recent years, the City of Philadelphia's fiscal resiliency has grown alongside its General Fund balance and Budget Stabilization Reserve (BSR). The City has appropriated reserves within the budget in anticipation of inflation and to prepare for new labor agreements. These efforts have been recommended by PICA and recognized by credit rating agencies, with Fitch recently upgrading the City's General Obligation bonds and other tax-supported debt from 'A' to 'A+' on the basis of healthy General Fund reserves in recent years. Sustaining that level of fund balance may be important to maintaining the upgraded rating.

General Fund Balance



The City of Philadelphia's first line of fiscal defense against unexpected events is the General Fund balance. General Fund dollars are the most flexible source of funding for responding to unexpected events. The City can direct resources from the General Fund to where they are needed relatively easily without waiting for state or federal support or improved economic conditions. The PICA Act requires the City to carry a positive General Fund balance. The Government Finance Officers Association (GFOA) recommends unrestricted reserves equivalent to about 17 percent of spending or revenues, roughly $1 billion. The City's internal goal for its General Fund balance is at least 6 to 8 percent of revenues. After a long recovery from the impacts of the Great Recession, the City's General Fund balance first met that internal goal in FY18, reaching 8.1 percent of revenues ($369 million). In FY19, the fund balance climbed to 9.1 percent of revenues ($439 million), before falling to 6.0 percent in FY20 with the arrival of the pandemic. Building on a foundation of federal support and American Rescue Plan (ARP) dollars used for revenue replacement, the City managed to grow the fund balance to 6.4 percent of revenues in FY21 ($299 million). The City more than doubled its fund balance the following year, FY22, reaching 13.5 percent of revenues ($779 million). In FY23, the City nearly reached the GFOA recommended 16.7 percent of revenues, ending the year at 16.2 percent of revenues ($982 million). Estimates for FY24 have the fund balance ending at 10.6 percent of revenues ($628 million).

Budget Stabilization Reserve



The Budget Stabilization Reserve (BSR) is the City's rainy day fund, a reserve that can only be used under certain emergency conditions. There are two scenarios that can lead to a withdrawal from the BSR:

- A drop in revenues of at least 1% compared to adopted revenue estimates.
- 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.

These conditions make the BSR less flexible than unrestricted General Fund dollars, but invaluable in fiscal emergencies. Created in FY11, the BSR did not receive its first deposit ($34 million) until FY20. Months later, the pandemic arrived and BSR funds helped make the City's pandemic response possible. The next BSR deposit ($65 million) came in FY23, with an estimated $42 million deposit in FY24 to bring the BSR balance to $107 million. In May 2023, Philadelphia voters approved changes to the formula used to decide the scale and timing of deposits made to the BSR. PICA's 'Fact Sheet: Philadelphia's Rainy Day Fund' discusses the changes in more detail.

Reserve Appropriations

The City uses reserve appropriations to cushion the impact of expected, but unquantified, events on the City's finances. In recent years, the Labor Reserve is the most consistent reserve appropriation the City makes. In preparation for new labor agreements where expenditures will need to increase by an unknown amount, the City sets the Labor Reserve aside to address those new costs. Without the reserve, the budget would need to be reconfigured with each sizeable agreement. Recent years have also included reserves set aside for a potential recession, the revenue impact of a gradual post-COVID-19 economic recovery, and rising costs due to inflation.

Section 3: Analysis of Plan Projections

Analysis of Plan Projections

The PICA Act states that PICA shall promptly review each submitted Five-Year Plan along with the corresponding annual operating budget and capital budget. Within 30 days of receiving the Plan and associated documentation, PICA's Board must vote on the submitted Five-Year Plan. Prior to the vote, PICA Staff authors and submits a report on the Plan to the Board. The PICA Staff report helps the Board determine whether the Plan projects balanced budgets in each year of the Plan, whether the operating and capital budgets are consistent with the Plan, and whether the revenue and obligation projections in the Plan are based on reasonable assumptions and estimates.

This section of the report details the legally required elements and standards of formulation for the FY25-29 Five-Year Plan. It then analyzes the Plan's projected revenues, obligations, performance, and fund balances for reasonableness and consistency throughout the Plan.

Photo Credit:
Kevin Vaughan

3.1 Required Elements

The statutory criteria of the PICA Act are used to assess the City of Philadelphia's Five-Year Plan. These are the elements required for the Plan to gain the approval of PICA's Board of Directors.

PICA ACT REQUIREMENT	FY25-29 PLAN
"Projected revenues and expenditures of the principal operating funds of the City for five fiscal years consisting of the current fiscal year and the next four fiscal years."	☑ The Plan includes projections of revenues and expenditures for the City's General Fund and other covered funds, including the Housing Trust Fund and Transportation Fund, for fiscal years 2025 through 2029.
"Eliminate any projected deficit for the current fiscal year and four subsequent fiscal years."	☑ The Plan projects positive year-end fund balances for fiscal year 2025 and four subsequent fiscal years.
"Restore to special fund accounts money from those accounts used for purposes other than those specifically authorized."	☑ The Plan does not project any restricted funds being used for unauthorized purposes. At the time PICA was created, the City had dipped into special fund accounts to ease a cashflow crisis. PICA's 1992 bond issuance helped to restore funds and resolve this issue.
"Balance the current fiscal year budget and subsequent budgets in the financial plan through sound budgetary practices, including but not limited to, reductions in expenditures, improvements in productivity, increases in revenues, or a combination of these steps."	☑ Despite projected structural imbalance in each year, the Plan projects positive fund balances in all years of the Plan. It also projects that the City will continue to make pension contributions in accordance with the award-winning Road to Pension Recovery initiative.
"Provide procedures to avoid a fiscal emergency condition in the future."	☑ The Plan budgets for the growth of the City's Budget Stabilization Reserve (BSR) from \$107.4 million to \$283.1 million from FY25 to FY29. Prior Plans have included specific reserves to handle unexpected costs driven by inflation or revenue declines caused by recession. Those specific reserves are absent from the current Plan.
"Enhance the ability of the city to regain, improve or maximize access to the short-term and long-term credit markets."	☑ The City holds an 'A' category rating for its general obligation debt from all three major municipal credit rating agencies, the highest combined ratings in four decades, and therefore has access to short-term and long-term credit markets. Each of the major agencies has listed the City's credit rating outlook as either stable or positive.

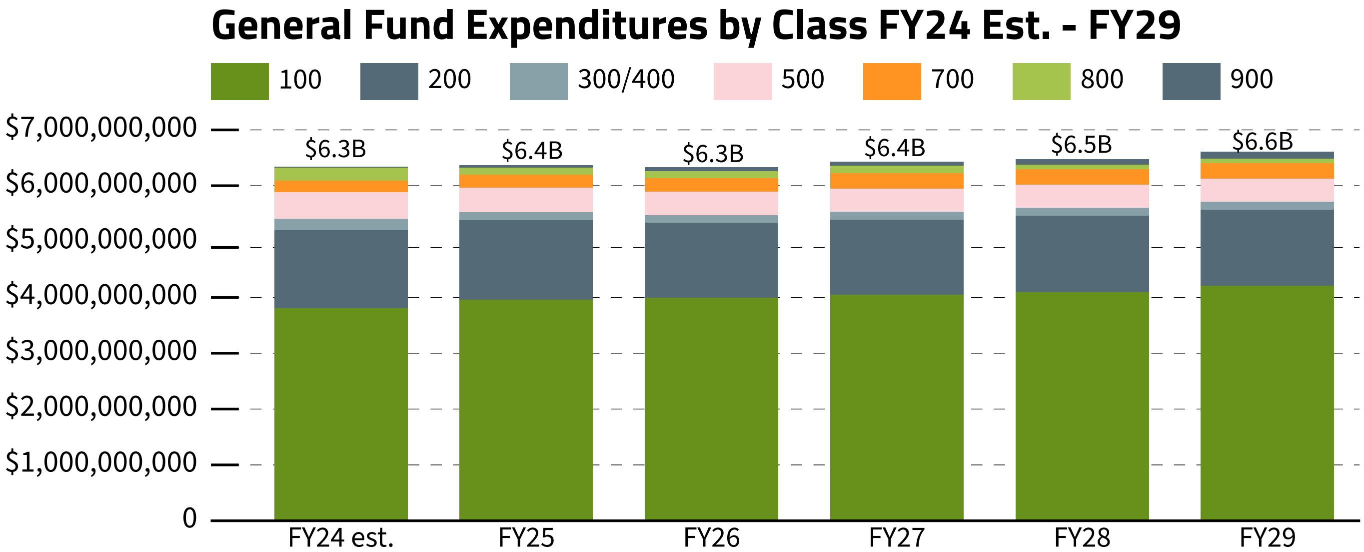
3.2 Standards of Formulation

The PICA Act codifies specific standards for the formulation of the Five-Year Plan. These standards ensure that the Plan and its estimates and projections are reasonable and realistic.

STANDARD	FY25-29 PLAN
"All projections of revenues and expenditures in a financial plan shall be based on reasonable and appropriate assumptions and methods of estimation, all such assumptions and methods to be consistently applied."	☑ The Plan projects revenues in accordance with the estimation standards included in the PICA Act. Expenditure projections are based on reasonable and appropriate assumptions and methods of estimation.
"All revenue and appropriation estimates shall be on a modified accrual basis in accordance with generally accepted standards. Revenue estimates shall recognize revenues in the accounting period in which they become both measurable and available."	☑ The Plan uses a modified accrual basis of accounting to recognize revenues and expenditures for budgeting purposes.
"Estimates of city-generated revenues shall be based on current or proposed tax rates, historical collection patterns and generally recognized econometric models."	☑ Tax revenue projections included in the Plan are primarily based on econometric forecasts from the City's consultant, S&P Global Market Intelligence. In February, prior to the release of the proposed budget and Five-Year Plan, PICA held a conference of economists and policymakers at the Federal Reserve of Philadelphia to evaluate the reasonableness of the City's tax revenue projections. Attendees found the projections to be reasonable. PICA engaged Professor Charles Swanson to evaluate the City's tax projections and he deemed them reasonable.
"Estimates of revenues to be received from the State government shall be based on historical patterns, currently available levels or on levels proposed in a budget by the Governor."	☑ The Plan's estimates for revenue from the Commonwealth of Pennsylvania incorporate changes to funding levels and local-match requirements included in the budget proposed by the Governor.

STANDARD	FY25-29 PLAN
"Estimates of revenues to be received from the Federal Government shall be based on historical patterns, currently available levels or on levels proposed in a budget by the President or in a congressional budget resolution."	☑ The Plan incorporates estimates of revenue from the federal government which recognize the deadline for obligating American Rescue Plan dollars and increased availability of infrastructure funding support from the Bipartisan Infrastructure Law.
"Nontax revenues shall be based on current or proposed rates, charges or fees, historical patterns and generally recognized econometric models."	☑ Locally Generated Non-Tax revenue projections included in the Plan are based on historical patterns and current rates for charges and fees.
"Appropriation estimates shall include, at a minimum, all obligations incurred during the fiscal year and estimated to be payable during the fiscal year or in the 24-month period following the close of the current fiscal year and all obligations of prior fiscal years not covered by encumbered funds from prior fiscal years."	☑ The Plan meets this standard.
"All cash flow projections shall be based upon reasonable and appropriate assumptions as to sources and uses of cash, including, but not limited to, reasonable and appropriate assumptions as to the timing of receipt and expenditure thereof, and shall provide for operations of the assisted city to be conducted within the resources so projected."	☑ The Plan incorporates cash flow projections based on historic and seasonal revenue collection patterns for each source of revenue. In the event of a timing mismatch between General Fund revenues and expenditures, the City costs for a Tax and Revenue Anticipation Notes (TRANs) are included in each year of the Plan in accordance with the City's debt management policy.

Spending Overview



The PICA Act requires expenditure estimates in the City's Five-Year Plan to be "based on reasonable and appropriate assumptions and methods of estimation." The City uses its annual budget process, the Mayor's policy priorities, and factors from exogenous variables to develop its expenditure projections. The City's annual budget process begins when the Budget Office meets with departments to discuss priorities and expectations for the following fiscal year. From those conversations, the Budget Office develops the outline of the next year's projected expenditures. As defined by the City, nearly half the City's spending is not fixed, which allows flexibility within the budget to support the Mayor's priorities as they change from year-to-year or administration-to-administration, and be reduced in the face of fiscal pressures that would otherwise unbalance the Plan. According to the City, a bit more than half the budget is fixed with costs that cannot be avoided. These include City Charter mandated expenditures, court-ordered payments, and funds used as matching dollars that leverage significant outside funding.

General Fund spending is projected to total $32.2 billion over the FY25-29 Five-Year Plan. Annual spending is estimated to grow by $236.6 million (3.7 percent) from $6.37 billion in FY25 to $6.60 billion in FY29. Despite the overall growth in expenditures over the Plan, spending is projected to decline slightly from FY25 to FY26 (-$34.2 million / -0.5 percent). This decline in expenditures was planned by the City to avoid a fiscal cliff potentially created by the deadline to obligate ARP funds by the end of calendar year 2024, in addition to a projected economic slowdown. Spending reductions from FY25 to FY26 are concentrated in Class 200 (Contracted Services) and Class

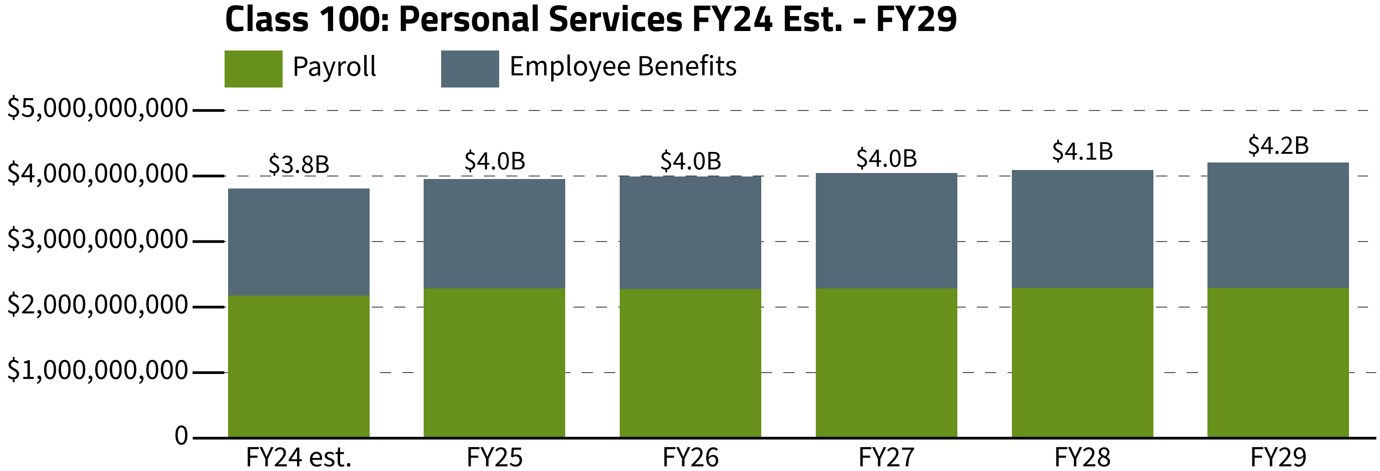
	FY25	FY26	FY27	FY28	FY29	Total Spending Growth
% Change in Spending	0.5%	- 0.5%	1.6%	0.6%	2.0%	3.7%

500 (Contributions and Indemnities). Class 200 reductions include the withdrawal of Public Health funding for the former Philadelphia Nursing Home site (-$35.4 million), the end of the City's two-year pilot program providing SEPTA fares to low-income residents (-$31 million), non-recurring anti-violence grants (-$24 million), the end of the City's two-year SEPTA Key Advantage pilot program for employees (-$9 million), reduction of funding for Homeless Services contracts (-$7.9 million), and withdrawal of support for one-time Public Safety services in Kensington (-$3 million). Class 500 reductions in contributions are shown for the Philadelphia Cultural Fund (-$5.5 million), a reduction in operating support for the Community College of Philadelphia (-$5 million), and the reduction of housing contributions in the Department of Planning and Development (-$4 million), one-time additions to the FY25 budget. After FY26, expenditure growth is projected to resume, with $270.7 million in spending increases from FY26 to FY29.

General Fund expenditures are organized by class to separately track expenditures intended for different purposes as required by the City Charter. Spending on personnel and employee benefits (Class 100) is the largest share of projected expenditures at nearly two-thirds of General Fund spending, followed by spending on contracted services (Class 200), then materials, supplies, and equipment (Class 300/400). The remaining classes comprise less than ten percent of projected General Fund spending over the FY25-29 Plan. These proportions by class align with historical averages over the last ten years.

Class	FY25-29 Spending Estimates by Class	Class Spending as % of Total	
		FY25-29	10-Year Average
100	$20,287,744,741	63.0%	65.6%
200	$6,850,383,908	21.3%	20.3%
300/400	$703,686,718	2.2%	2.4%
500	$2,085,601,100	6.5%	6.1%
700	$1,312,978,911	4.1%	3.4%
800	$562,694,779	1.7%	2.1%
900	$406,986,182	1.3%	0.0%
Total	**$32,210,076,339**	**100.0%**	**100.0%**

Class 100: Personal Services



The FY25-29 Plan allocates $20.3 billion to Class 100 (Personal Services and Employee Benefits). This is the largest General Fund allocation by class, comprising 63.0 percent of expenditures throughout the Plan. Class 100 allocations are expected to grow by $251.2 million (6.3 percent) over the FY25-29 Plan, from $3.96 billion in FY25 to $4.21 billion in FY29. The total Class 100 allocation has two components: salaries and wages (Personal Services), and Employee Benefits. The Labor Reserve, for future labor costs, is appropriated in Class 900 and not presented here.

Personal Services is the larger of the two components, making up 56.3 percent of Class 100 allocations over the Five-Year Plan at $11.41 billion. Spending on Personal Services is projected to grow by $8.4 million (0.4 percent) over the Plan, from $2.28 billion in FY25 to $2.29 billion in FY29. Employee salaries and wages are the sole expenditure category in Personal Services. The drop in Personal Services allocations between FY25 and FY26 represents non-recurring hiring and recruitment incentives taken up after the pandemic.

Employee Benefits make up the other 43.7 percent of Class 100 allocations, totaling $8.88 billion. Employee Benefits spending includes pension funding, health and medical expenses, and Federal Insurance Contribution Act (FICA) contributions, with each component estimated separately. Growth in Employee Benefits is projected at 14.5 percent over the Five-Year Plan, growing by $242.7 million from $1.68 billion in FY25 to $1.92 billion in FY29. Health and medical expenses are the largest contributor to growth in Employee Benefits, growing by 18.7 percent

Class 100 Spending as Percent of General Fund Obligations

	Ten-Year Average	Five-Year Average	FY25	FY25-29
Personal Services	37.0%	35.8%	35.8%	35.4%
Employee Benefits	28.5%	27.8%	26.3%	27.6%
Class 100 Total	65.6%	63.5%	62.1%	63.0%

Growth Rates FY25-FY29								
	FY25	FY26	FY27	FY28	FY29	FY25-29 Total	Five-Year Average	Ten-Year Average
Wage Growth Rate	4.7%	-0.3%	0.6%	0.1%	0.0%	0.4%	4.2%	4.6%
Benefit Growth Rate	3.2%	2.4%	2.4%	2.6%	6.4%	14.5%	3.7%	4.4%
Class 100 Growth Rate	4.0%	0.8%	1.4%	1.2%	2.8%	6.3%	3.8%	4.3%

($113.4 million) over the Plan at an average annual rate of 4.4 percent. Pension costs are responsible for 44.8 percent ($108.8 million) of the growth in Employee Benefit spending over the FY25-29 Plan, largely because a balloon payment due on the City's Pension Obligation Bonds (POBs) will increase pension-related spending by $70.9 million in FY29.

Assumptions and Methods of Estimation

A large portion of Personal Services spending is set by the terms of labor contracts with represented City employees. New contracts typically include scheduled pay increases for represented workers. Class 100 allocations do not presume the terms of future labor contracts. Instead, the City sets funds aside in the Class 900 (Reserves and Miscellaneous Payments) Labor Reserve to ensure resources are available for the uncertain outcomes of contract negotiations.

Personal Services spending is also dependent upon the City's staffing level. Each year's budget includes a desired staffing level tied to departmental needs and administrative priorities. Desired staffing levels are more aspirational in some years than in others. The City has taken a conservative approach to understaffing in recent years, including enough funding to be able to approach desired staffing levels while acknowledging that meeting those goals is challenging.

Employee Benefits allocations are also highly determined by labor contracts and staffing levels. As with Personal Services allocations, terms of future labor contracts are not presumed in Employee Benefit allocations. Any negotiated increases will pull resources from the Labor Reserve or elsewhere in the budget. Pension contribution assumptions are relatively flat based on assumptions from the Pension Fund's actuary. Payments towards the City's POBs are determined by the debt service schedule for the 1999 bond issuance. Sales Tax revenue contributed to the City's Pension Fund is tied to revenue from the City's two percent Sales Tax. Revenue from the first percent of the City's Sales Tax goes to the City's General Fund. Revenue from the second percent is split between the City's Pension Fund and the School District of Philadelphia, with $120 million going to the School District and the remainder to the City's Pension Fund. Pension

Sales Tax contribution estimates are derived from Sales Tax revenue projections.

Absent any labor agreements for fiscal years 2026-2029, the largest source of growth in Employee Benefits are health and medical expenses. Some City employees are members of the City's self-managed health plan, which assumes 5.0 percent growth in costs from year to year. Health and medical expenses for uniform employees assume 7.5 percent annual growth. The total health and medical spending projected in the FY25-29 Plan applies those growth assumptions in accordance with health plan membership and any additional contributions negotiated in labor agreements. FICA estimates are generated as a flat percentage of overall payroll based on a five-year rolling average.

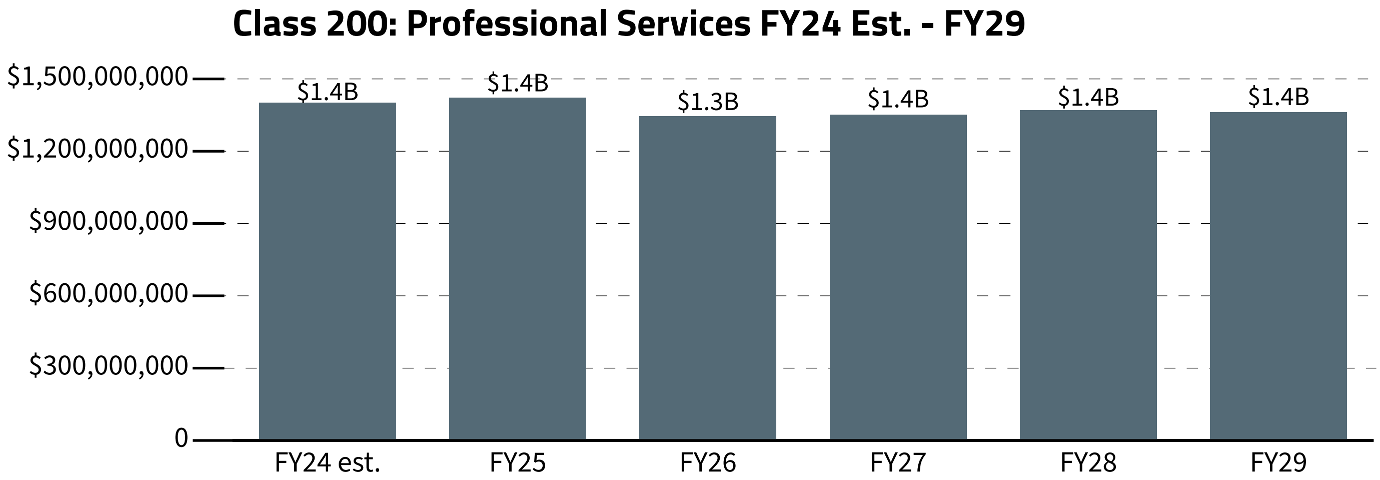
The FY25-29 Five-Year Plan confronts two major challenges in budgeting for staffing and benefit costs. First is the absence of labor contracts beyond FY25. In FY24, the City reached agreements for one-year contract extensions with uniform employees which last through FY25. Contracts for the City's two large non-uniform unions, AFSCME DC 33 and DC 47, expired on June 30, 2024. The absence of contractual pay increases for most General Fund employees for most of the Plan means that Class 100 allocations are relatively flat compared to historical averages but should be expected to increase with support from the Labor Reserve as contract agreements are finalized.

The second challenge is in retaining and recruiting staff. Prior to the COVID-19 pandemic, the City was able to end each fiscal year at roughly 95 percent of its desired staffing level. As the pandemic faded the City experienced increased levels of retirement and resignation, especially in uniform positions. Those changes alongside a strong labor market and historically low unemployment have made retention and recruitment of City employees challenging. At the end of the third quarter of FY24, the City had about 83 percent of its budgeted staffing complement.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for Class 100 costs in the FY25-29 Plan are reasonable and appropriate. Class 100 allocations in this Plan are proportionate to historical Class 100 allocations at 63.0 percent of General Fund obligations. Though historical appropriations have averaged closer to 65 percent of General Fund obligations, the City's current staffing challenges make this lower assumption appropriate. Estimated average annual Personal Services growth of 0.1 percent included in the FY25-29 Plan falls well below the ten-year average growth rate of 4.2 percent. Despite this variance from historic patterns, Personal Services assumptions are reasonable and appropriate when considering appropriations held in the Labor Reserve to account for costs added through labor negotiations. Additionally, should the City not reach its desired staffing level, the City may have unspent funds in Class 100 available. Projected pension contributions align with reporting from the City's actuary, which calculates required contribution amounts based on state law and City policy. FICA estimates are reasonably based on prior-year actuals as a percent of payroll. Health and medical costs are estimated in terms of cost per member, with projected increases in line with historical trends, and additional costs for new hires factored in. If the City were to immediately achieve and maintain full staffing at the start of FY25 and if future labor contracts have wage increases in line or above historical averages, then the amount budgeted for Class 100 may be insufficient, but with the Labor Reserve, expected phasing of hiring, and ability to reallocate prior year underspending if needed, the Class 100 assumptions are reasonable and appropriate.

Class 200: Professional Services



The FY25-29 Plan allocates $6.85 billion to Class 200 (Contracts and Leases). The FY25-29 Plan anticipates increased Class 200 spending in FY25 compared the estimate for FY24, with a reduction in FY26 ($77 million or 5.4 percent). Class 200 will then grow in FY27 by $5 million (0.4 percent) and $19 million (1.4 percent) in FY28, before declining by $8 million (0.6 percent) in the final year of the Plan, FY29.

The changes in Class 200 spending reflect a mix of new or expanded spendings and reductions elsewhere Reductions to Class 200 spending in the early years of the Plan are clearly identified in supplemental materials provided to PICA by the Administration. For example, in FY25, the Commerce Department will not repeat a $2.3 million job creation incentive that had been granted to an individual company and will not spend $3.0 million on Workforce Solutions Grants and Initiatives that had been funded in the prior year. The Department of Licenses and Inspections completed an upgrade to the eCLIPSE system, a one-time $1.5 million cost in FY24 that will not be repeated. In FY25, there are both recurring increases, like an additional $2 million for the Defenders Association, and one-time costs, such as $1.7 million for Sheriff's vehicles budgeted in the Department of Fleet Services. Some of the increases in FY25 are the result of delayed initiatives that had been budgeted in FY24 but did not occur.

Three areas of expenditure make up nearly one-third of all Class 200 Spending:

- Contracted services by the Department of Human Services ($182.6 million, 13 percent of all Class 200 spending). This includes over $60 million in contracted services for juvenile justice services.
- Installment repayments of funds borrowed service agreements with entities like the Philadelphia Authority for Industrial Development (PAID) and the Philadelphia Municipal Authority (PMA), for initiatives including Rebuild, the Neighborhood Preservation Initiative, and the Eagles stadium.
- The City's subsidy to the Southeastern Pennsylvania Transit Authority (SEPTA), which is calculated based on required local matches for state funding.

The largest concentration of Class 200 spending is in the Department of Human Services (DHS). This county-level function is primarily supported by grant funds, with just a quarter of funding from the General Fund, a large portion of which serves as required local matching funds. The Department has opted to contract out much of the service delivery to non-profits and other providers, while using internal staff to focus on investigations, management, and oversight.

The next largest Class 200 expenditure is the SEPTA subsidy, representing roughly ten percent of Class 200 spending. The Plan proposes $133 million in FY25 and grows annually, reaching $160 million in FY29. Another large category of Class 200 spending consists of payments by the Sinking Fund akin to debt service for funds borrowed via entities including PMA and PAID for initiatives like Rebuild, the Neighborhood Preservation Initiative, and the Eagles Stadium. Expected annual payments range from $121 million in FY25 to $130 million in FY28.

Other significant Class 200 expenses are focused on providing vulnerable populations with access to life-sustaining services and programs, including $78 million in the Office of Homeless Services and $73 million in the Department of Public Health. Additionally, the Plan projects $66 million annually to fund the operations of the Philadelphia Defenders Association and other legal services and $15 million in each year of the Plan to the Convention Center, a subsidy that the City committed to with the Commonwealth when the Convention Center was expanded in 2011.

Assumptions and Methods of Estimation

Obligation levels in the current Plan have been established for most departments and cost centers based upon desired service levels, management and productivity initiatives underway, anticipated competitive contracting issues, existing and anticipated contractual obligations, and a host of other factors, rather than overarching growth rate assumptions.

For example, the contribution to SEPTA is based on formulas set in state legislation for local matches to state funding levels. The contributions proposed in the Five-Year Plan for SEPTA are based on the proposed FY25 Pennsylvania budget pending when the City's FY25-29 Plan was submitted to PICA. The required local match from Philadelphia will be lower as the adopted Pennsylvania budget had less funding for SEPTA, but the City may provide the full amount it initially proposed. Estimates for Class 200 payments by the Sinking Fund are based on existing and planned borrowings.

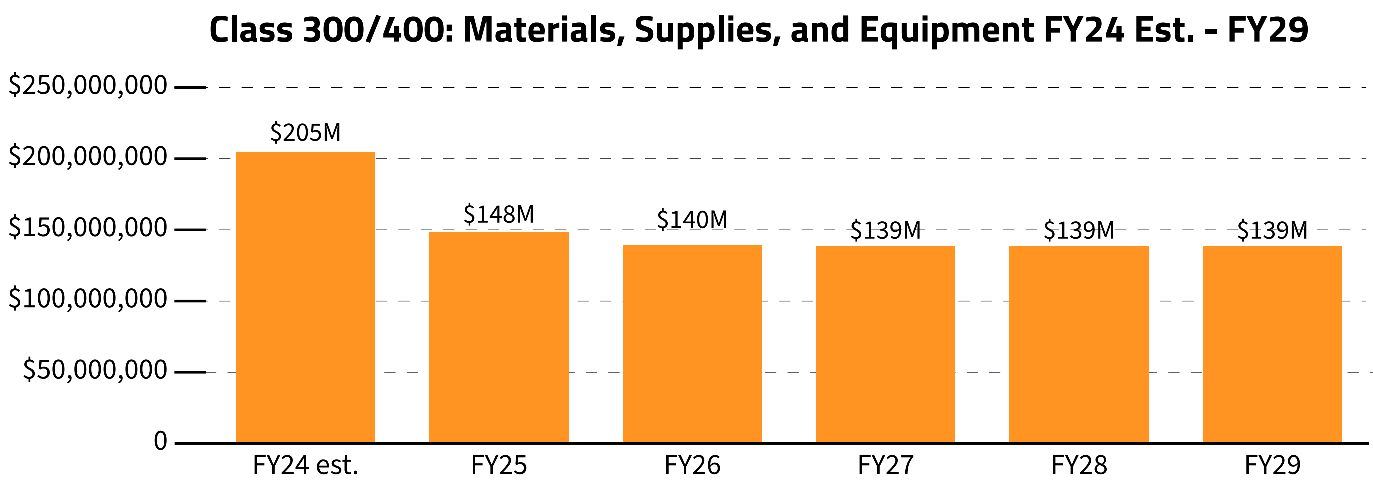
Funding levels for the Department of Human Services are developed in conjunction with a needs-based budget allocation to the Commonwealth, understanding of expected service demand, and matching funds requirements.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for Class 200 costs in the FY25-29 Plan are reasonable and appropriate. A significant portion of the City's Class 200 costs are predictable and somewhat fixed as they are derived from state legislation and allocations (ex. SEPTA, DHS match) or previously approved agreements, like borrowings via PAID and PMA. While the formula driven costs can be affected by changes in state funding outside local control, such changes are typically known in advance and give the City time to make budget adjustments to respond to any shifts.

For the rest of Class 200 costs, working with departments to identify the expected costs of sustaining existing operations and estimating the costs of new or expanded programs provides reasonable estimates for future costs. Clearly identifying expected reductions to Class 200 provides additional assurance that the projected spending levels are reasonable.

Class 300/400: Materials, Supplies, and Equipment



The FY25-29 Plan allocates $704 million to Class 300/400 over the life of the Plan. This part of the budget is for all supplies, materials, and equipment that typically have a useful life of under five years and/or a cost below $15,000.

The Five-Year Plan budgets $148 million in Class 300/400 in FY25, and between $138 million and $140 million annually in FY26-29. This represents a reduction from both FY23, in which $168 million was spent, and FY24, which is projected to have a total of $205 million spent in this category. Class 300/400 expenses were higher in FY24 because the Parker Administration prioritized purchasing new vehicles this fiscal year, primarily for initiatives related to improved sanitation. These are neither one-time purchases nor recurring annual costs. Replacement vehicles will eventually be necessary after current ones reach the end of their usable life; however, likely not before FY29 due to the expected delivery dates being after FY25. Thus, the Class 300/400 reductions in the FY25-29 Plan are primarily reduced costs for vehicle purchases ($34 million).

Class 300/400 costs are expended in every department, some more than others. The Department of Fleet Services has the highest Class 300/400 obligations, with $128 million, or 18.2 percent, budgeted throughout the Plan. This is $29 million in FY25 and approximately $25 million annually in FY26-29. The Department of Fleet Services purchases vehicles for other City departments, with an additional $6 million budgeted for this in FY25 and $15 million in the following years. Vehicle purchases account for 9.6 percent of this class category in the FY25-29 Plan.

The Police and Fire Departments also have higher Class 300/400 costs than other departments. Eighty three million ($83 million), or 11.8 percent, of projected FY25-29 Class 300/400 expenditures are in the Police Department, with $16.5-$16.9 million budgeted annually for supplies and equipment including clothing and uniforms, ballistic vests and helmets, tasers and cartridges, and forensic laboratory supplies. The Fire Department's supplies and equipment account for $77 million, or 10.9 percent, of the FY25-29 Plan's Class 300/400 expenses, with $21 million budgeted in FY25 and $14 million annually for FY26-29. This budget covers clothing and uniforms (including firefighting gear), EMS medical supplies, self-contained breathing apparatus (SCBA) replacements, and more.

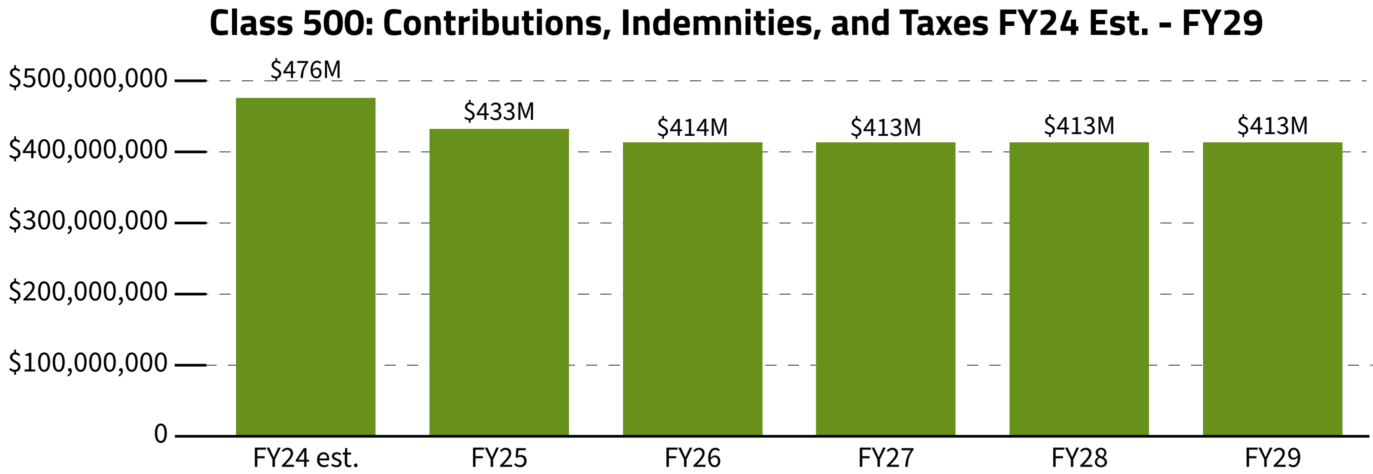
Assumptions and Methods of Estimation

The City develops its Class 300/400 obligation level estimates based on recent experience, departmental processes, conversations with suppliers, responses to procurement bids, and market trends. The Budget Office then works with departments to evaluate short-term and long-term needs and identify areas for cost reductions when applicable.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for Class 300/400 costs in the FY25-29 Plan are reasonable and appropriate. The City's process of working with departments to evaluate Class 300/400 allocations sets expectations and parameters for departments to work within. By tracking trends that influence supplies/materials costs and working with departments to identify both year-over-year and one-time needs, the City incorporates these costs in its estimates. Although inflation is moderating, the City should be careful to consider the potential for cost increases for items needed on a recurring basis and be ready to make adjustments if there are unfavorable price fluctuations for items that cannot be forgone. The planned Class 300/400 reductions are reasonable because they are largely for costs that are not necessary to purchase at the same scale year-over-year.

Class 500: Contributions, Indemnities, and Taxes



The FY25-29 Five-Year Plan includes almost $2.1 billion in Class 500 spending throughout the life of the Plan, with $433 million in expenditures in FY25, $414 million in FY26, and $413 million in the outyears of the Plan. These Class 500 costs are contributions to the Philadelphia School District, Community College of Philadelphia and other non-profits and organizations, indemnities, refunds, scholarships, and payments to prisoners.

Over 95 percent of Class 500 spending is in three categories: the City's contribution to the School District of Philadelphia ($1.42 billion or 68.1 percent), indemnities ($306 million or 14.7 percent), and the City's contribution to the Community College of Philadelphia ($260 million or 12.5 percent). The contribution to the School District of Philadelphia (SDP) is budgeted at $284 million annually, indemnities are budgeted at $61 million annually, and the contribution to the Community College of Philadelphia (CCP) is budgeted at $56 million in FY25 and $51M annually in FY26-29.

The Parker Administration is proposing both increasing the City's annual contribution to SDP from $282M to $284M in FY25 and continuing at that level for each of the following years of the Plan. Rather than annual increases to the SDP contribution, the Plan increases the share of Real Estate Tax revenue allocated to SDP from 55 percent to 56 percent starting in FY25.

The other five percent of planned Class 500 costs are for smaller departmental contributions, awards, scholarships, refunds, and payments to prisoners. These projected costs are higher in FY25 compared to later Plan years due to a $3 million contribution for repairs to Sayre Pool, an additional $5.5 million for the Philadelphia Cultural Fund, $4 million in Planning and Development for building housing, $500,000 in Commerce for 2026 festivities marketing, and a one-time $500,000 increase to the Philadelphia Museum of Art. In FY26-29, these departmental Class 500 obligations are all less than $4.3 million annually and account for about one percent or less of Class 500 spending over the life of the Plan.

Assumptions and Methods of Estimation

The City plans to contribute $56 million in FY25 and a fixed amount of $51 million annually in FY26-29 to the Community College of Philadelphia (CCP). This includes the Octavius Catto Scholarship, which cover all remaining tuition costs after federal, state, and all other aid is applied for eligible students in addition to wraparound supports. In FY24, the City gave an additional $10 million to CCP to prevent a tuition increase and create a Municipal College for City Employment.

The Parker Administration is significantly decreasing funding for contributions to external organizations other than SDP and CCP from an estimated $56 million in FY24 to $29 million in FY25 and $15 million in FY26-29. Instead of allocating Class 500 contributions as has been done in the past, the FY25-29 Plan allocates more Class 200 funds to departments so that they can use a competitive process to distribute funds to external organizations.

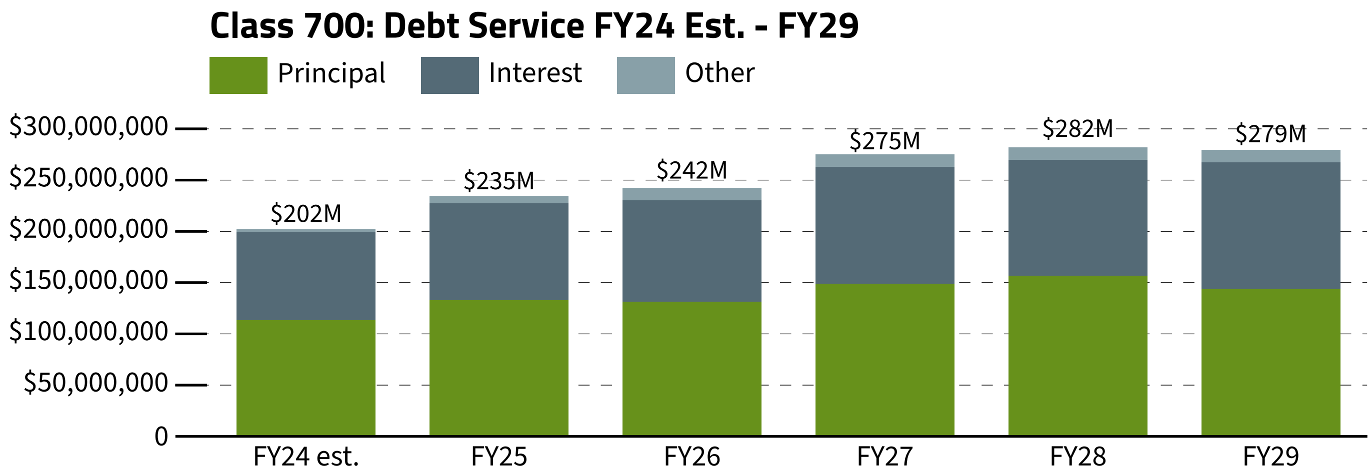
Indemnities are projected based on an analysis of three-year and five-year settlement cost trends, data on open and new cases, risk assessments, and the number of litigators. FY23 and FY24 had significant indemnity increases; in FY22, $48 million was spent on indemnities. In FY23, this jumped to $69 million and an estimated $74 million will be spent on indemnities in FY24. As a result, the City has increased its indemnities cost projection to $61 million annually for FY25-29, a $12 million annual increase compared to the last Five-Year Plan.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for Class 500 costs in the FY25-29 Plan are reasonable and appropriate, particularly because, although viewed as critical to the educational infrastructure of the city, the contributions to the School District and CCP that make up most of the Class 500 spending are discretionary. The Administration has discretion to set the level of funding and while fiscal instability of the School District can undermine the City's finances the level of funding proposed, paired with the increase in Real Estate millage, does not exacerbate that risk.

While the cost of indemnities poses a risk to the Plan, PICA commends the City on increasing the amount budgeted for these rising costs. The updated projections are based on thorough analysis and reflect trends in average costs seen in recent years. Because there can be unexpected changes in indemnities and these costs are court-mandated and cannot be avoided once imposed, adequate reserves to handle unanticipated increases are especially important.

Class 700: Debt Service



The FY25-29 Five-Year Plan allocates $1.3 billion to Class 700 (Debt Service), growing from $234.7M in FY25 to $281.9 million in FY28, before falling to $279.4 million in FY29. Total growth in Class 700 spending over the FY25-29 Plan is $44.7 million, 19.1 percent.

Class 700 allocations service the City's general obligation debt, which are backed by the full faith, credit, and taxing power of the City. More than 95 percent of the Plan's Class 700 allocations are dedicated to debt service on the City's general obligation bonds, with 54.3 percent ($713.2 million) towards principal and 41.3 percent ($543.8 million) towards interest.

A relatively small portion (4.3 percent / $56.0 million) of Class 700 allocations included in the FY25-29 Plan are for expenses other than general obligation principal and interest. These costs include the issuance of Tax and Revenue Anticipation Notes (TRANs), debt service for a 1999 Philadelphia Parking Authority (PPA) bond issuance backed by the City, arbitrage payments, and servicing costs for the City's line of credit. The City issues TRANs when it needs to bridge the gap created by the timing mismatch between General Fund revenue receipts and expenditure needs. The FY25-29 Five-Year Plan assumes use of TRANs in all years of the Plan.

Most (69.9 percent) Class 700 allocations correspond to existing debt service required for previous general obligation borrowing. The FY25-29 Five-Year Plan also includes new debt service related to three planned bond issuances and ongoing short-term borrowing. Payments for FY24, FY26, and FY28 issuances add $355.4 million in debt service over the Plan. Interest payments on Tax Revenue Anticipation Notes (TRANs) will total $40.3 million over the Plan.

Assumptions and Methods of Estimation

Underlying the City's assumptions and methods of estimation for general obligation debt are policies included in the Constitution of the Commonwealth of Pennsylvania and the City's debt management policy. The Constitution limits the City's total outstanding debt to 13.5 percent of a ten-year average of assessed value of taxable real estate within the City. Any debt issuance that would push the City's total outstanding debt beyond three percent of the assessed value of taxable real estate within the City requires voter approval via ballot measure.

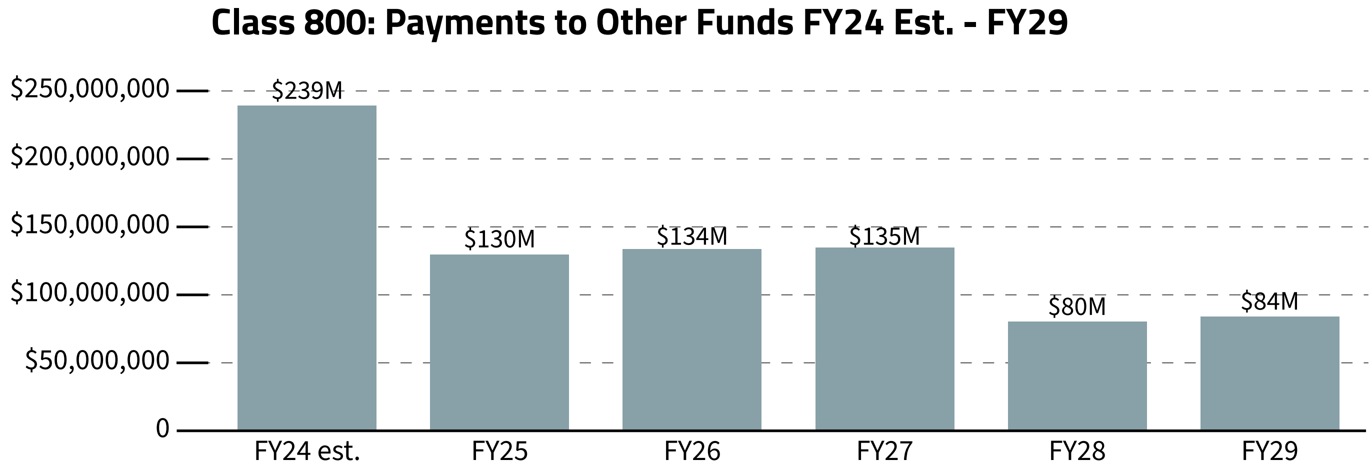
Most of the Class 700 allocations included in the FY25-29 Five-Year Plan are associated with prior bond issuances, which include debt service schedules for principal and interest payments in issuance documentation. Year-to-year increases in Class 700 allocations are driven by the assumed costs of newly issued general obligation debt and conservative assumptions about interest rates in the coming years.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for Class 700 costs in the FY25-29 Plan are reasonable and appropriate. The majority of projected Class 700 spending is tied to previous borrowing with well documented fixed debt service costs. New Class 700 spending included in the FY25-29 Plan is based on conservative assumptions about interest rates that should make new borrowings possible even if market conditions are worse than currently projected. Constitutional limits on borrowing and the City's debt management policy provide additional assurance that Class 700 costs will not put the Plan in jeopardy.

Photo Credit: Kevin Vaughan

Class 800: Payments to Other Funds



The FY25-29 Plan allocates $563 million to Class 800 (Payments to Other Funds). The majority of this, about $335 million (59.5 percent), is made up of the City's payments to the Budget Stabilization Reserve ($176 million) and the Housing Trust Fund ($159 million) based on legislative requirements. The Housing Trust Fund (HTF) payment is 0.5 percent of the General Fund budget, or $31-33 million annually in FY25-29.

The City's contribution to the Budget Stabilization Reserve (BSR) is calculated using the City's projected year-end fund balance as a percentage of revenues based on Q2 estimates (see PICA Fact Sheet: Philadelphia's Rainy Day Fund). The City projects Budget Stabilization Reserve contributions in FY25, FY26, and FY27 of $58 million, $60 million, and $58 million, respectively. Due to low General Fund ending fund balances in FY28 and FY29, the City is not anticipating making contributions to the BSR in those fiscal years.

Class 800 also includes payments by the Department of Public Property to the Aviation, Water, Pension, and Capital Funds totaling $165 million in the proposed FY25-29 Five-Year Plan. These payments are for the City's water costs, leasing space for the Office of Human Resources from the Pension Fund, and capital Pay-As-You-Go (PAYGO) costs. The Fire Department makes annual payments to the Water Fund for servicing fire hydrants, estimated to total $43 million over the life of the Plan. The other departments expected to expend Class 800 funds over the Five-Year Plan are Capital PAYGO expenses in Finance ($12.5 million), Public Health ($4.6 million), Managing Director ($1.8 million), and Sustainability ($875,000).

Assumptions and Methods of Estimation

The City of Philadelphia uses formulas to estimate its contribution to the Budget Stabilization Reserve and the Housing Trust Fund based on the City's Home Rule Charter. These requirements set the floor for what must but contributed to HTF and BSR, but the City can choose to contribute more. The Budget Stabilization Reserve contribution is calculated by assessing the prior fiscal year's fund balance as a percentage of revenues according to the following:

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 (17%)

The City is required to contribute 0.5 percent of General Fund appropriations to the Housing Trust Fund. The $159 million projected for this contribution is based on projected General Fund obligations for FY25 through FY29.

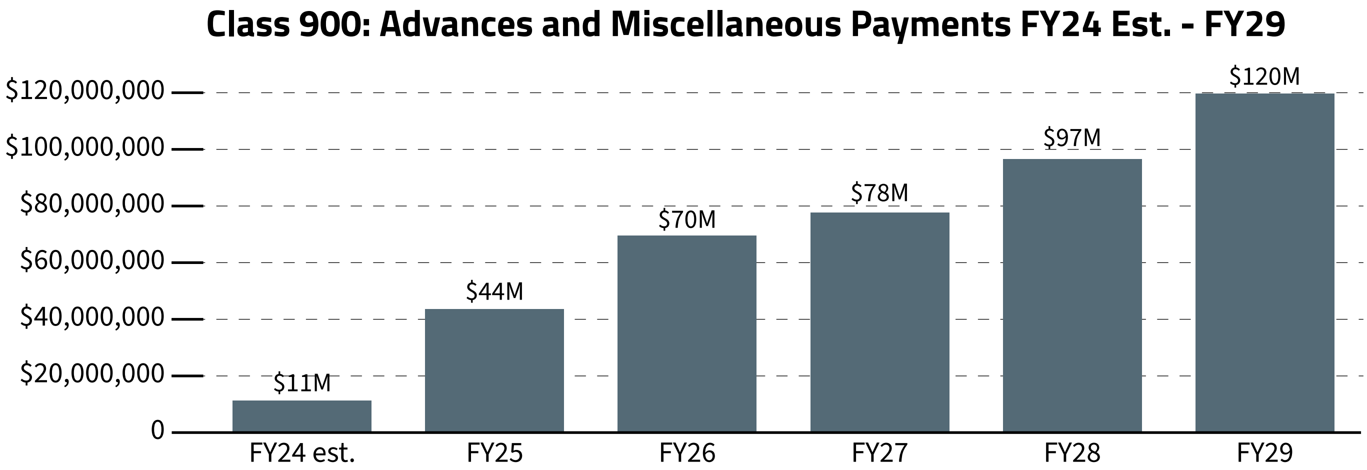
Other types of spending in Class 800 are calculated based on either prior year actual data, like the Department of Public Property and Fire payments, or a fixed annual amount; for example, the Office of the Director of Finance budgets $2.5 million annually for PAYGO capital projects.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for Class 800 costs in the FY25-29 Plan are reasonable and appropriate; particularly given that nearly 60 percent of these expenditures are required per the City Charter and calculated using formulas based on the size of the General Fund's obligations and revenues. Of the $32.2 billion budgeted for FY25 through FY29 in the Five-Year Plan, Class 800 expenses account for 1.7 percent. Costs other than the BSR and HTF contributions account for 0.7 percent of the $32.2 billion in appropriations. Those non-BSR and HTF costs are estimated to grow by $10.6 million, or 5.9 percent average annual growth over this period, from $41 million in FY25 to $51 million in FY29. Nearly all of this growth ($10.1 million or 95.2 percent) is attributable to the Department of Public Property's payments to the Water Fund for the City's water usage. The City works with the Water Department to estimate its water utility costs by using data on its actual consumption trends. From FY14 to FY24, water utility costs increased 28.2 percent at an average annual rate of three percent. The City's projections for FY25-29 show total growth of over 40 percent at an average annual rate of 4.2 percent, which is reasonable based on historical patterns.

Photo Credit: Kevin Vaughan

Class 900: Advances and Miscellaneous Payments



The FY25-29 Plan allocates $407 million to Class 900 (Advances and Miscellaneous Payments). The entire amount proposed in the FY25-29 Plan is designated as a Labor Reserve to fund not-yet-completed labor contracts and other changes to labor costs. These funds are budgeted within the Civil Service Commission's budget. In recent years, including FY24, Class 900 also included reserves available to aid the City in the event of a recession and support recovery and reopening following the COVID-19 pandemic. The impetus for a Labor Reserve is the expiration of contracts for the City's non-uniform workforce at the end of FY24. Uniform employee contracts expire at the end of FY25 . New contracts historically have resulted in increased wages and other costs (ex. higher meal or uniform reimbursement). Non-represented staff have typically received salary increases when non-uniform unionized employees do. The Administration has indicated that this reserve may also be used for non-represented labor cost increases, staff attraction campaigns, and to backfill expiring grants for firefighter salaries in the out years of the Plan.

Assumptions and Methods of Estimation

The City of Philadelphia does not use a specific formula to determine the size of the Labor Reserve but aims to set aside adequate resources to accommodate the terms of new contracts and other changes to labor costs. In addition to wage increases and other costs associated with new contracts, Class 100 may also be impacted by other factors including the size of the workforce, federal withholding costs, and benefit costs.

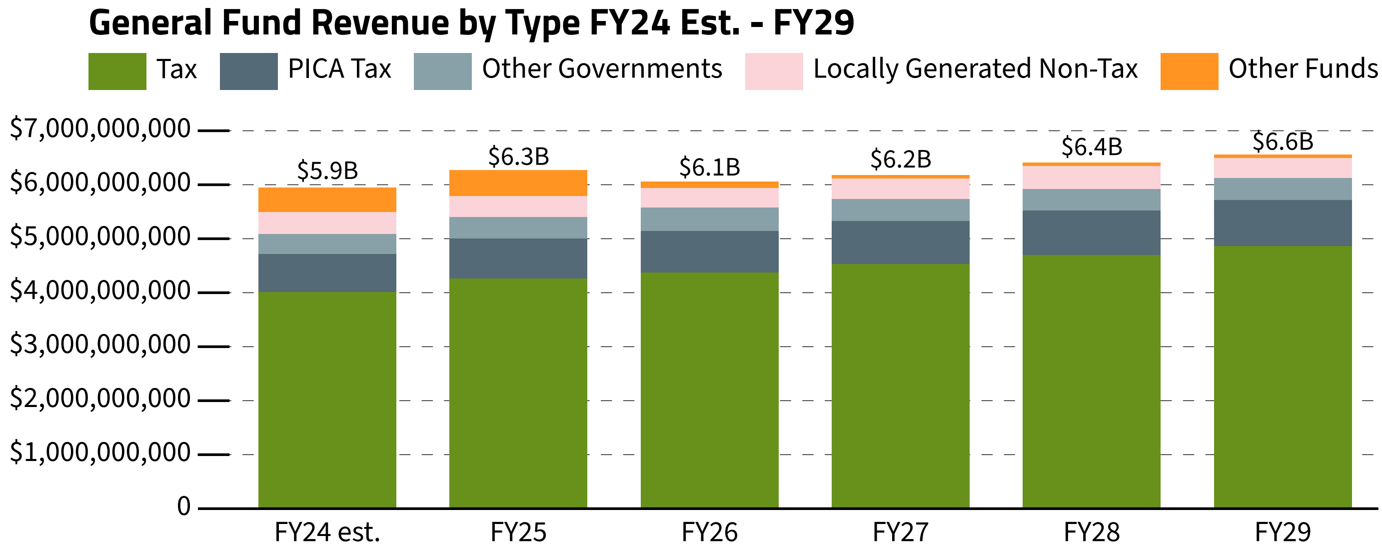
PICA Staff Assessment of Assumptions and Methods of Estimation

PICA commends the Administration for the continued use of a Labor Reserve, initially recommended by PICA, to plan for expected but difficult to quantify future labor costs. The $407 million budgeted between FY25 and FY29 is 3.6 percent of the total amount budgeted for Class 100 wages over the Plan and two percent of all Class 100 costs. Coupled with the other Class 100 increases already incorporated into the Plan, like recently completed one-year contracts with police, firefighters and corrections officers, the Labor Reserve is within a reasonable range compared with the actual average growth in wages of 3.6 percent between FY14 and FY23.

The assumptions and methods of estimation for Class 900 costs in the FY25-29 Plan are reasonable and appropriate; particularly given the requirements in the PICA Act that future police and firefighter arbitration awards consider and accord substantial weight to the approved Plan and the financial ability of the City to pay increased costs for wages and fringe benefits. Additionally, any collective bargaining agreement that the City executes must either be in compliance with the approved Plan or the City shall submit a revised Plan to the PICA Board.

Photo Credit: Kevin Vaughan

Overview of Projected Revenues



The PICA Act requires the City's Five-Year Plan revenue projections to be based on "reasonable and appropriate assumptions and methods of estimation." To project certain tax revenues over the five-year period, the City works with S&P Global Market Intelligence (S&P GMI), an econometrics firm with decades of experience projecting tax revenues for the City and the Commonwealth of Pennsylvania. Projections for other revenue sources are based on various methodologies, including historical patterns. This section provides an overview of General Fund revenues included in the FY25-29 Five-Year Plan, followed by analysis of each revenue type and the reasonableness of projections included in the Plan.

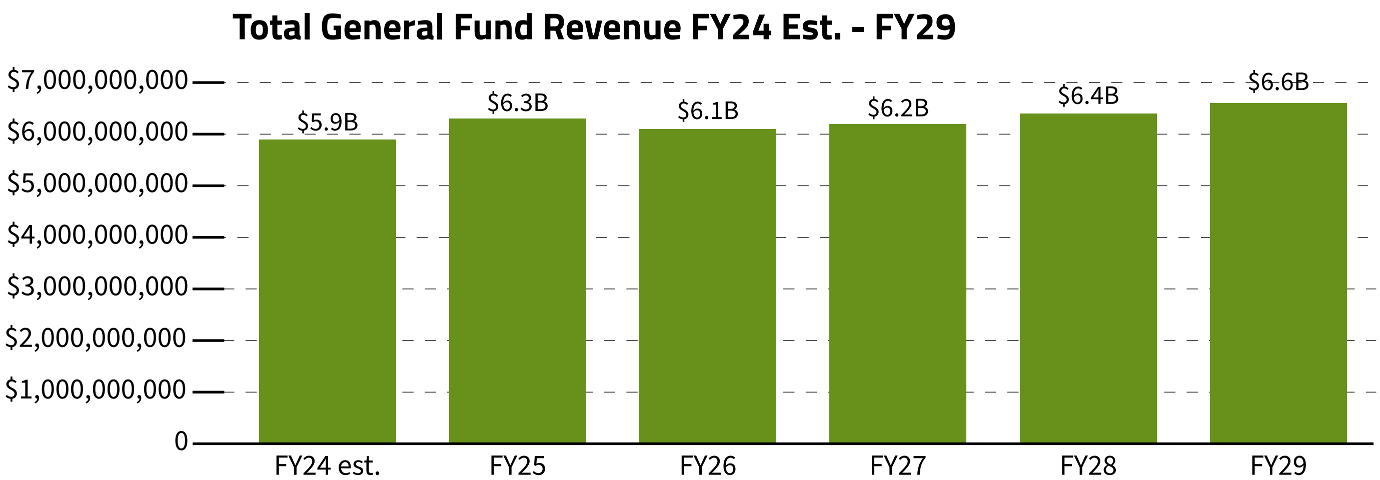
The FY25-29 Five-Year Plan projects cumulative General Fund revenues of $31.5 billion, from four categories of sources:

- Taxes: $22.7 billion / 72.2 percent of total
- Revenue from Other Governments: $6.0 billion / 19.1 percent of total
    - PICA Tax revenues are $4.0 billion of the $6.0 billion total from Other Governments, 12.7 percent of total Plan revenue.
- Locally Generated Non-Tax revenue: $1.9 billion / 6.2 percent of total
- Revenue from Other Funds: $790 million / 2.5 percent of total

The City's projections show revenues growing over the FY25-29 Plan from $6.3 billion in FY25 to $6.6 billion in FY29, an increase of $284.4 million (4.5 percent) with average annual increases of 2.0 percent. Though moderate growth is projected over the Plan, it is not expected to be linear.

Many economists, including PICA's external economic consultant and S&P GMI, anticipate a general economic slowdown in the near term with growth picking back up again in the medium term. This Plan also includes the end of the American Rescue Plan (ARP) funding, which will cause Revenues from Other Funds to drop from $481.2 million in FY25 to $62.3 million in FY29 (see PICA's issue brief, Federal Funds, Fiscal Cliffs and the Philly Fund Balance for more information). The City projects that these two factors will lead to an overall decline (-$213.1 million / 3.4 percent) in General Fund revenue between FY25 and FY26, before growth resumes in FY27.

Tax Revenue



The FY25-29 Five-Year Plan projects $22.7 billion in tax revenue over the Plan, growing by 14.1 percent, from $4.3 billion in FY25 to $4.9 billion by FY29. The majority of projected FY25-29 City tax revenue is generated by the Wage, Earnings, and Net Profit (46.9%), Real Estate (21.3%), Business Income and Receipts (14.2%), Sales (7.7%), and Realty Transfer (7.2%) Taxes.

Assumptions and Methods of Estimation

Revenue projections are dependent on local economic conditions and their effects on the tax base for each tax. Base growth projections for most taxes were initially made by S&P Global Market Intelligence (S&P GMI), the City's external econometrics consultant. Prior to the release of the proposed Plan, the projections were reviewed and discussed by regional economists at a PICA-hosted forum held in February at the Federal Reserve Bank of Philadelphia. At that time, the S&P GMI projections were generally accepted or seen as too conservative by the experts in attendance.

Since that event, S&P GMI's assumptions are unchanged, except for the Wage and Earnings growth rate, which was increased by a quarter of a percent on average in each year of the Plan. Except for the Real Estate Tax, which is projected by City staff rather than S&P GMI, the City's revenue growth rate projections have not changed from the proposed FY25-29 Plan released in March. Revenue collection estimates have been revised based on updated projections for FY24 collections. The table on the following page presents base growth rate assumptions from S&P GMI and the City's internal model for the Real Estate Tax, alongside the City's revenue collection projections, with highlighted sections reflecting areas of difference between the two.

Revenue forecasting is subject to the level of economic growth. Growth rates included in the Plan reflect projected tax rates, tax bases, deductions, abatements, tax credits, and other relief measures, collection of delinquent taxes, and other factors influencing revenue collections. These factors are most significant in the case of the Real Estate, Net Profits, BIRT, and Sales Taxes.

Projected Tax Base and Revenue Growth Rates by Tax FY24 Est. - FY29							
Tax		FY24 Est.	FY25	FY26	FY27	FY28	FY29
Wages & Earnings	Base	6.88%	4.69%	3.96%	3.71%	3.77%	3.80%
	Revenue	6.88%	4.69%	3.96%	3.71%	3.77%	3.80%
Real Estate	Base	0.00%	16.87%	1.00%	3.00%	3.00%	3.00%
	Revenue	0.00%	11.21%	3.00%	3.00%	3.00%	3.00%
BIRT	Base	-5.22%	1.48%	0.73%	3.62%	3.50%	3.38%
	Revenue	-7.62%	1.48%	0.73%	3.62%	3.50%	3.38%
RTT	Base	-26.42%	12.50%	3.17%	3.08%	2.99%	2.90%
	Revenue	-28.24%	12.50%	3.17%	3.08%	2.99%	2.90%
Sales	Base	2.39%	3.92%	4.04%	3.71%	3.71%	3.58%
	Revenue	-0.41%	3.92%	4.04%	3.71%	3.71%	3.58%
Net Profits	Base	3.43%	3.63%	3.45%	2.82%	2.60%	2.64%
	Revenue	3.43%	3.63%	3.45%	2.82%	2.60%	2.64%
Amusement	Base	6.02%	8.87%	2.50%	2.19%	2.21%	2.11%
	Revenue	6.02%	8.87%	2.50%	2.19%	2.21%	2.11%
Beverage	Base	-1.50%	1.18%	-1.00%	-0.54%	-0.43%	-0.75%
	Revenue	-4.22%	1.18%	-1.00%	-0.54%	-0.43%	-0.75%

Note: Shaded cells indicate divergence between tax base and tax revenue growth assumptions

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for taxes in the FY25-29 Plan are reasonable and appropriate. The City's methods are consistent with prior years, and as discussed in PICA's 2024 report on the City of Philadelphia's Revenue Prediction Precision, past estimates have been close to actual collections, with Philadelphia performing better than average compared to peer cities.

As part of the Plan review process, PICA engages its own economic consultant, Professor Charles Swanson, to evaluate the reasonableness of the City's revenue projections. PICA's consultant evaluated major taxes (Wage and Earnings, BIRT, Real Estate, Sales, Amusement, Realty Transfer, and Beverage) and developed forecasts for those tax revenues, which are 98.8 percent of all General Fund tax revenues, from FY25 through FY29. PICA's consultant considered national economic trends and federal policies and their local impacts, as well as projections by large forecasting organizations, like the Congressional Budget Office (CBO) and International Monetary Fund. Professor Swanson notes that the likelihood of a near-term recession seems low to moderate; however, the chance of a downward house price correction is moderate to high. A key concern in the coming years is the national debt. As a result, we can expect interest rates to remain high for longer than they would be otherwise, there is limited capacity for federal spending on emergencies or social purposes, and a tax increase is more likely.

Based on this analysis, PICA's consultant developed tax projections that are substantially similar to the City's, with the City's projections being 0.4 percent ($95 million) higher than Professor Swanson's over the life of the Plan. Professor Swanson is more optimistic than the City on the outyears of the Wage and Earnings Tax, the City's largest revenue stream and the Realty Transfer Tax. He is less optimistic about the notoriously hard-to-predict BIRT and the Real Estate Tax.

FY25-29 Revenues ($ in Thousands)

Tax	City	Prof. Swanson	City as % of Professor Swanson
Wage & Earnings	$10,418,944	$10,428,701	99.9%
Real Estate	$4,838,016	$4,789,217	101.0%
BIRT	$3,236,518	$3,149,568	102.8%
Sales	$1,758,373	$1,742,857	100.9%
Realty Transfer	$1,626,002	$1,677,166	96.9%
Beverage	$350,747	$346,469	101.2%
Amusement	$218,449	$217,910	100.2%
Total	**$22,447,049**	**$22,351,888**	**100.4%**

Wage, Earnings, and Net Profits (WENP) Taxes

- **FY24 Estimate:** $1.84B in Wage & Earnings; $43.8M in Net Profits
- **FY25 Projection:** $1.93B (4.7% Increase) in Wage & Earnings; $45.2M in Net Profits (3.2% Increase)
- **Percent of FY25-29 General Fund Revenues:** 33.9%
- **Average Growth Rate FY25-29:** 4.0% for Wage & Earnings; 2.7% for Net Profits

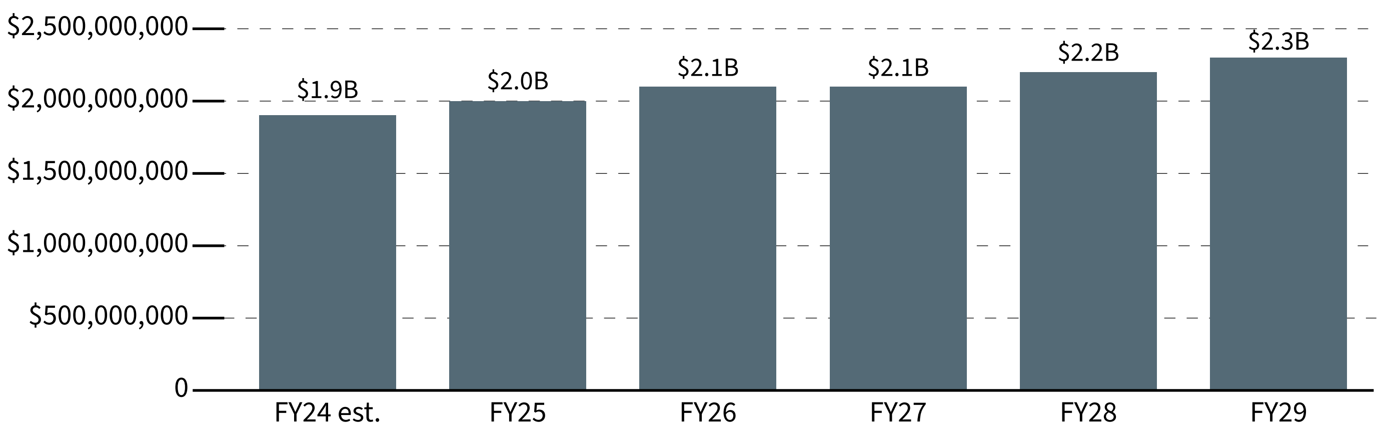
The City develops Wage Tax projections using S&P GMI forecasts for both the national and local economies. These estimates are then adjusted to align with historical trends in the relationship between the national economy and actual Philadelphia Wage Tax collections. Additionally, the City accounts for any changes in tax rates or structure before finalizing these projections.

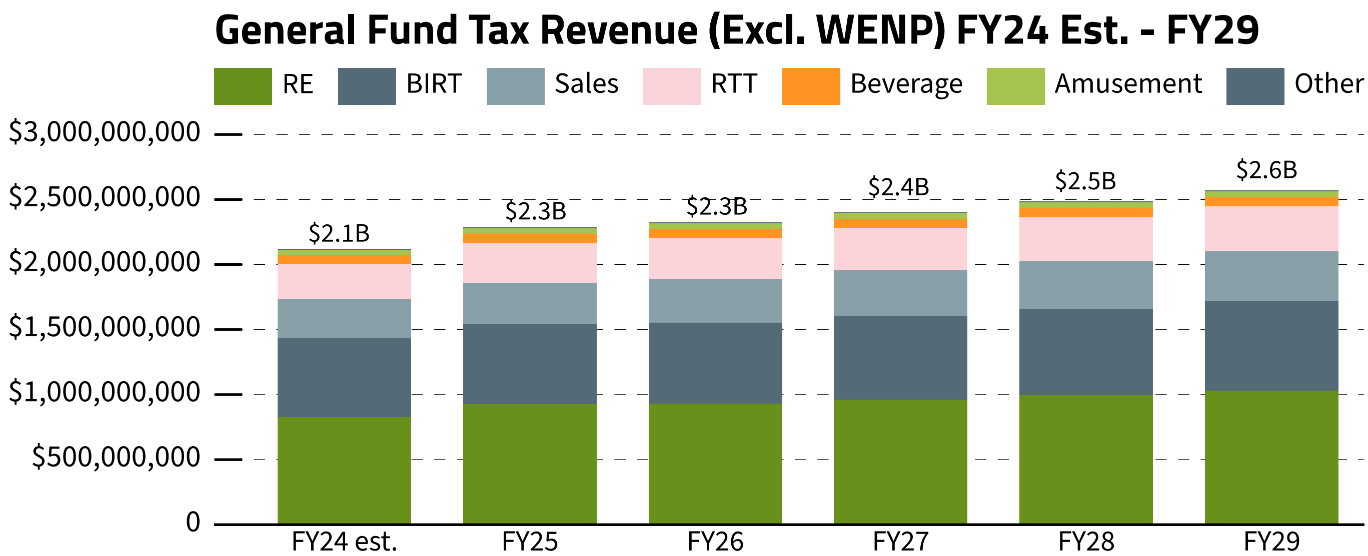
Estimates show a total of $1.89 billion collected in Wage, Earnings, and Net Profits Taxes in FY24. In FY25, the City projects these tax revenues to increase by 4.6 percent to $1.98 billion.

Over the Plan period, Wage, Earnings, and Net Profits revenues are expected to increase steadily at an average rate of 3.9 percent to reach almost $2.3 billion in FY29. This growth is driven primarily by a strong labor market, wage growth, and low unemployment anticipated throughout the Plan period.

PICA's economic consultant anticipates about $10 million more from the Wage and Earnings Tax over the life of the Plan than the City, a difference of 0.1 percent. Professor Swanson expects slightly lower collections than the City in FY25 due to recent labor market softening, but higher growth in later years, in line with CBO projections.

Wage, Earnings, and Net Profit Tax Revenue FY24 Est. - FY29





Real Estate Tax

- **FY24 Estimate:** $825.7M
- **FY25 Projection:** $925M (12.0% Increase)
- **Percent of FY25-29 General Fund Revenues:** 15.4%
- **Average Growth Rate FY25-29:** 4.5%

The City produces Real Estate Tax projections internally, as Real Estate Tax revenues are based on assessments of property value conducted by the Office of Property Assessment. This process starts with the City's mass appraisal of property values and incorporates assumptions about the growth rate of taxable assessed value, including residential and commercial properties. Other factors influencing the projections include new construction, rehabilitated properties returning from abatement, homestead exemptions, Longtime Owner Occupant Program (LOOP) discounts, Tax Increment Financing (TIF) districts, the Senior Citizen Tax Freeze program, and other programs like the new Low-Income Tax Freeze. Additionally, delinquent collections from enforcement initiatives are reflected, as well as assumptions about current-year collection rates. When properties return from abatement in both residential and commercial categories, the previously abated assessed value becomes taxable, thereby increasing the taxable assessed value base for the Real Estate Tax.

Two new amendments to the Philadelphia Code significantly impact the FY25-29 Plan projections. Bill No. 240180 amended Chapter 19-1300 to reduce the City's share of the Real Estate Tax from 45 percent to 44 percent and amended Chapter 19-1800 to increase the School District's share from 55 percent to 56 percent starting in FY25. The total impact of this millage shift is estimated to be $89.6 million over the life of the Plan. Consequently, the City's projected revenue is lower than it would have been without the change. Bill No. 240492 amended Section 19-1301.1 of the Philadelphia Code to raise the Homestead Exemption from $80,000 to $100,000, providing additional tax relief to homeowners enrolled in the program by taxing only the portion of their assessed home value that exceeds $100,000. It is estimated that this amendment to the Code has a fiscal impact of a $23.4 million Real Estate revenue reduction over the life of Plan.

Projected at $925 million for FY25, this tax is expected to grow by 12 percent over FY24, even after adjusting for the millage shift, new/expanded relief programs, and appeal losses. The City anticipates FY26 collections to be nearly flat compared to FY25. For the later years of the plan, the City assumes annual growth between 3.2 percent and 3.5 percent.

PICA's economic consultant's projections for the Real Estate Tax are one percent ($49 million) lower than the City's over the life of the Plan. The variance is based on slightly lower expectations for the office building market and that appeals will be slightly more successful for those properties than the City's projections anticipate.

Business Income and Receipts Tax (BIRT)

- **FY24 Estimate:** $606.7M
- **FY25 Projection:** $616.7M (1.6% Increase)
- **Percent of FY25-29 General Fund Revenues:** 10.3%
- **Average Growth Rate FY25-29:** 2.6%

The Business Income and Receipts Tax (BIRT) is challenging to project for several reasons. Firstly, many firms subject to the tax receive rebates after filing if their actual tax bill differs from the initial filing, preventing the City from determining the total rebate amount until the fiscal year ends. Secondly, projections are complicated by the need to anticipate corporate earnings, which form the tax base and are more volatile than wage earnings. Additionally, estimating the amount of net operating loss businesses will apply to a given year's tax liability is difficult. BIRT revenue is also influenced by business activities outside the City conducted by companies with some operations in Philadelphia. Consequently, national business activity interacts with local activity and the local tax structure, creating a complex revenue stream.

In FY24, BIRT revenue is estimated to total $606.7 million. In FY25, the City, relying on a S&P GMI growth rate, projects BIRT will increase by 1.6 percent to reach $616.7 million. After slower growth rates in FY25 (1.6 percent) and FY26 (0.7 percent), BIRT revenues are expected to grow more rapidly by an average of 3.5 percent, over $22 million annually, in the outyears of the Plan. It is expected that BIRT collections will grow to $688.7 million in FY29, which, despite this growth, is lower than the FY22 high of about $750 million.

PICA's economic consultant's projections for BIRT revenue are $87 million (2.7 percent) lower than the City's for FY25 through FY29, with the most variance, 3.4 percent, in the first year of the Plan. Professor Swanson expects, like the City, that the net income tax base will return to a level that is above the historical trend, but will be below recent peaks.

Realty Transfer Tax (RTT)

- **FY24 Estimate:** $271.8M
- **FY25 Projection:** $305.8M (12.5% Increase)
- **Percent of FY25-29 General Fund Revenues:** 5.2%
- **Average Growth Rate FY25-29:** 4.9%

This revenue stream, with growth rates projected by S&P GMI, has historically been volatile and difficult to project, as it depends on the real estate market, both residential and commercial, and the status of the overall economy, interest rates, and other factors.

Estimated at $271.8 million in FY24, this tax is expected to grow 12.5 percent to $305.8 million after a significant decline in FY24. The RTT is expected to exhibit continued growth over the Plan, but at a lower level, ranging from 2.9 percent to 3.2 percent. FY29 collections are estimated to reach a Plan-high of $344.6 million, which is below the recent high of $537 million in FY22.

PICA's consultant's estimates for RTT revenue are 3.1 percent ($51 million) higher than the City's projections over the life of the Plan, with the greatest difference, 4.5 percent, in FY29. Professor Swanson cites a backlog of desired moves, currently stymied by high interest rates, as driving the difference.

Sales

- **FY24 Estimate:** $300.5M
- **FY25 Projection:** $316.9M (5.5% Increase)
- **Percent of FY25-29 General Fund Revenues:** 5.6%
- **Average Growth Rate FY25-29:** 5.2%

Sales Tax estimates are developed by S&P GMI using consumer activity trends and the impact of inflation on consumers.

Estimated at $300.5 million in FY24, this tax is expected to grow by 5.5 percent to reach $316.9 million in FY25. The City expects strong Sales Tax revenue growth throughout the Plan; at 5.2 percent, the average growth rate for Sales Tax over the five-year period is expected to outperform all other tax categories. Growth of 5.5 and 5.6 percent is expected in FY25 and FY26, respectively, before slowing down in FY27 to a growth rate of 5.0 percent. By FY29, the growth rate is projected to decrease to 4.7 percent. Overall, Sales Tax revenue is projected to increase by about $70 million over the Plan to $386.4 million in FY29.

PICA's consultant estimates slightly lower Sales Tax growth rates than the City's, based largely on continued negative consumer sentiment in FY25. The difference over the life of the Plan is 0.9 percent ($15.5 million).

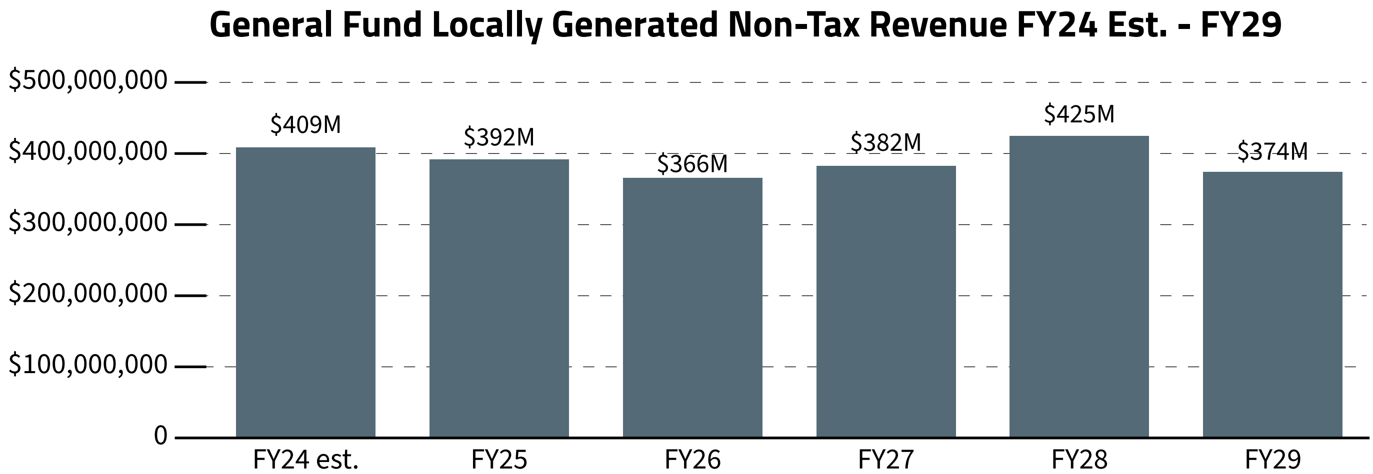
Other

- **FY24 Estimate:** $116.0M
- **FY25 Projection:** $120.3M (3.8% Increase)
- **Percent of FY25-29 General Fund Revenues:** 1.9%
- **Average Growth Rate FY25-29:** 1.1%

The taxes included in this category are the Philadelphia Beverage Tax (PBT), Amusement, Tobacco, Construction Impact, and others. The PBT and Amusement Taxes are the majority of this category (94 percent) and growth rates are projected by S&P GMI, while the much smaller taxes are estimated internally. Projections for FY25 show a small increase (2.3 percent) in Other Tax revenue from $116 million in FY24 to $120.3 million in FY25. The City projects this category to grow at a minimal rate, 0.5 percent or less, throughout the Five-Year Plan period. The modest growth rates reflect a decline in the largest of this group, the Philadelphia Beverage Tax, which is expected to decline due to changes in consumption patterns for sweetened drinks. The City projects revenues in this category will increase by less than $1 million annually, totaling $122.4 million in FY29.

PICA's economic consultant's projections for the Beverage and Amusement Taxes are slightly lower than the City's over the FY25-29 period. Professor Swanson projects Beverage Tax collections to be 1.2 percent ($4 million) lower between FY25 and FY29, based on expectations that consumption declines will continue. The projection for the Amusement Tax is virtually the same as the City's over the Plan, within a half a million dollars (0.2 percent).

Locally Generated Non-Tax Revenues



Locally generated non-tax (LGNT) revenue is projected to generate $1.9 billion over the life of the Plan, with $391.8 million collected in FY25, a $16.8 million decrease from the FY24 estimate. The FY25-29 Five-Year Plan projects LGNT revenue to decrease through FY26 and then increase in FY27 and FY28 (due to planned City asset sales and increases in payments for patient care), before dropping in FY29. The FY25 decrease can be mostly attributed to lower interest earnings, which are expected to drop from $77.1 million in FY24 to $58.3 million in FY25, $27.6 million in FY26, and $7.6 million annually in FY27-29 as the City spends down its fund balance and has less cash to earn interest on, as well as reduced assumptions for interest rates in the future.

Over the FY25-29 Plan, significant revenue increases are anticipated in Public Health, Public Property, Licenses and Inspections, and the Sheriff's Office. Payments for patient care in Public Health are expected to increase from $37.9 million in FY26 to $58.0-$59.6 million in FY27-29 as new health centers open. From FY24-26, sales and leases of City assets are estimated to generate $50,000. In FY27, the sale of 500 S. Broad is projected to generate an additional $13 million. In FY28, the City projects a total of $55.1 million in revenue from the sale of the Medical Examiner's Building ($27 million) and the Police Roundhouse ($28 million). LGNT revenue from the Department of Licenses and Inspections is also expected to increase throughout the Five-Year Plan, growing from an estimated $80.9 million generated in FY24 to $95.1 million in FY29 due to more revenues from building and health and sanitation permits as fees are adjusted for inflation every two years. In early FY25, Sheriff sales of tax-foreclosed properties are expected to resume for the first time since March 2020, supporting collections of $14.3 million in FY25, then stabilizing at $12.6 million annually in FY26-29.

Assumptions and Methods of Estimation

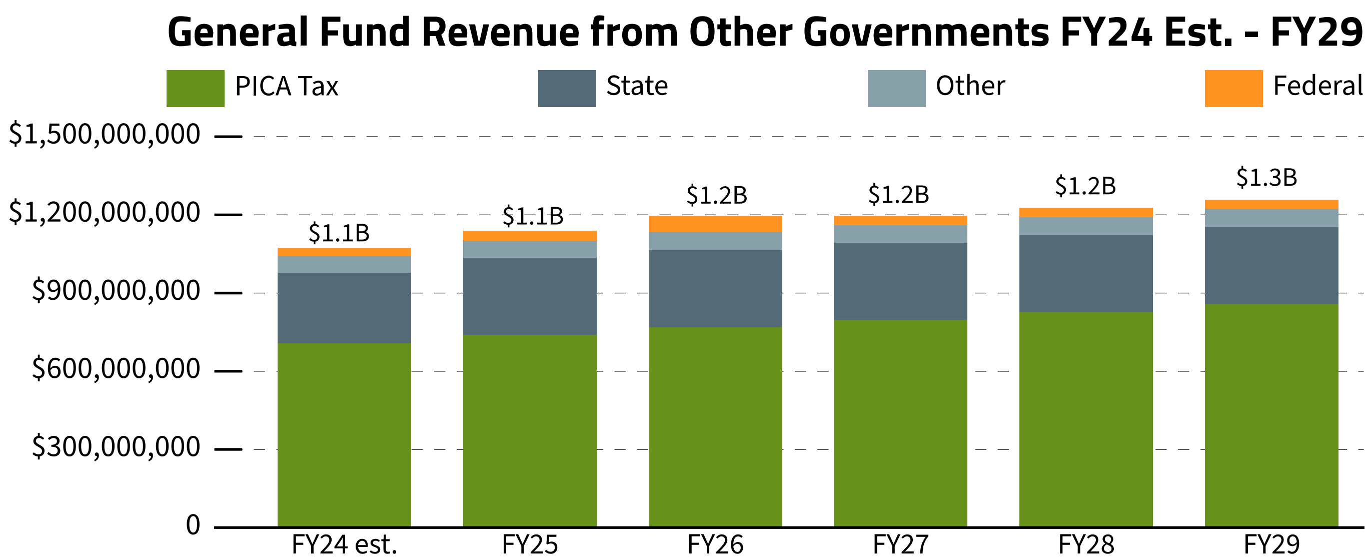
The City formulates its LGNT revenue projections based on trends in historical data, planned changes in fee and fine administration, and anticipated asset sales. It also examines zoning data and real estate market activity to anticipate the volume of license and permit activity for departments like Planning and Development.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for Locally Generated Non-Tax sources in the FY25-29 Plan are reasonable and appropriate. Despite increases in specific departments, the City projects an overall decline of 4.5 percent from FY25-29, at an average of 1.4 percent decline annually. Looking at historical trends, LGNT revenue grew at an average of 3.2 percent annually from FY14 to FY24. Therefore, the City's estimates are within a reasonable range and the risk of lower LGNT is somewhat mitigated through conservative budgeting. However, any delays or changes in sale price for asset sales will significantly impact the Plan's LGNT revenues, underscoring the need for adequate reserves in case revenues generate less than expected.

Photo Credit: Kevin Vaughan

Revenue from Other Governments



The City projects a total of $6.0 billion in revenue from other governments (ROG) over the FY25-29 Five-Year Plan, representing 19.1 percent of all General Fund revenues. ROG is projected to grow 10.6 percent over the life of the Plan, from $1.1 billion in FY25 to $1.3 billion in FY29. Most of the $120.5 million increase in annual revenue from other governments projected through the Plan is attributable to growth in the PICA Tax, with expectations for state and federal funds to be flat, excepting a one-time increase in federal emergency management funds in FY26.

The City groups revenue from other governments into three main categories: federal, state, and other. The $207.3 million over the Plan in federal revenue in this category is primarily (83.4 percent) for reimbursement of public health medical expenses.

American Rescue Plan funds for COVID relief are not reflected in ROG. Those funds were placed into the Grants Revenue Fund upon receipt and are transferred into the General Fund when needed, with the revenue categorized as revenues from other funds.

Medical expense reimbursements also make up a substantial portion (11.5 percent) of the $1.5 billion in State revenue included in the Plan. The largest portion (44.1 percent) of state revenue is $653.2 million in Wage Tax relief funding, with $468.7 million in pension aid a relatively close second (31.7 percent). Additional sources of state revenue include the local share of Commonwealth gaming revenues, court and probation related reimbursements, police training reimbursement, and utility tax refunds.

Aside from state and federal funds, there is $4.3 billion from other governments included in the Plan. This is primarily (92 percent) from $3.98 billion of PICA Tax revenue. Any revenues in excess of debt service requirements and PICA's operating budget are sent to the City's General Fund. With no PICA bonds outstanding in the FY25-29 Plan, nearly all PICA Tax revenue will pass through to the City. Philadelphia Parking Authority (PPA) revenue from violations and fines ($244 million) and rental payments ($90 million) from Philadelphia Gas Works (PGW) are the remaining two significant sources of revenue from other governments.

Assumptions and Methods of Estimation

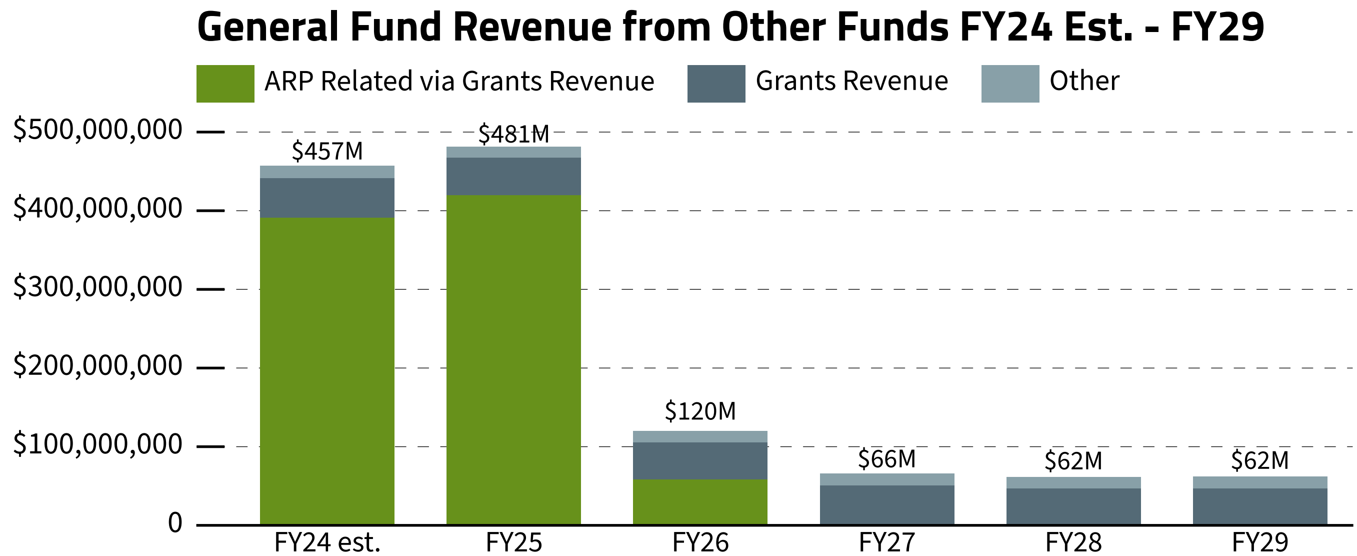
The PICA Act provides standards for estimation of federal and state revenue. Each set of estimates should be based on historical patterns, currently available levels, or a proposed budget from the President, Congress, and/or the Governor. PICA Tax revenue estimates are provided by the City's economists, because the PICA Tax is subject to the same dynamics as the City's Wage Tax. Wage Tax relief amounts, which will increase in FY25, have been provided by the Commonwealth. Estimates for pension aid match the FY24 estimate for each year in the Plan. Philadelphia Parking Authority revenues are projected based on moderate growth estimates for PPA revenues and the revenue sharing threshold between PPA and the City. The PGW rental amount is based on the terms of a legal agreement for PGW's use of City-owned assets.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for Revenue from Other Governments in the FY25-29 Plan are reasonable and appropriate. Projections for revenue from federal and state governments included in the FY25-29 Plan are based on conservative assumptions of flat revenue, except for FY26 federal funds, which are tied to reimbursement for COVID-related expenses. This is less than recent years, which had significant growth in federal funds; however, much of that was driven by CARES Act funding in FY20. There has also been modest growth in state funds, with 0.8 percent average annual growth over the past ten years and 4.7 percent average annual growth when looking only at FY20 through the FY24 estimate. The PICA Tax projections for Revenue from Other Governments are in line with estimates for the City's Wage Tax produced by the City's economists and confirmed by PICA's external economic consultant.

Photo Credit: Adobe Stock

Revenue from Other Funds



Note: "ARP Related via Grants Revenue" funds include associated interest earnings in FY26.

Revenue from Other Funds is expected to account for just 2.5 percent of all revenues over the life of the Plan, with most of that in FY25 when the last of the American Rescue Plan funds, $419.5 million, is moved into the General Fund from the Grants Fund. In FY26, the General Fund will take in the remaining interest earnings from those funds, $58 million. Together, those represent 60 percent of the Revenues from Other Funds. The next largest component is 911 surcharges of $231 million over the Plan, generally around $46 million per year. These funds must be spent on technology to maintain and enhance the 911 system. The last ten percent of the Revenues from Other Funds is for payments from the Water and Aviation Funds for services provided by the General Fund and interest earnings of the Water Fund's Sinking Fund.

Assumptions and Methods of Estimation

To determine the amount of Revenues from Other Funds, typically the City evaluates the cost of services provided by the General Fund to other funds in prior years and adjusts for known changes in scope or costs. Most of the funds in this category are derived from the American Rescue Plan relief received in FY21 and are calculated based on the amount not yet spent. The City of Philadelphia opted to utilize the funds as revenue replacement because it had losses that exceeded the allocation, which maximized the ways the dollars could be used and ensured none would need to be returned to the federal government because they were not spent in time.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for Revenue from Other Funds in the FY25-29 Plan are reasonable and appropriate. The dollars remaining from the American Rescue Plan to be transferred into the General Fund are easily calculated and the interest earnings reflect current rates and known cash balances. For the remainder of the funds, allocations in line with past revenue is a reasonable approach.

3.3 Additional Analysis

Fund Balance

The Government Finance Officers Association (GFOA) recommends governments have two months' worth (16.7 percent) of either spending or revenues as unrestricted fund balance to mitigate current and future risks and ensure stable tax rates for residents. For Philadelphia, this would be over $1 billion in every year of the FY25-29 Plan. The City of Philadelphia sets its own, lower target of at least six to eight percent of revenues as unrestricted fund balance because the level of service reductions or revenue increases required to achieve the GFOA target in the near term would have devastating impacts on Philadelphians and would likely weaken the tax base.

The FY25-29 Five-Year Plan projects a fund balance of $568.5 million in FY25, which will drop down to $65.8 million in FY29. This is 9.1 percent of revenues in FY25, decreasing to 1.0 percent of revenues in FY29. The City's unrestricted fund balance does not meet the GFOA recommendation of 16.7 percent of revenues in any year of the Plan and only meets its own target (at least 6-8 percent of revenues) in FY25. The below table summarizes the City's FY25-29 fund balance projections in comparison to its target and the GFOA's recommendation.

Assumptions and Methods of Estimation

The City's fund balance is calculated based on its projections for prior year fund balance, revenues, obligations, and adjustments to prior years.

PICA Staff Assessment of Assumptions and Methods of Estimation

The assumptions and methods of estimation for the General Fund Balances in the FY25-29 Plan are reasonable and appropriate. Though the City's fund balance projections fall short of the GFOA-recommended level in all years of the Plan and do not reach the City's internal targets in FY26-FY29, the PICA Act only requires a positive fund balance for Board approval. Because the City's projected fund balance is positive in every year of the FY25-29 Plan and is the result of reasonable spending and revenue assumptions, it meets the criteria for PICA approval, though the City will need to be cautious about its operating deficits and dwindling fund balance throughout the Plan.

Fiscal Year	Projected Fund Balance (% of Revenues)	City's Minimum Goal (6% of Revenues)	GFOA Recommendation (16.7% of Revenues)
FY24 Est.	$628M (10.6% of revenues)	$357M	$993M
FY25	$568M (9.1% of revenues)	$376M	$1,047M
FY26	$330M (5.4% of revenues)	$363M	$1,012M
FY27	$108M (1.8% of revenues)	$371M	$1,031M
FY28	$78M (1.2% of revenues)	$384M	$1,070M
FY29	$66M (1.0% of revenues)	$393M	$1,095M

Performance

The City introduced program-based budgeting in FY18. This budgeting practice helps evaluate whether the City is delivering on what services it promises and whether taxpayers' investments are paying off. It increases transparency, accountability, and data-driven decision making by providing a clear picture of the programs delivered by each department, how much is spent on each program, the services a program delivers to residents, and how well each program is performing.

The City includes performance measures for all departments, though some new and restructured departments will work throughout the year to develop relevant, measurable performance metrics. The City reports on performance measures for select departments in the Quarterly City Managers Report (QCMR). Departments are separated into categories that represent key areas of City service delivery. These are presented in the table below.

Although PICA Staff do not assess the reasonableness of the methodology for the City's performance targets, it presents this information as context for the City's spending and revenue projections. To view performance measures for all departments, refer to the City's Proposed FY25-29 Five-Year Plan. For the City's most recent performance delivery report, refer to the FY24 Third Quarter QCMR. Information presented below is through March 31, 2024 and may include some lagging data measures from earlier periods. Year-end performance data for FY24 will be available in August 2024.

Public Safety	Health & Human Services	Children & Family Services	Planning & Economic Development	Transportation & Infrastructure	Operational Support
Police	Behavioral Health	Free Library	Aviation	Streets	Fleet
Fire	Public Health	Parks & Recreation	Planning & Development	Water	Public Property
Prisons	Homeless Services	Human Services		Sustainability	311 Call Center
Licenses & Inspections					CLIP

Public Safety

What Happened in FY24:

- The Police Department saw reductions in the number of homicides and shooting victims since FY23 while improving clearance rates (the proportion of crimes solved) for homicides and non-fatal shootings, which more than doubled since 2022.
- The Fire Department's work contributed to reductions in fire-related deaths and the number of structure fires.
- Preliminary data show that the Department of Prisons succeeded in processing and housing all admitted inmates within 24 hours, and about 75 percent of the inmate population participated in educational or professional training programs.
- The Department of Licenses and Inspections estimates it met performance standards for issuing permits in a timely manner and implemented an annual school inspection program to regularly inspect 350 public and charter schools.

Changes for FY25:

- Going forward, the Police Department is working to continue reducing the number of shooting victims through FY25. The Department is also internally focused on reducing the number of civilian complaints against officers, reducing the number of police-involved shootings, and creating a more diverse and representative Police force as challenges in recruitment and retention impacted the Department's ability to reach its recruitment performance targets in FY24.
- Data issues continue to impact the Fire Department's ability to properly measure its response time performance. The Department plans to improve its data collection in FY25.
- The reincarceration rate continues to be an issue, with 31.5 percent of people reincarcerated after one year and 59 percent after five years. The Department of Prisons has set targets to safely reduce the prison population in FY25 and improve health outcomes for the prison population by onboarding more medical staff.
- The Department of Licenses and Inspections plans to decrease the number of unsafe properties, the number of and timeline for demolitions, and increase its building inspectors to improve performance in FY25.

Health & Human Services

What Happened in FY24:

- The Department of Behavioral Health exceeded performance measures on patient discharge follow-up within 30 days.
- Public Health reported that a higher percentage of children in Philadelphia received essential vaccines on time, a bounce back from lower rates during COVID, and more Philadelphians received STI testing.
- Compared to FY23, the Office of Homeless Services (OHS) reached fewer households in need of services and rapid rehousing. Homeless Services had trouble getting households into permanent housing solutions due to a lack of affordable housing and inflation. Post-COVID, less federal funding was available for Homeless Assistance Programs, impacting the number of households OHS served. The Department successfully shortened the length of time it takes to conform vendor contracts.

Changes for FY25:

- In Behavioral Health, the Department will be developing long-term care community-based residential facilities for individuals with complex needs. The Department has not changed its target of 11.75 percent of patients being readmitted within 30 days of discharge from a psychiatric facility (Substance Abuse and non-Substance Abuse adults).
- Public Health is serving more uninsured residents since the "unwinding" of Medicaid in April 2023. The Department is also working to fill vacancies so that food establishment inspections can happen in a timelier manner and to resolve issues around lower percentages of autopsy reports issued within 90 days. The Department anticipates fewer new HIV diagnoses in FY25, moving its target from 390 new HIV diagnoses to 350.

Photo Credit: Adobe Stock

Children & Family Services

What Happened in FY24:

- The Free Library of Philadelphia (FLP) saw a significant increase in FY24 digital lending of e-books and audiobooks due to a budget increase for these materials. Due to library closures for renovations, program attendance was down in FY24; this trend is expected to continue until renovations are completed.
- Despite recreation center closures for Rebuild (equity-driven investments in community facilities) and other renovations, Parks and Recreation expects it met its target of seven million visitors in FY24. The Department also planted 3,000 trees in FY24 and set the same target for FY25.
- The Department of Human Services (DHS) succeeded in determining a large percentage of investigations within 60 days and reducing the dependent placement population in DHS's care compared to prior years.

Changes for FY25:

- FLP will resume data collection on in-person library visits in FY25, following the installation of people counters in FY24. In FY25, it will continue increasing hours of service and offering video games for all ages.
- Many recreation centers were closed for Rebuild and other renovations in recent years, resulting in the relocation of staff and programs, impacting service delivery. Parks and Recreation is expecting a higher program participation rate in FY25.
- DHS is having trouble recruiting sufficient staff to consistently meet state-mandated levels needed due to an increase in the youth population at the Philadelphia Juvenile Justice Services Center. The Department is enhancing recruitment efforts and pursuing legal action to push for PA-DHS to assume responsibility for youth awaiting state delinquent placement.

Planning & Economic Development

What Happened in FY24:

- The Department of Aviation saw more passengers come through its doors and more frequent arrivals and departures. Cargo tonnage declined, which reflects global trends.
- The Department of Planning and Development had more applicants to home repair programs. Fewer foreclosures were diverted because of availability of state funding through the Pennsylvania Homeowner Assistance Fund.

Changes for FY25:

- In FY25, Aviation will offer direct flight routes to new destinations and is increasing its goal from 14.9 million passengers in FY24 to 15.5 million in FY25.
- The Department of Planning and Development is increasing its target for homeowner assistance grants by 33 percent, from 900 in FY24 to 1,200 in FY25, despite anticipated high interest rates and the lack of housing supply.

Transportation & Infrastructure

What Happened in FY24:

- Sanitation expects it met its targets for on-time collections, the recycling rate, street resurfacing, and pothole responsiveness.
- The Office of Sustainability reported that municipal energy consumption and energy costs were lower in FY24 than in FY23.
- The Water Department treated enough water to meet consumer demand and met its goal for water main break repairs. However, the Department did not meet its performance targets for surveying pipelines for leakage, the number of storm inlets cleaned, and timely fire hydrant repairs.

Changes for FY25:

- The Streets Department is increasing its target for the numbers of miles resurfaced in FY25 from 60 to 100. It will also convert 26,000 more streetlights to LED in FY25 than in FY24. Reflecting Mayoral priorities, the Department is also increasing its targets for the recycling rate and on-time recycling and trash collections in FY25.
- In FY25, the Water Department plans to increase the number of miles of sewer renewal and is hoping to get its vacancy rate under 12 percent from 18 percent currently.

Operational Support

What Happened in FY24:

- The Department of Fleet Services met its service level agreements and vehicle availability targets. Vehicle purchases in FY24 will lower the median vehicle age going forward. The Department replaced 150 Police radio patrol cars in FY24.
- The Department of Public Property reduced its target for the number of projects completed as the size and scope of projects grew. The City's square feet of space per employee decreased in FY24 while the cost per square foot increased slightly.
- The Community Life Improvement Program (CLIP) met all targets, including the number of graffiti cleanup projects, completed citywide cleanup projects, and vacant lot and exterior property maintenance compliance rates.

Changes for FY25:

- Fleet Services anticipates a lower vacancy rate in FY25 as it continues to engage high school interns and expand its apprenticeship program. One hundred and fifty more radio patrol cars will be replaced in FY25.
- Public Property is keeping its target for the percent of Quad-Plex (City Hall, Municipal Services Building, One Parkway Building, and the Criminal Justice Center) work orders completed within the service level agreement at 75 percent.
- In FY25, the Philly311 Call Center will work to lower the median timeframe for answering calls while still maintaining a high level on its ticket performance scores.

Section 4:
Key Risks

Key Risks

- The PICA Act requires that Plan projections of revenues and obligations are based on reasonable assumptions and methods of estimation and result in balanced budgets in each year of the Plan. Based on staff and expert analysis, PICA recommends approval of the FY25-29 Plan as submitted, but there are risks. External factors, internal policy, and operational choices could unbalance the Plan and trigger a variance that would require the City to devise and deliver a new Plan for PICA approval. The discussion below focuses on key risks to the Plan and its projections that could occur at a scale significant enough to lead to a variance to the Plan. They include:
    - Future Labor Costs
    - Staffing Levels
    - Pension Costs
    - Interest Rates and Inflation
    - SEPTA and School District Funding Shortfalls
    - Unexpected Events
    - Unplanned Expenditures and Revenue Reduction

4.1 Future Labor Costs

As discussed in Section 3: Analysis of Plan Projections, one of the major challenges facing the City in budgeting for staffing and benefit costs is the absence of labor agreements beyond FY25, and in some cases, FY24. In FY24, the City entered into one-year contract extensions with uniform employees. Those extensions expire at the end of FY25. Contracts for non-corrections employees represented by American Federation of State, County, and Municipal Employees (AFSCME) Districts 33 and 47 expired at the end of FY24. The City will likely enter into new contracts with all of its bargaining units over the course of the FY25-29 Plan.

The relatively flat Class 100 allocations included in the Plan will be insufficient to cover increased General Fund spending resulting from new contracts that contain wage increases, which is likely given past contracts and raises included in the uniform contracts. To account for the potential need for increased spending on Personal Services and Employee Benefits, the City has included a Labor Reserve of $407 million in the FY25-29 Plan.

To assess the sufficiency of the Labor Reserve, PICA does rough calculations of additional labor costs, or wage risk, that may arise during the Plan. This estimate assumes 3.5 percent wage increases starting in FY26; the highest level that could be supported between the Labor Reserve and fund balance. Wage increases beyond this level, absent other adjustments to the Plan, would lead to a negative fund balance. PICA's assessment does not constitute a projection, as it assumes flat and uniform wage increases over the Plan and does not account for potential lump-sum payments that may be negotiated or arbitrated in future labor contracts.

Any future labor agreements or awards entered into by the City that increase General Fund spending beyond Labor Reserve amounts would materially impact the General Fund balance, especially in later years of the Plan. Such additional spending would likely require the City to submit a revised Five-Year Plan to PICA demonstrating sufficient funds to cover additional costs and maintain positive fund balances.

Potential Impact of Wage Risk on General Fund Balance ($ in Millions)					
3.5% Annual Increase	FY25	FY26	FY27	FY28	FY29
Labor Reserve	$43.5	$69.6	$77.6	$96.6	$119.6
Estimated Wage Risk	-	$(56.8)	$(115.6)	$(176.5)	$(239.5)
Plan (Shortage) / Overage	**$43.5**	**$12.8**	**$(38.0)**	**$(79.9)**	**$(119.8)**
Fund Balance as Projected in the Plan	**$568.5**	**$329.9**	**$108.4**	**$78.2**	**$65.8**
(Shortage) / Overage from FY25	$43.5	$43.5	$43.5	$43.5	$43.5
(Shortage) / Overage from FY26	-	$12.8	$12.8	$12.8	$12.8
(Shortage) / Overage from FY27	-	-	$(38.0)	$(38.0)	$(38.0)
(Shortage) / Overage from FY28	-	-	-	$(79.9)	$(79.9)
Potential Fund Balance	**$612.0**	**$386.2**	**$126.7**	**$16.6**	**$4.3**

Photo Credit: Kevin Vaughan

4.2 Staffing Levels

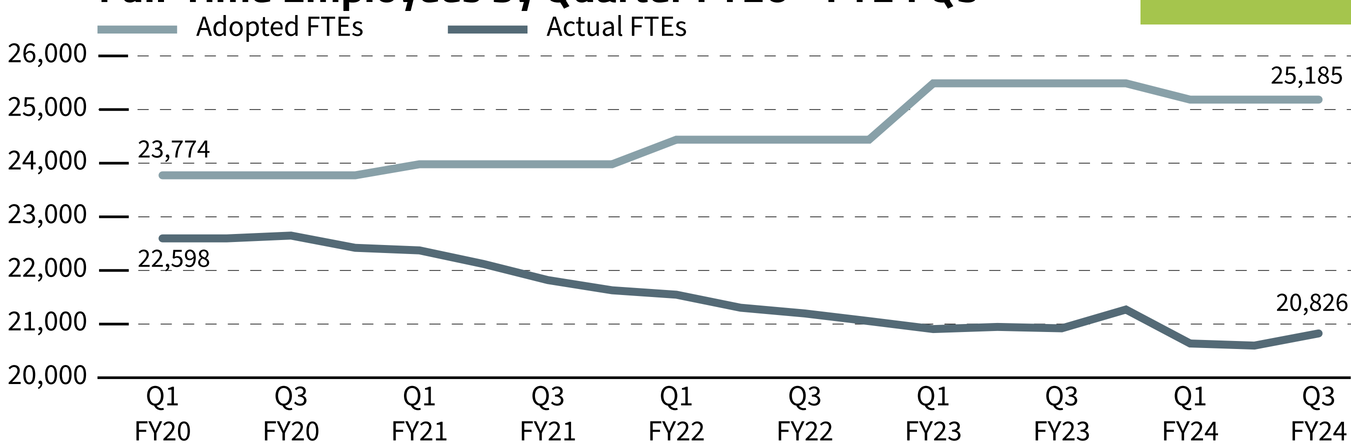
The FY25 budget includes 25,928 budgeted General Fund positions. At the end of the third quarter of FY24, the most recently available data, there were 20,826 General Fund positions filled. Without a net increase in staff by the start of FY25, that would leave the City at 80.3 percent of its desired staffing level, with most of the staffing shortfall concentrated in public safety departments.

Historically, the City has planned for a vacancy rate of generally up to five percent of its budgeted positions. The COVID-19 pandemic started a nation-wide wave of retirements and resignations that has caused vacancy levels to hover between 15 and 20 percent. Though staffing levels have stabilized in recent quarters, the City is still more than 5,100 employees short of the budgeted complement.

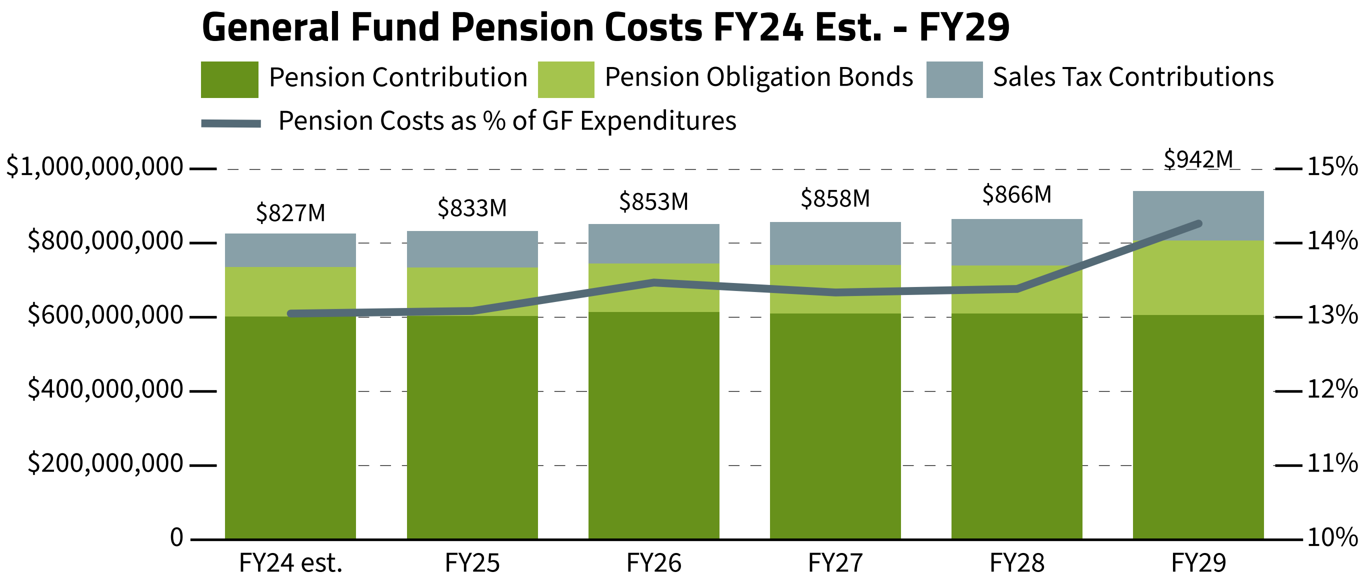
The City's ability to achieve the operational goals laid out in the FY25-29 Plan are put at risk by the sustained high level of vacancy. Higher vacancy rates, especially in departments with state or federal staffing mandates, increase reliance on overtime. Prolonged reliance on overtime can create employee burnout and prompt retirements or resignations that compound the City's issues with recruitment and retention. Low staffing levels can also impact service levels, especially when an already limited workforce is tasked with significant new operations. Lastly, although understaffing can lead to underspending of personnel allocations and create budget flexibility, persistent misalignment between budgeted and filled positions can drive Class 100 overallocation to the detriment of other fiscal priorities. While the high vacancy rates in recent years have boosted the fund balance (at the possible expense of community needs being unmet), continued understaffing could eventually lead to higher-than-planned spending that could threaten the fund balance. This could come from court-ordered actions and fines stemming from a lawsuit over Prisons staffing levels or more costly means of service delivery. Eventually, lower-than-desired service levels could impact the tax base, lowering revenue collections, which could also threaten the fund balance.

FY25 Budgeted Positions: 25,928

Full-Time Employees by Quarter FY20 - FY24 Q3



4.3 Pension Costs



Note: City matching funds of $1.5M or less are too small to display but included in pension cost totals.

General Fund costs for the City's pension obligation bonds and pension contributions are projected to total $4.4 billion over the Plan, 13.5 percent of total General Fund expenditures. The most recent actuarial report on the Pension Fund's status shows that as of July 1, 2023, the Fund's unfunded actuarial liability decreased by $430.1 million during FY23, bringing the funded ratio to 62.2 percent with an assumed rate of investment return of 7.35 percent.

As detailed in PICA's Fact Sheet on the City of Philadelphia's Pension Fund, in recent years the City and an array of pension stakeholders have implemented reforms designed to improve the fiscal health of the City's Pension Fund. The lower bound for Philadelphia's annual pension contribution is set by Pennsylvania's Act 205 of 1984, which defines the Minimum Municipal Obligation (MMO). Since FY18, the City has followed its award winning Revenue Recognition Policy (RRP), utilizing a portion of Sales Tax revenues and employee contributions to fund beyond the MMO and bring down the Pension Fund's unfunded liability. When possible, the City has added additional contributions beyond the RRP. These additional contributions allow the City to reduce unfunded pension liability even when returns from the Pension Fund's investments are below actuarial assumptions.

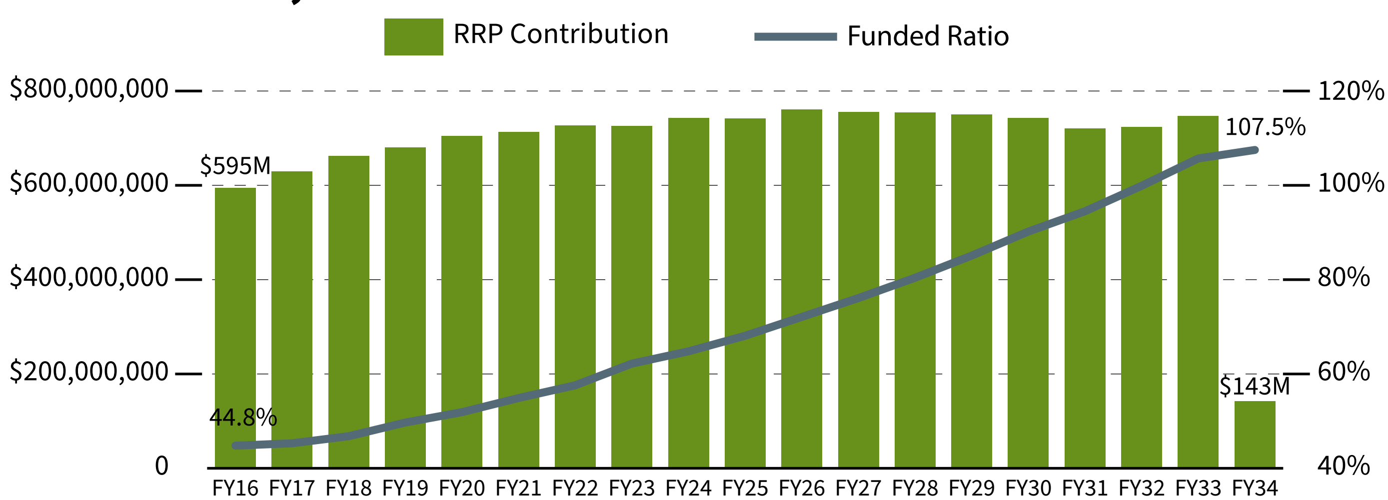
The City's ultimate goal is to fully fund the Pension Fund's liabilities and pay only the normal costs, or contributions required to cover future benefits earned by employees in a given year. Achieving that goal would allow the City to bring pension contribution levels down by hundreds of millions of dollars while still maintaining the fiscal health of the City's pensions. The City's actuary projects that full funding could be achieved by FY33 if current practices are maintained.

Risks to the FY25-29 Five-Year Plan may arise if the City shifts its pension policy or market conditions are worse than expected. The City's Pension Obligation Bonds (POBs) were issued in 1999 and are expected to be fully retired in 2035. To create fiscal capacity during the pandemic, the City restructured its POB debt service schedule. This adjustment freed up funds in the pandemic years but extended the timeline for retirement of the bonds. Further adjustments to POB repayment have the potential to add additional costs in the outyears of the FY25-29 Plan and future Five-Year Plans.

If the City moves away from its RRP and additional contributions, unfunded pension liabilities could grow, which will cause the funded ratio to decline and the MMO to increase. The City is on an achievable path to full pension funding. Deviation from that path will delay the timeline for full pension funding while adding to future pension costs. Declining funded ratios over multiple years may attract the wrong kind of attention from credit rating agencies, with the potential to result in downgraded ratings which could increase the City's borrowing costs.

PICA commends City leadership, City employees, City Council, City unions, Pension Board members, Retirement System staff, and the Pennsylvania State Legislature for the effort and resources that continue to be dedicated to stabilizing the Pension Fund. Should the City continue with the RRP and additional contributions as intended, the City will have hundreds of millions of dollars more each year to commit to other efforts to bolster the City's fiscal stability or other priorities in the next decade.

Actual and Projected Pension Contribution and Funded Ratio FY16 - FY34



4.4 Interest Rates & Inflation

Inflation has been a national and global challenge in recent years stemming from the pandemic, leading the Federal Reserve to raise interest rates. As of June 2024, inflation has been improving as the economy slows (which is also a risk if the economy slows more than the City's revenue projections assume), but not so much that the Federal Reserve opted to reduce interest rates when it made its June 2024 mid-month decision. The rate remains at 5.3 percent, the highest level in more than two decades.

Both inflation and interest rates can have a material impact on the City's spending. Inflation in the prices paid for goods and services may be more than expected, undermining current purchasing plans, particularly as the Plan envisions virtually flat expenses in the outyears, following reductions in spending on materials, supplies, and equipment (Class 300/400 expenditures) from FY24 to FY25, and again from FY25 to FY26. Those planned reductions result from one-time, non-recurring expenses, primarily tied to the Administration's Clean and Green initiatives and fire equipment updates. The City of Philadelphia experienced inflationary impacts as prices rose in the early 2020s for items it routinely purchases, like paper and police cars. The impacts of inflation were so significant and hard to predict that in recent years the City included operating and capital reserves for recession and inflation risks as appropriations within the budget. The FY25-29 Plan does not continue this practice. That decision, coupled with decreased or flat funding for Class 300/400, may result in pressure on the budget to either reduce planned spending and possibly impact services, reduce the fund balance, or drive the need to increase revenues, which may be politically challenging if taxpayers are simultaneously facing the same economic headwinds with no promise of improved service or infrastructure in return for additional payments.

If inflation is higher than expected, and the Federal Reserve pursues a path of raising interest rates, that could result in higher than projected debt service costs. Debt service is already a significant part of the General Fund budget, and the FY25 Capital Budget includes nearly $300 million in new general obligation (GO) debt, a significant increase over prior years. Total new general obligation borrowing through FY29 is $1.4 billion. Even a small increase in borrowing costs over current expectations can have large impacts over the life of the Plan and beyond. Interest rates above expectations would also diminish opportunities for savings via refinancing of existing debt. There is a silver lining that higher interest rates could lead to greater interest earnings for the City to at least partially offset higher costs, but this does not ameliorate the risks of higher-than-expected interest rates and inflation.

4.5 SEPTA & the School District of Philadelphia

The fiscal health of the Southeastern Pennsylvania Transportation Authority (SEPTA) and the School District of Philadelphia are crucial to the overall fiscal stability of the City of Philadelphia. Both institutions play pivotal roles in the city's economic vitality, social equity, and quality of life, and their financial well-being directly influences the city's ability to thrive and prosper.

SEPTA and the School District have both been challenged in their ability to provide desired levels of high-quality service for many years. A recent court decision found that Pennsylvania's funding for public education had not been equitable nor adequate under the state constitution and that reliance on local property tax meant that low-income, high-need districts, like Philadelphia, were not appropriately supported. In the School District's testimony to City Council during the FY25 budget process, the District presented its five-year plan, which had operating deficits in each year from FY25 through FY29 and negative fund balances starting in FY27 and continuing through FY29, when the fund balance is projected to be negative $1.6 billion, absent corrective action or additional revenue.

SEPTA General Manager Leslie Richards testified at City Council this past spring to outline a looming multi-million dollar deficit as federal COVID funds are fully expended and ridership has not returned to pre-pandemic levels. Even as they pursue measures internally to improve fiscal stability, both agencies' ongoing financial challenges may create direct and indirect pressure on the City's finances.

Directly, the City could be pressured to increase the already significant General Fund contributions to those agencies, which would require trade-offs with other priorities. The recently adopted FY24-25 state budget did not include all the funding initially proposed by Governor Shapiro for the School District or SEPTA and did not resolve their ongoing funding challenges. Indirectly, a deterioration in service levels and/or quality for either mass transit or education can negatively impact Philadelphia's desirability and economy. Fiscal instability and resulting service declines in these key areas can lead to decreased property values and reduced tax revenues. Families and businesses may choose to relocate to areas with better schools and transportation options, further eroding the city's tax base. This creates a vicious cycle where declining revenues force further cuts to essential services, undermining the City's overall fiscal health and stability.

4.6 Unexpected Events

Unexpected events, like climate disasters, civil unrest, epidemics, or a recession, pose a key risk to the FY25-29 Five-Year Plan. As the Plan projects a General Fund balance of $65.8 million and an additional $283.1 million Budget Stabilization Reserve (BSR) in FY29, less than six percent of revenues combined, it is possible that an unforeseen scenario could deplete the City's fund balance and other reserves, throwing the Plan out of balance. Examples of recent unplanned events with significant impacts on the City's finances include:

- The COVID-19 pandemic led the City to reduce its FY21 revenue estimate by $441 million between the pre-pandemic FY20-24 Plan and the following year's FY21 Adopted Budget. Coupled with higher costs for managing the public health crisis, this could have sent the City into a deficit or required drastic budget balancing actions had it not been for funds made available through the City's BSR and the American Rescue Plan (ARP).

- Civil unrest in the summer of 2020 following the murder of George Floyd led to nearly $18 million in Police overtime and $9.25 million in indemnities, in addition to the costs of damages.

- Hurricane Ida, which brought high winds, tremendous rain, and serious flooding in September 2021, impacted housing, infrastructure, the local economy, and resident incomes. The City has received $163 million in federal CDBG-DR funds to support recovery, but the City, in its Action Plan, identified over $1.2 billion in unmet needs stemming from the storm.

PICA commends the City for undertaking hazard mitigation planning to reduce the risk and impact of natural and human-caused hazards. In an increasingly volatile world, sufficient reserves serve as both a risk management tool and a safety net against uncertainty. The FY25-29 Five-Year Plan projects declining reserves (the combined fund balance and Budget Stabilization Reserve) over the life of the Plan. It begins with $734 million (12 percent of revenues) available to address unforeseen events in FY25 and is more than halved to less than $349 million (5.3 percent of revenues) in FY29. At no point in the Plan will the City have the GFOA's recommended level of 17 percent of revenues. Given this limited cushion, serious unforeseen events could pose a risk to the FY25-29 Plan.

4.7 Unplanned Expenditures & Revenues Reductions

Revenues failing to materialize as expected was a major factor in the crisis that precipitated the creation of PICA. Significant, unplanned operational costs can also unbalance a Plan and undermine the City's fiscal stability. Any general economic downturn, or even growth below expectations, poses a risk to the City's revenue collections. Changes in scope or resource costs can affect spending, particularly for parts of the budget that are legally mandated operations or considered fixed. Beyond these general risks, there are some specific areas that warrant close monitoring given the likelihood of occuring and size of the potential fiscal impact relative to available reserves:

Sheriff Sales

Sheriff Sales are scheduled to begin again in early FY25. These sales have not happened since March 2020 due to the COVID-19 pandemic and subsequent disagreements between the Sheriff's Office and the City on how to resume sales. The City estimates an additional six million dollars in LGNT revenue from these sales. If they do not occur or occur at a lower volume than planned, this would constitute a loss of up to $6 million annually, or $30 million over the life of the Plan.

Asset Sales

The City is planning three major asset sales, one in FY27 and two in FY28. In FY27, the City expects to sell its property at 500 S. Broad for $13 million. In FY28, the City anticipates selling the Medical Examiner's Building for $27 million and the Police Roundhouse for $28 million. Each of these sales had been anticipated to be completed earlier in prior Plans and it is challenging to predict future real estate prices, particularly for unique properties where there may be pressure to sell for less than market value to achieve public policy objectives. If any one of these sales is not completed, or if they are sold for much less than anticipated, the impact on the ending fund balance would be dramatic.

Federal Grants

Philadelphia is already planning for a change in the level of federal grant funds as the obligation deadline for the American Rescue Plan funds nears. The deployment of COVID relief funds represented a shift in federal grants, with more funds coming directly to local governments without passing through states, more upfront rather than reimbursable funds, and more flexibility in spending options. Additionally, the Justice40 initiative set a goal of 40 percent of benefits from an array of federal programs flowing to disadvantaged communities and a large number of Philadelphia census tracts met the criteria. Depending on the outcome of the upcoming presidential election, there may be a change in the volume and nature of federal funds that Philadelphia receives. Federal funds represent a relatively small share of the General Fund, but may affect other funds covered under the PICA Act, like the Capital Fund and Grants Fund, more materially. If those funds are stressed, the City may need to determine whether to reduce services for those affected activities, shift resources from the General Fund, or seek to raise more funds locally.

Court-Ordered Payments

The cost of legal settlements and indemnities materially exceeded its budget in recent fiscal years. From FY18 to FY20, the three-year average cost of indemnities was $43.8 million. For FY19-23, this rose by 9.2 percent to $47.8 million, most of which is attributable to FY23's significant indemnities expenses. In FY23, $69.4 million was spent on indemnities, $2.2 million higher than the FY23 Adopted Budget of $67.2 million.

The original FY24 Adopted Budget included $49.2 million in indemnities. Due to sizable indemnities in the Police Department, including settlements for wrongful convictions, an additional $25 million was transferred through the FY24 Midyear Transfer Ordinance. The current estimate for indemnities costs for FY24 is $74.2 million. As a result of these increases, the City is allocating more money for indemnities in this Five-Year Plan than the last one. At $61.2 million annually for indemnities in FY25-29, this is a combined $48 million more than the previous Plan, even while assuming a reduction in costs from FY24. Given the trend of rising indemnities costs, often above the level originally budgeted, and the inflexible nature of these expenses, this will be a risk to the Plan going forward.

New Initiatives

New programs and policies represent an opportunity to address emerging and persistent challenges for Philadelphia but come with uncertainty in the scope of these initiatives and the time and resources required. As a new Administration starts, it is expected that there will be more new initiatives and thus more potential for costs to be challenging to predict. Based on conversations with City departments and other input, PICA Staff learned of areas that may require more funds to achieve the desired outcomes. These include:

- **Clean and Green.** To make Philadelphia the cleanest and greenest big city in the country, more equipment, like compactors and street sweepers, is necessary. Rented and bought equipment will require additional resources and capacity from the Department of Fleet Services, but the City has not allocated more operating funds to support this. The Office is also looking to increase storage capacity for new vehicles, which could necessitate additional costs in the future.

  The Office of Clean and Green Initiatives is moving to twice-weekly trash collection and eliminating second shifts for employees. The elimination of the second shift could result in more overtime usage if collections are not completed on time. The Office is also working with Councilmembers to deploy dedicated cleaning crews in each Council district. These crews have designated cleaning routes and schedules, but also respond to requests for service. If request volume is high, overtime costs may increase as crews address concerns.

- **Wellness Centers.** The Parker Administration has proposed new buildings and services to address unmet needs for individuals with substance use disorders. The Adopted FY25-30 Capital Budget and Program includes $100 million for the construction of physical locations and the Administration has indicated that the General Fund will not be the source of operating dollars. Media reports quote Mayor Parker as saying that the $100 million "doesn't even pay for everything we need to build at that particular location." Given that multiple sites are planned and that service types and levels have not been detailed, nor funds for ongoing maintenance at the facilities allocated, nor a complete funding plan for those costs developed, there is risk that the General Fund may need to provide support in order for services to be delivered, particularly after any one-time outside revenue streams are exhausted.

Photo Credit: Kevin Vaughan

Section 5:
Other Covered Funds

5.1 Capital Fund

History

The Capital Fund is for the City's major infrastructure investments like public buildings and facilities, computer and communication networks, specialized municipal vehicles, and its transit system and streets that cost more than $15,000 and last more than five years.

Revenue Sources

The FY25-30 Capital Program authorizes over $16.2 billion in capital investment over six years. It includes City-supported funding through General Obligation bonds, self-sustaining funds, transfers from operating funds like the General Fund (PAYGO), funds from the same or equivalent projects carried from FY24 into FY25, and funding from federal, state, and private sources.

The largest source of funds in the Capital Program is $5.7 billion in self-sustaining new borrowing. This is primarily borrowing by Water and Aviation and the debt service for these would come from funds not covered by the PICA Act.

New General Obligation borrowing in FY25 will be significantly higher than in prior years at $328.5 million. Over the course of the Capital Program, the City plans to borrow $1.4 billion through General Obligation bonds, which would be repaid from the General Fund. Previously borrowed General Obligation bond funds and operating dollars directed to capital projects will support $1.1 billion in investments.

Adopted FY25-30 Capital Program ($ in Thousands)						
	FY25	FY26	FY27	FY28	FY29	FY30
New General Obligation (GO)	$328,472	$214,785	$224,953	$224,848	$229,867	$20,011
PAYGO + GO Carryforward	$1,083,384	$7,250	$7,250	$7,250	$7,250	$7,250
Self-Sustaining	$2,444,542	$1,200,920	$1,050,740	$897,160	$1,062,670	$891,634
Revolving	$55,000	$55,000	$32,000	$32,000	$32,000	$22,000
State	$674,605	$401,833	$401,707	$353,251	$ 324,766	$272,969
Federal	$1,121,904	$315,885	$244,935	$207,250	$177,395	$177,133
Private	$154,012	$10,220	$9,220	$9,220	$9,220	$9,020
Other	$225,566	$76,293	$156,042	$117,816	$222,843	$196,476
Total	**$6,087,485**	**$2,282,186**	**$2,126,847**	**$1,848,795**	**$2,066,011**	**$1,796,493**

Due to a drafting error, there is a $10,000 shortfall in FY25 carryforward funding. The Administration will pursue a technical amendment to the legislation in fall 2024.

Spending

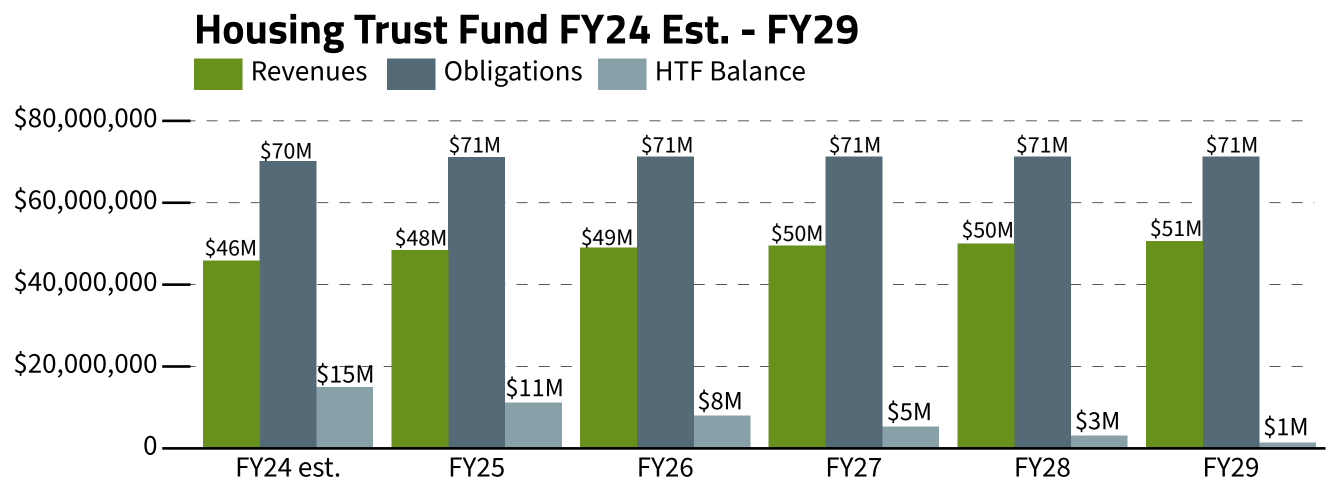
Much of the spending in the FY25-30 Capital Program will support water and aviation infrastructure. State and federal funds are used to support specific projects, with a heavy concentration in transportation infrastructure. Projects supported with the new borrowing will also focus on transportation infrastructure, especially street curbs and roads, as well as public safety, including $100 million for wellness facilities for individuals with substance use disorders.

Photo: Adobe Stock

Top Ten Projects: Largest Amount of New GO Borrowing

Department	Project	Amount (FY25-30)
Streets	Reconstruction/ Resurfacing and ADA Ramp Reconstruction	$280,000,000
Managing Director's Office	Wellness Centers	$100,000,000
Fleet Services	Vehicle Purchases	$94,000,000
Office of Innovation and Technology	Citywide and Departmental Applications	$89,399,000
Transit	SEPTA Transit Improvements	$56,287,000
Managing Director's Office	African American Museum Relocation	$50,000,000
Free Library	Improvements to Free Library Branches	$46,000,000
Commerce	Central Delaware River Waterfront Improvements	$46,800,000
Fire	Fire Department Renovations (includes facility improvements, roof replacements, fire protection systems, Fire Academy redevelopment, and new Navy Yard Fire House)	$44,059,000
Office of Innovation and Technology	Network Infrastructure Stabilization and Enhancement	$39,000,000

5.2 Housing Trust Fund



History

The Housing Trust Fund (HTF) was created in 2005 to provide a dedicated source of municipal funding for affordable housing, with all spending going towards housing affordability for households making less than 115 percent of Area Median Income (AMI). Between FY21 and FY23, 78 percent of all government housing dollars spent in Philadelphia came from the federal government. Federal housing dollars must be used in accordance with federal guidelines and regulations. Using local funds for affordable housing investment allows for more flexibility than state, federal, or grant sources.

Revenue Sources

Document Recording Fee proceeds were the first dedicated source of revenue for the Housing Trust Fund. In FY19, the City began making contributions to the HTF from the General Fund. After a voter-approved change to Philadelphia's Home Rule Charter in FY22, the City is now required to send 0.5 percent of General Fund expenditures to the Housing Trust Fund. Philadelphia City Council approved another amendment to the Home Rule Charter in its FY24 legislative session, asking voters to approve a requirement that fees paid by developers in lieu of constructing affordable housing be deposited to the Housing Trust Fund. Though not yet law, the City has incorporated this policy and its impacts into the FY25-29 Five-Year Plan.

Total HTF revenues in the FY25-29 Five-Year Plan are projected to be $247.6 million, growing by 4.6 percent overall from $48.4 million in FY25 to $50.7 million in FY29. Growth in HTF revenues are mostly (83.4 percent) from increased General Fund contributions in line with current and prospective Home Rule Charter requirements.

Obligations

There are specific requirements for how HTF dollars can be expended. One half of annual HTF spending is targeted towards very low-income families and individuals earning at or below 30 percent of Area Median Income. The other half is targeted towards low- and moderate-income households earning between 30 and 120 percent of AMI.

The FY25-29 Plan includes $356.1 million in obligations. This spending is nearly flat throughout the Plan, starting at $71.2 million in FY25 and growing by $20,000 annually from FY26 to FY29 for increasing appropriations to the HTF Labor Reserve. Unlike the General Fund or Transportation Fund, HTF spending is concentrated in Class 200 with minimal spending on City employees. Although HTF Class 100 allocations have grown in recent years, they still represent less than ten percent of overall HTF expenditures.

Fund Balance

The HTF projects significant operating deficits in each year of the Plan. Positive fund balances are dependent on the planned $19 million per year in prior year adjustments. While the intent is to spend the full $70 million budget each year, it is expected that $19 million won’t be paid out timely and will be available in the following year. After accounting for the prior year adjustments, the HTF fund balance will decline from $11.2 million (23 percent of revenues) in FY25 to $1.5 million in FY29 (three percent of revenues).

Photo Credit: Kevin Vaughan

5.3 Transportation Fund

Transportation Fund Summary ($ in Thousands)						
	FY24 Est.	FY25	FY26	FY27	FY28	FY29
Revenues	$116,699	$120,208	$124,018	$127,637	$131,373	$135,087
Obligations	$116,983	$121,063	$121,508	$121,954	$122,403	$122,853
Fund Balance (after prior year adj)	-	$861	$2,510	$5,683	$8,970	$12,234

History

The Transportation Fund was created in FY24 to support transportation-related operating costs including paving, traffic, engineering, school crossing guards, right-of-way management, public safety enforcement officers, survey, and street lighting. Previously, these activities were within the General Fund. Although cost-neutral when created in FY24, the Transportation Fund was created within the context of dramatically increasing costs for paving, ADA curb ramps, and other transportation needs. By having a separate Transportation Fund with a dedicated revenue stream, the City may be in a better position to access federal low-interest loan programs that require dedicated revenue streams and engage in policy deliberations about the size and makeup of transportation investments differently than if it were still embedded in the General Fund.

Revenue Sources

The Transportation Fund relies primarily upon the Parking Tax (including the Valet Parking Tax), plus certain fees generated by transportation-related permits and charges and grants. Total revenues are anticipated to be $120 million in FY25 and reach $135 million in FY29. Previously, these revenues were allocated to the General Fund. Parking Tax revenues, estimated at $108 million in FY25, are expected to grow about three percent each year until reaching $123 million in FY25. All other revenue sources are estimated to be flat at $12 million in each year of the Plan.

Obligations

FY24 Transportation Fund spending is estimated at $117 million and is projected to grow to $121 million in FY25. The Plan assumes 0.4 percent growth in each subsequent year, bringing the FY29 total to $123 million. Most of the Transportation Fund spending, between 78 and 79 percent annually, is for the wages and benefits of employees. Each year includes $51 million for wages and $44 million for benefits. Starting in FY26, the Transportation Fund allocates resources to a Labor Reserve, totaling

$3.8 million over the life of the Plan, to absorb the impact of future labor contracts and other growth in personnel costs.

Class 200, contracts for services, is the next largest share of Transportation Fund spending, set at $14 million for each year between FY25 and FY29. Class 800 payments to other funds are anticipated to grow from $2.1 million in FY25 to $2.4 million in FY29, with three percent annual growth projected.

Fund Balance

The Transportation Fund Five Year Plan projects growth in the fund balance in each year, starting with $861,000 (one percent of revenues) in FY25 and ending with $12 million (9.1 percent) in FY29.

Photo Credit: Kevin Vaughan

Section 6: Conclusion

6.1 Recommendation to the Board of Directors of the Pennsylvania Intergovernmental Cooperation Authority

Based on a thorough analysis of the City of Philadelphia's FY2025-FY2029 Five-Year Financial Plan (the Plan), **PICA's staff recommends approval for the following reasons**:

- The Plan projects positive year-end General Fund balances in all years of the Plan

Fiscal Year	FY25	FY26	FY27	FY28	FY29
General Fund Balance	$568.5M	$329.9M	$108.4M	$78.2M	$65.8M

- Revenue and expenditure projections, as presented in the Plan, are "based on reasonable and appropriate assumptions and methods of estimation," which are "consistently applied" as required by the PICA Act.
    - PICA's economic consultant's analysis found the City's projected tax revenues to be reasonable over the life of the Plan.
    - PICA Staff analysis of non-tax revenues found that the City's projections for Locally Generated Non-Tax, Revenues from Other Funds, and Revenues from Other Governments to be reasonable over the life of the Plan.
    - PICA Staff analysis of expenditures by major class found the spending projections to be reasonable over the life of the Plan.

- The Plan included projections of all revenues and expenditures for five fiscal years, including projected capital expenditures, short- and long-term debt incurrence, and cash flow forecasts for the first year of the Plan, as required by the PICA Act.

- The Plan submitted by the City contained the elements required by the PICA Act:
    - The Mayor's Statement;
    - A schedule of debt service payments;

- A schedule of payments for legally mandated services;
- A statement describing the significant assumptions and methods of estimation used to develop projections;
- The Mayor's proposed Operating and Capital Budget for each of the covered funds for the next fiscal year;
- A cashflow forecast for the City's consolidated cash account;
- An opinion from the City Controller; and,
- A schedule setting forth the number of authorized employee positions (filled and unfilled)

Although PICA is confident that the Plan is based on reasonable and appropriate assumptions and includes year-end fund balances that are positive throughout the life of the Plan, certain factors were identified that may present risks to the Plan. The risks outlined in Section 4 of this report include:

- Future Labor Costs
- Staffing Levels
- Pension Costs
- Interest Rates and Inflation
- SEPTA and School District Funding Shortfalls
- Unexpected Events
- Unplanned Expenditures and Revenue Reductions

Photo Credit: Kevin Vaughan

6.2 Recommendations to the City of Philadelphia

The City of Philadelphia has made tremendous improvements in its fiscal condition since the crisis that precipitated the creation of PICA in the early 1990s. In the past five years, the City has had notable successes in improving Philadelphia's financial health, including:

- Navigating the economic and operational challenges of a global pandemic while maintaining positive fund balances.
- Achieving its highest credit ratings in more than four decades.
- Depositing funds into the Budget Stabilization Reserve for the first time and making subsequent deposits.
- Progressing towards a fully funded Pension Fund, earning the City an award from the Government Finance Officers Association in 2020 for its comprehensive reform efforts.
- Making the final payment on the PICA bonds.

PICA recognizes and celebrates these achievements and simultaneously continues to have concerns about Philadelphia's fiscal stability. In addition to monitoring and taking steps to mitigate the risks identified in Section 4 of this report and staying the course on long-term efforts like fully funding the Pension Fund, PICA recommends that the City sustain and expand its efforts in the following ways to maintain and enhance the City of Philadelphia's financial health:

Allocate Additional Resources for Expected & Unexpected Circumstances

Making recurring deposits into the Budget Stabilization Reserve and adequate planning for future labor costs, including new union contracts in the Labor Reserve, are prudent steps the City has taken to deploy sound budgetary practices and avoid future fiscal crises. Even with these improvements, Philadelphia's low fund and reserve balances may not provide an adequate cushion for eventualities that are likely to occur, like climate events or reductions in federal funding, but at times and scales that are hard to predict. Setting aside more reserves, whether in the fund balance, Budget Stabilization Reserve, or other reserves, like the Recession and Inflation Reserve that the City has discontinued, is not without drawbacks. There are tradeoffs with other policy priorities, and estimating the correct amount of needed reserves can be challenging, but there are many benefits as well, including less need to reduce spending and services when a crisis hits and potential for improved credit ratings and lower borrowing costs.

Seek Structural Balance

Throughout the FY25-29 Plan, the City plans to draw down each year on its fund balances, reaching a low of $65.8 million in FY29. Planning for (and having) structural deficits increases the likelihood that Philadelphia will struggle in future years to meet the PICA Act requirement of positive fund balances, and it undermines fiscal stability. Through a combination of conservative budgeting, careful fiscal management during the year, and a bit of economic luck, Philadelphia has often been able to turn expected operating deficits into surpluses, but relying on that trend in perpetuity isn't prudent. Achieving operating surpluses should be easier once the Pension Fund is fully funded and the Pension Obligation Bond balloon payment is made. This will reduce pressure on the General Fund, but there are many years between now and that point. The City should not delay in seeking structural balance and should incorporate that into future Five-Year Plans. Planning for structural balance in each year of the Plan, in addition to achieving the required positive fund balances, is consistent with Section 209(b) of the PICA Act, which calls on the City to use sound budgetary practices and provide procedures to avoid a fiscal emergency condition in the future.

Expand Financial Reporting to More City Funds

With the continued growth in the Housing Trust Fund and the creation of the Transportation Fund in FY24, both of which are Covered Funds under the PICA Act, the City should provide clear and accessible information about the revenues, budget, spending, and performance of these funds similar to information provided about the General Fund. This may include more detailed information in the proposed Five-Year Financial Plan, inclusion in Quarterly City Managers Reports, and development of performance measures where none exist. The City should also consistently project and disclose operating costs and funding sources for those operating costs when new or expanded capital infrastructure is proposed in order to provide a holistic view of the impact on the City's finances. The public and PICA will benefit from the opportunity to more clearly understand the entire breadth of the City's revenues, spending, and fund balances.

Photo Credit: Kevin Vaughan

Appendices

- PICA Organization & Authority
- City of Philadelphia's FY25-29 Five Year Financial Plan
- Controller's Report

PICA Organization & Authority

PICA Organization

PICA was created in 1991 by the Commonwealth of Pennsylvania legislature for the purpose of providing financial assistance to the City of Philadelphia in overcoming a severe financial crisis. At that time, the City was burdened with a growing cumulative operating deficit, lacked resources to pay mounting overdue bills, had seen its credit ratings drop below investment grade level by national rating agencies, had instituted an across-the-board hiring freeze, and had experienced an erosion in the quality of municipal services.

PICA was designed to address the City's short-term financing, while simultaneously overseeing a long-term financial planning process that would restore the confidence of investors, residents, and public officials in the ability of the City to maintain financial stability over the long term.

PICA is administered by a governing board consisting of five voting members and two ex-officio, non-voting members. The Governor, the President Pro Tempore of the State Senate, the Minority Leader of the State Senate, the Speaker of the State House of Representatives, and the Minority Leader of the State House of Representatives each appoint one voting member to the Board. The ex-officio members are the Budget Secretary of the Commonwealth of Pennsylvania and the Director of Finance of the City of Philadelphia.

The Act provides that PICA shall have certain oversight and financial functions. In its oversight capacity, PICA has certain advisory and review powers with respect to the City's financial affairs, including the power to review and approve Five-Year Financial Plans prepared annually by the City. PICA also has the responsibility of monitoring the City's compliance with those plans. Should the City fail to adhere to the requirements of the Act in maintaining compliance with the current Five-Year Plan, PICA could instruct the Budget Secretary of the Commonwealth to withhold substantial financial assistance and the net proceeds of the PICA Tax (after PICA debt service) until compliance is reestablished.

At the outset, PICA had the power to issue bonds for the financial benefit of the City. Through debt issuance and capital program earnings, PICA made available $1.138 billion to directly assist the City, allocated to the following purposes: deficit elimination/indemnities, productivity bank, capital projects, and retirement of certain high-interest debt. Such power to issue debt has been reauthorized under the revised legislation extending PICA.

PICA's Oversight Authority

PICA was founded to support the Commonwealth's public policy interests to "foster the fiscal integrity of cities of the first class… and provide for proper financial planning procedures and budgeting practices," as explained in the section of the Act dedicated to legislative intent.

In a discussion of sound financial planning and budgetary practices, the Act "charge[s]" the City of Philadelphia with the "responsibility to exercise efficient and accountable fiscal practices." These include:

managerial accountability, consolidation/elimination of inefficient City programs, recertification of tax-exempt properties, increased collection of existing taxes, privatization of services, sale of City assets, improvement of procurement and competitive bidding practices, and review of compensation and benefits of City employees.

The legislative intent includes assuring the City is prepared to manage not only the fiscal pressure Philadelphia was experiencing at the time PICA was established, but also to avert such potential situations in the future and safeguard against their consequences. Thus, the Act grants PICA the ability to "make recommendations to an assisted city concerning its budgetary and fiscal affairs."

To this end, PICA and the City entered into an agreement largely based on the provisions of the Act, known as the Intergovernmental Cooperation Agreement. The Agreement provides PICA with broad access to all data pertaining to City and other corporate entities' finances (corporate entities include the School District of Philadelphia, for example). The underlying principle in both documents is that, in order to facilitate the City's "fiscal integrity," PICA was intended since its inception to have a wide purview over the City's financial data, which ultimately extends to PICA's authority to "[conduct] such independent audits, examinations or studies of the City the Authority deems appropriate."

CITY OF PHILADELPHIA

FY2025 - FY2029 FIVE YEAR FINANCIAL PLAN

AS APPROVED BY THE COUNCIL - JUNE 2024

CHERELLE L. PARKER

MAYOR

CITY OF PHILADELPHIA

FY2025 - FY2029 FIVE YEAR FINANCIAL PLAN

AS APPROVED BY THE COUNCIL - JUNE 2024

GENERAL FUND

City of Philadelphia As Adopted Five Year Financial Plan FY2025-2029		SUMMARY OF OPERATIONS FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)						
FUND **General**								
NO.	ITEM	FY 2023 Actual	FY 2024 Estimate	FY 2025 Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	OPERATIONS OF FISCAL YEAR							
	REVENUES							
1	Taxes	4,154,299	4,008,680	4,260,467	4,376,370	4,531,580	4,693,270	4,861,337
2	Locally Generated Non-Tax Revenues	415,117	408,609	391,844	365,668	382,272	424,743	374,250
3	Revenue from Other Governments	422,309	366,412	398,416	428,444	400,495	401,569	402,567
4	Other Govts. - PICA City Account (1)	674,272	707,039	739,412	768,168	796,000	825,207	855,753
5	Sub-Total Other Governments	1,096,581	1,073,451	1,137,828	1,196,612	1,196,495	1,226,776	1,258,320
6	Revenue from Other Funds of City	381,017	454,830	481,223	119,605	65,570	61,770	62,292
7	Total - Revenue	**6,047,014**	**5,945,570**	**6,271,362**	**6,058,255**	**6,175,917**	**6,406,559**	**6,556,199**
8	Other	0	0	0	0	0	0	0
9	**Total Revenue and Other Sources**	**6,047,014**	**5,945,570**	**6,271,362**	**6,058,255**	**6,175,917**	**6,406,559**	**6,556,199**
	OBLIGATIONS/APPROPRIATIONS							
10	Personal Services	1,975,601	2,177,127	2,279,091	2,272,166	2,285,576	2,287,538	2,287,538
11	Personal Services-Pensions	837,541	736,535	734,679	745,635	742,027	741,610	808,692
12	Personal Services-Pensions - Sales Tax	92,143	90,227	98,468	107,294	115,727	124,472	133,224
13	Personal Services-Other Employee Benefits	696,257	798,725	843,974	863,999	900,117	938,002	977,920
14	**Sub-Total Employee Compensation**	**3,601,542**	**3,802,614**	**3,956,212**	**3,989,094**	**4,043,447**	**4,091,622**	**4,207,374**
15	Purchase of Services	1,207,299	1,400,501	1,422,267	1,345,332	1,350,674	1,370,053	1,362,057
16	Materials, Supplies and Equipment	167,720	204,679	148,326	139,623	138,494	138,615	138,629
17	Contributions, Indemnities, and Taxes	480,792	475,703	432,724	413,594	413,094	413,094	413,094
18	Debt Service	190,496	201,632	234,667	242,227	274,825	281,871	279,388
19	Payments to Other Funds	205,404	196,954	71,491	74,165	76,982	80,420	83,916
20	Advances & Misc. Pmts. Incl. Labor Reserve	0	11,200	43,505	69,620	77,620	96,620	119,620
21	Adv & Misc. Pmts.- Recession, Inflation Res. & Reopening	0	0	0	0	0	0	0
22	Sub-Total	5,853,253	6,293,283	6,309,192	6,273,655	6,375,136	6,472,295	6,604,078
23	Payment to Budget Stabilization Reserve Fund	65,128	42,261	58,291	59,676	57,754	0	0
24	**Total - Obligations**	**5,918,381**	**6,335,544**	**6,367,483**	**6,333,331**	**6,432,890**	**6,472,295**	**6,604,078**
25	Oper. Surplus (Deficit) for Fiscal Year	128,633	(389,974)	(96,121)	(275,076)	(256,973)	(65,736)	(47,879)
	Prior Year Adjustments:							
26	Council Requests							
27	Admin Adjustments							
28	Other Adjustments	73,795	36,500	36,500	36,500	35,500	35,500	35,500
29	Total Prior Year Adjustments	73,795	36,500	36,500	36,500	35,500	35,500	35,500
30	**Adjusted Oper. Surplus/ (Deficit)**	**202,428**	**(353,474)**	**(59,621)**	**(238,576)**	**(221,473)**	**(30,236)**	**(12,379)**
	OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS							
31	Fund Balance Available for Appropriation June 30 of Prior Fiscal Year	779,144	981,572	628,098	568,477	329,901	108,428	78,192
32	Fund Balance Available for Appropriation June 30	**981,572**	**628,098**	**568,477**	**329,901**	**108,428**	**78,192**	**65,813**

City of Philadelphia

Five Year Financial Plan FY2025-2029

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2023 TO 2029
(Amounts in Thousands)

FUND
General

REVENUE
Taxes

NO.	AGENCY AND REVENUE SOURCE	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(4)	(5)	(6)	(7)	(8)	(9)	(9)
	A. Real Property							
1	1. Current	780,285	796,957	896,834	903,448	934,127	966,550	1,001,947
2	2. Prior	29,283	28,699	28,125	27,562	27,011	26,471	25,941
3	**Subtotal**	**809,568**	**825,656**	**924,959**	**931,010**	**961,138**	**993,021**	**1,027,888**
	B. Wage and Earnings							
4	1. Current	1,730,139	1,838,931	1,925,177	2,001,414	2,075,666	2,153,919	2,235,768
5	2. Prior	2,703	5,400	5,400	5,400	5,400	5,400	5,400
6	**Subtotal**	**1,732,842**	**1,844,331**	**1,930,577**	**2,006,814**	**2,081,066**	**2,159,319**	**2,241,168**
	C. Business Taxes							
7	**1. Business Income & Receipts**	**673,256**	**606,687**	**616,686**	**621,198**	**643,686**	**666,215**	**688,733**
	2. Net Profits							
8	a. Current	33,868	39,060	40,477	41,874	43,055	44,174	45,340
9	b. Prior	5,122	4,700	4,700	4,700	4,700	4,700	4,700
10	**Subtotal**	**38,990**	**43,760**	**45,177**	**46,574**	**47,755**	**48,874**	**50,040**
11	**Total, Business Taxes**	**712,246**	**650,447**	**661,863**	**667,772**	**691,441**	**715,089**	**738,773**
	D. Other Taxes							
12	1. Sales	210,058	210,227	218,468	227,294	235,727	244,472	253,224
13	2. Sales (Pension)	92,143	90,227	98,468	107,296	115,727	124,473	133,225
14	Subtotal	302,201	300,454	316,936	334,589	351,454	368,945	386,449
15	3. Amusement	36,144	38,320	41,719	42,762	43,698	44,664	45,606
16	4. Real Property Transfer	378,782	271,808	305,784	315,477	325,194	334,917	344,630
17	5. Parking**	101,941	0	0	0	0	0	0
18	6. Smokeless Tobacco	573	576	579	582	585	588	591
19	7. Philadelphia Beverage	73,444	70,342	71,172	70,460	70,080	69,779	69,256
20	8. Construction Impact	3,113	3,500	3,500	3,500	3,500	3,500	3,500
21	9. Other	3,445	3,246	3,378	3,404	3,424	3,448	3,476
22	**Subtotal**	**899,643**	**688,246**	**743,068**	**770,774**	**797,935**	**825,841**	**853,508**
23	**Total Taxes**	**4,154,299**	**4,008,680**	**4,260,467**	**4,376,370**	**4,531,580**	**4,693,270**	**4,861,337**

**Note: Parking Tax reassigned to the Transportation Fund in FY24 and beyond.

City of Philadelphia

Five Year Financial Plan FY2025-2029

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2023 TO 2029
(Amounts in Thousands)

FUND
General

REVENUE
Locally Generated Non - Tax

No.	Agency and Revenue Source	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Office of Innovation & Technology							
1	Cable Franchise Fees	17,364	16,777	15,938	15,141	14,384	13,665	12,982
2	Other	48	235	235	235	235	235	235
3	Subtotal	17,412	17,012	16,173	15,376	14,619	13,900	13,217
	Mayor							
4	Other	1	15	15	15	15	15	15
	Managing Director							
5	Other	1,023	1,617	1,642	1,667	1,667	1,667	1,667
	Police							
6	Prior Year Reimb.- Special Services	8,885	0	0	6,000	6,000	6,000	6,000
7	Carry Arms Fees	685	800	800	800	800	800	800
8	Witness & Jury Fees	48	40	40	40	40	40	40
9	Other	1,499	1,050	1,050	1,050	1,050	1,050	1,050
10	Subtotal	11,117	1,890	1,890	7,890	7,890	7,890	7,890
	Streets**							
11	Survey Charges	743	0	0	0	0	0	0
12	Streets Issued Permits	8,471	0	0	0	0	0	0
13	Prior Year Reimbursements	2	0	0	0	0	0	0
14	Collection Fee - Housing Authority	1,194	1,200	1,200	1,200	1,200	1,200	1,200
15	Disposal of Salvage (Recyclables)	0	10	10	10	10	10	10
16	Right of Way Fees	2,441	0	0	0	0	0	0
17	Commercial Property Collection Fee	20,908	21,050	21,050	21,050	21,050	21,050	21,050
18	Other	152	800	800	800	800	800	800
19	Subtotal	33,911	23,060	23,060	23,060	23,060	23,060	23,060
	Fire							
20	Emergency Medical Services	39,572	64,500	56,500	56,500	56,500	56,500	56,500
21	Other	761	950	950	950	950	950	950
22	Subtotal	40,333	65,450	57,450	57,450	57,450	57,450	57,450
	Public Health							
23	Payments for Patient Care (HC's/PNH)	31,476	25,607	25,700	25,800	46,072	46,952	47,832
24	Pharmacy Fees	6,044	8,500	6,850	6,850	6,850	6,850	6,850
25	Environment User Fees	3,594	3,605	3,505	3,405	3,305	3,205	3,105
26	Other	3,193	1,800	1,800	1,800	1,800	1,800	1,800
27	Subtotal	44,307	39,512	37,855	37,855	58,027	58,807	59,587

**Note: Some Streets revenue reassigned to the Transportation Fund in FY24 and beyond.

City of Philadelphia Five Year Financial Plan FY2025-2029		SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)						
FUND: General								
REVENUE: Locally Generated Non - Tax								
No.	Agency and Revenue Source	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Parks & Recreation							
28	Other Leases	1	1	1	1	1	1	1
29	Rent from Land, Real Estate	23	80	80	80	80	80	80
30	Permits	565	1,250	1,250	1,250	1,250	1,250	1,250
31	Other	417	575	575	575	575	575	575
32	Subtotal	1,006	1,906	1,906	1,906	1,906	1,906	1,906
	Public Property							
33	Rent from Real Estate	509	400	400	400	400	400	400
34	Sale/Lease of Capital Assets	50	14	50	50	13,050	55,050	50
35	Commission from Other Leases	3,318	3,000	3,000	3,000	3,000	3,000	3,000
36	Prior Year Refunds & Reimbursements	504	1,200	1,200	1,200	1,200	1,200	1,200
37	Other	0	50	50	50	50	50	50
38	Subtotal	4,381	4,664	4,700	4,700	17,700	59,700	4,700
	Human Services							
39	Payments for Child Care - S.S.I.	1,060	500	500	500	500	500	500
40	Other	211	200	200	200	200	200	200
41	Subtotal	1,271	700	700	700	700	700	700
	Philadelphia Prisons							
42	Inmate Account Fees	13	3	0	0	0	0	0
43	Other	19	0	0	0	0	0	0
44	Subtotal	32	3	0	0	0	0	0
	Office of Homeless Services							
45	Other	43	0	5	5	5	5	5
46	Subtotal	43	0	5	5	5	5	5
	Fleet Services							
47	Sale of Vehicles	2,026	1,650	1,650	1,650	1,650	1,650	1,650
48	Fuel and Warranty Reimbursements	3,303	3,250	3,250	3,250	3,250	3,250	3,250
49	Other	190	300	300	300	300	300	300
50	Subtotal	5,519	5,200	5,200	5,200	5,200	5,200	5,200

City of Philadelphia Five Year Financial Plan FY2025-2029		SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)						
FUND: General								
REVENUE: Locally Generated Non - Tax								
No.	Agency and Revenue Source	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Licenses and Inspections							
51	Amusement	37	40	40	40	40	40	40
52	Health and Sanitation	19,854	21,450	23,600	23,600	25,020	25,020	26,520
53	Police and Fire Protection	605	625	625	625	625	625	625
54	Street Use	2,650	2,900	3,190	3,190	3,380	3,380	3,580
55	Professional & Occupational	1,363	1,400	1,400	1,400	1,400	1,400	1,400
56	Building Structure & Equipment	38,652	38,600	42,460	42,460	45,010	45,010	47,710
57	Business	32	40	40	40	40	40	40
58	Other Licenses & Permits	52	55	55	55	55	55	55
59	Code Violation Fines	2,620	4,070	3,380	3,380	3,380	3,380	3,380
60	Other	13,015	11,725	11,725	11,725	11,725	11,725	11,725
61	Subtotal	78,880	80,905	86,515	86,515	90,675	90,675	95,075
	Records							
62	Recording of Legal Instrument Fees	11,415	10,895	11,895	12,895	12,895	13,395	13,395
63	Preparation of Records	305	300	300	300	300	300	300
64	Commission on Tax Stamps	1,071	800	500	500	500	500	500
65	Accident Investigation Reports	840	850	850	850	850	850	850
66	Document Technology Fee	2,081	2,000	2,000	2,000	2,000	2,000	2,000
67	Other	692	750	750	750	750	750	750
68	Subtotal	16,404	15,595	16,295	17,295	17,295	17,795	17,795
	Director of Finance							
69	Prior Year Refunds	3,833	200	200	200	200	200	200
70	Reimbursements - Other	2,956	4,900	4,900	4,900	4,900	4,900	4,900
71	Reimbursement - Prescription Program	13,330	12,000	12,000	12,000	12,000	12,000	12,000
72	Health Benefit Charges	1,343	1,520	1,360	1,360	1,360	1,360	1,360
73	Other	3,965	427	10	10	10	10	10
74	Subtotal	25,427	19,047	18,470	18,470	18,470	18,470	18,470
	Revenue							
75	Miscellaneous Fines	876	350	750	750	750	750	750
76	Non-Profit Org. Voluntary Payments	4,858	4,164	4,167	4,173	4,132	4,132	4,132
77	Casino Settlement Payments	0	1,000	0	0	0	0	0
78	Other	199	210	210	210	210	210	210
79	Subtotal	5,933	5,724	5,127	5,133	5,092	5,092	5,092

City of Philadelphia

Five Year Financial Plan FY2025-2029

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2023 TO 2029
(Amounts in Thousands)

FUND
General

REVENUE
Locally Generated Non - Tax

No.	Agency and Revenue Source	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Procurement							
80	Performance Bonds	0	1	1	1	1	1	1
81	Master Performance Bonds	0	10	10	10	10	10	10
82	Bid Application Fees etc.	216	200	200	200	200	200	200
83	Other	48	135	135	135	135	135	135
84	Subtotal	264	346	346	346	346	346	346
	City Treasurer							
85	Interest Earnings	72,797	75,740	58,260	27,540	7,540	7,540	7,540
86	Other	13,486	1,337	25	25	25	25	25
87	Subtotal	86,283	77,077	58,285	27,565	7,565	7,565	7,565
	Law							
88	Legal Fees & Charges	284	250	250	250	250	250	250
89	Court Awarded Damages	69	800	1,500	1,500	1,500	1,500	1,500
90	Other	60	50	50	50	50	50	50
91	Subtotal	413	1,100	1,800	1,800	1,800	1,800	1,800
	Board of Ethics							
92	Other	74	70	80	90	160	70	80
	Inspector General							
93	Other	57	35	20	20	20	20	20
	Free Library							
94	Other	60	775	775	775	775	775	775
	Personnel							
95	Other	0	1	1	1	1	1	1
	Office of Property Assessment							
96	Other	2	4	2	2	2	2	2
	Chief Administrator's Office							
97	SWEEP Fines	4,034	4,375	5,375	5,375	5,375	5,375	5,375
98	Burglar Alarm Licenses	1,463	1,465	1,500	1,500	1,500	1,500	1,500
99	False Alarm Fines	2,154	1,410	1,410	1,410	1,410	1,410	1,410
100	Reimbursements - Other	122	70	70	70	70	70	70
101	Subtotal	7,773	7,320	8,355	8,355	8,355	8,355	8,355

City of Philadelphia Five Year Financial Plan FY2025-2029		SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)						
FUND	General							
REVENUE	Locally Generated Non - Tax							
No.	Agency and Revenue Source	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Register of Wills							
102	Court Costs, Fees & Charges	971	1,000	1,000	1,000	1,000	1,000	1,000
103	Recording Fees	3,278	3,000	3,000	3,000	3,000	3,000	3,000
104	Other	1,189	1,085	1,085	1,085	1,085	1,085	1,085
105	Subtotal	5,438	5,085	5,085	5,085	5,085	5,085	5,085
	District Attorney							
106	Other	8	0	0	0	0	0	0
	Sheriff							
107	Sheriff Fees	(7)	0	6,000	6,000	6,000	6,000	6,000
108	Commission Fees	0	1,500	8,246	6,546	6,546	6,546	6,546
109	Other	1	0	50	50	50	50	50
110	Subtotal	(6)	1,500	14,296	12,596	12,596	12,596	12,596
	Planning & Development							
111	Zoning Permits	4,910	7,350	150	150	150	150	150
112	Accelerated Review Fees	294	260	260	260	260	260	260
113	Other	0	1	1	1	1	1	1
114	Subtotal	5,204	7,611	411	411	411	411	411
	City Commissioners							
115	Other	14	10	10	10	10	10	10
	1st Judicial District - Clerk of Courts							
116	Other Fines	89	150	150	150	150	150	150
117	Court Costs, Fees & Charges	921	1,175	1,175	1,175	1,175	1,175	1,175
118	Bail Forfeited	478	0	0	0	0	0	0
119	Cash Bail Fees	452	0	0	0	0	0	0
120	Subtotal	1,940	1,325	1,325	1,325	1,325	1,325	1,325
	1st Judicial District - Traffic Court							
121	Traffic Court Fines	2,290	3,000	3,000	3,000	3,000	3,000	3,000
	1st Judicial District - CP & Mun. Court							
122	Court Costs, Fees & Charges	15,820	17,500	17,500	17,500	17,500	17,500	17,500
123	Other Fines	1,524	1,200	1,200	1,200	1,200	1,200	1,200
124	Other	195	2,350	2,350	2,350	2,350	2,350	2,350
125	Subtotal	17,539	21,050	21,050	21,050	21,050	21,050	21,050

City of Philadelphia Five Year Financial Plan FY2025-2029				SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)				
FUND **General**								
REVENUE **Locally Generated Non - Tax**								
No.	**Agency and Revenue Source**	**FY 2023 Actual**	**FY 2024 Estimate**	**FY 2025 Estimate**	**FY 2026 Estimate**	**FY 2027 Estimate**	**FY 2028 Estimate**	**FY 2029 Estimate**
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
126	Other Adjustments	764	0	0	0	0	0	0
127	**Total Locally Generated Non-Tax**	**415,117**	**408,609**	**391,844**	**365,668**	**382,272**	**424,743**	**374,250**

City of Philadelphia Five Year Financial Plan FY2025-2029	SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)
FUND **General**	
REVENUE **Revenue from Other Governments**	

No.	Agency and Revenue Source	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Managing Director							
	Federal:							
1	Emergency Management	172	934	2,115	29,115	115	115	115
	Police							
	State:							
2	Police Training - Reimbursement	2,886	2,275	2,275	2,275	2,275	2,275	2,275
	Streets**							
	Federal:							
3	Highways	763	690	0	0	0	0	0
4	Bridge Design	51	14	0	0	0	0	0
	State:							
5	Snow Removal	2,500	0	0	0	0	0	0
6	PennDot Bridge Design	0	27	0	0	0	0	0
7	PennDot Highways	0	0	0	0	0	0	0
8	Subtotal	3,314	731	0	0	0	0	0
	Public Health							
	Federal:							
9	Medicare - Outpatient / HC's	1,697	2,791	2,791	2,791	2,791	2,791	2,791
10	Medicare - PNH	3,619	0	0	0	0	0	0
11	Medical Assistance - Outpatient / HC's	35,155	27,836	31,961	31,961	31,961	31,961	31,961
12	Medical Assistance - PNH	989	0	0	0	0	0	0
13	Summer Food Inspection	40	40	40	40	40	40	40
	State:							
14	County Health	8,200	10,221	8,395	8,395	8,395	8,395	8,395
15	Medical Assistance - Outpatient / HC's	14,265	22,422	25,797	25,797	25,797	25,797	25,797
16	Subtotal	63,965	63,310	68,984	68,984	68,984	68,984	68,984
	Public Property							
	Other Governments:							
17	PGW Rental	18,000	18,000	18,000	18,000	18,000	18,000	18,000
	Philadelphia Prisons							
	Federal:							
18	SSA Prisoner Incentive Payments	134	150	150	150	150	150	150

**Note: Some Streets revenue reassigned to the Transportation Fund in FY24 and beyond.

City of Philadelphia Five Year Financial Plan FY2025-2029		SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)						
FUND **General**								
REVENUE **Revenue from Other Governments**								
No.	Agency and Revenue Source	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Director of Finance							
	Federal:							
19	Medicare Part D-Retirees	171	50	50	50	50	50	50
	State:							
20	Pension Aid - State Act 205	84,690	93,743	93,743	93,743	93,743	93,743	93,743
21	Juror Fee Reimbursement	97	160	100	100	100	100	100
22	State Police Fines (Phila. County)	217	261	250	250	250	250	250
23	Wage Tax Relief Funding	108,754	108,754	130,632	130,632	130,632	130,632	130,632
24	Gaming - Local Share Assessment	14,002	13,891	14,000	14,000	14,000	14,000	14,000
25	Other Governments:							
26	PATCO Community Impact Fund	75	75	75	75	75	75	75
27	PAID - Parametric Garage	898	947	250	250	250	250	250
28	Subtotal	208,904	217,881	239,100	239,100	239,100	239,100	239,100
	Revenue							
	Federal:							
29	Reimb. - PILOT	0	3	3	3	3	3	3
30	Tinicum Wildlife Preserve	5	4	4	4	4	4	4
	Other Governments:							
31	PPA - Parking/Violations/Fines (on St.)	48,670	45,717	46,723	47,751	48,802	49,876	50,874
32	Burlington County Bridge Comm.	0	7	7	7	7	7	7
33	Subtotal	48,675	45,731	46,737	47,765	48,816	49,890	50,888
	City Treasurer							
	State:							
34	Retail Liquor License	989	1,059	1,100	1,100	1,100	1,100	1,100
35	Public Utility Tax Refund	3,869	4,270	4,270	4,270	4,270	4,270	4,270
36	Subtotal	4,858	5,329	5,370	5,370	5,370	5,370	5,370
	Commission on Human Relations							
	Federal:							
37	Deferred EEOC Cases	94	81	125	125	125	125	125
	District Attorney							
	State:							
38	Reimbursement - DA Salary	127	127	127	127	127	127	127

City of Philadelphia

Five Year Financial Plan FY2025-2029

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2023 TO 2029
(Amounts in Thousands)

FUND
General

REVENUE
Revenue from Other Governments

No.	Agency and Revenue Source	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	1st Judicial District							
	Federal:							
39	Title IV-E	0	0	25	25	25	25	25
	State:							
40	Intensive Probation - Adult	4,019	4,019	4,019	4,019	4,019	4,019	4,019
41	Intensive Probation - Juvenile	1,232	1,232	1,232	1,232	1,232	1,232	1,232
42	Reimbursement - Court Costs	6,768	6,530	10,075	10,075	10,075	10,075	10,075
43	Reimbursement - Attorney Fees	94	82	82	82	82	82	82
44	Subtotal	12,113	11,863	15,433	15,433	15,433	15,433	15,433
45	PICA City Account	674,272	707,039	739,412	768,168	796,000	825,207	855,753
	Totals							
46	Federal	42,890	32,593	37,264	64,264	35,264	35,264	35,264
47	State	252,709	269,073	296,097	296,097	296,097	296,097	296,097
48	Other Governments	67,643	64,746	65,055	66,083	67,134	68,208	69,206
49	PICA Funding	674,272	707,039	739,412	768,168	796,000	825,207	855,753
50	Other Authorized Adjustments	59,067	0	0	2,000	2,000	2,000	2,000
51	**Total, Revenue From Other Govts.**	**1,096,581**	**1,073,451**	**1,137,828**	**1,196,612**	**1,196,495**	**1,226,776**	**1,258,320**

City of Philadelphia Five Year Financial Plan FY2025-2029		SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)						
FUND	General							
REVENUE	Revenue from Other Funds							
No.	Agency and Revenue Source	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Water Fund							
1	Services performed & costs borne by General Fund	4,576	5,376	5,712	6,067	6,442	6,842	7,264
2	Excess interest on Sinking Fund reserve	0	1,500	1,500	1,500	1,500	1,500	1,500
3	Sub-total	4,576	6,876	7,212	7,567	7,942	8,342	8,764
	Aviation Fund							
4	Services performed & costs borne by General Fund	2,450	3,500	3,600	3,700	3,800	3,900	4,000
	Grants Revenue Fund							
5	American Rescue Plan	335,000	390,820	419,473	0	0	0	0
6	American Rescue Plan Interest Earnings	0	0	0	58,000	0	0	0
7	Services performed & costs borne by General Fund	1,463	750	750	750	5,050	750	750
8	911 Surcharge	34,608	49,804	47,188	46,588	45,778	45,778	45,778
9	Sub-total	371,071	441,374	467,411	105,338	50,828	46,528	46,528
	Other Funds							
10	Services performed & costs borne by General Fund	2,920	3,080	3,000	3,000	3,000	3,000	3,000
11	**Total Revenue from Other Funds**	**381,017**	**454,830**	**481,223**	**119,605**	**65,570**	**61,770**	**62,292**

City of Philadelphia
General Fund
FY 2025- 2029 Five Year Financial Plan
Summary by Class

Expenditure Class	FY 2023 Actual	FY 2024 Budget	FY 2024 Estimate	FY 2025 Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
Class 100 - Wages	1,975,600,771	2,167,982,681	2,177,126,794	2,279,090,769	2,272,165,550	2,285,575,573	2,287,537,606	2,287,537,606
Class 100 - Benefits	1,625,941,393	1,660,996,026	1,625,487,164	1,677,120,077	1,716,927,855	1,757,871,049	1,804,083,833	1,919,834,823
Class 200 - Contracts / Leases	1,207,299,180	1,380,126,604	1,400,500,546	1,422,266,921	1,345,332,393	1,350,674,306	1,370,052,951	1,362,057,337
Class 300/400 - Supplies, Equipment	167,719,978	145,090,135	204,679,223	148,326,151	139,622,574	138,494,056	138,614,733	138,629,204
Class 500 - Indemnities / Contributions	480,791,816	425,194,220	475,703,220	432,724,220	413,594,220	413,094,220	413,094,220	413,094,220
Class 700 - Debt Service	190,495,836	201,632,422	201,632,422	234,667,304	242,227,179	274,824,769	281,871,366	279,388,293
Class 800 - Payments to Other Funds	270,532,116	147,031,812	239,215,191	129,782,448	133,841,262	134,735,631	80,419,670	83,915,768
Class 900 - Advances / Misc. Payments	0	67,360,100	11,200,100	43,505,110	69,620,268	77,620,268	96,620,268	119,620,268
Total	5,918,381,090	6,195,414,000	6,335,544,660	6,367,483,000	6,333,331,301	6,432,889,872	6,472,294,647	6,604,077,519

City of Philadelphia
FY 2025 - 2029 Five Year Financial Plan
General Fund
Summary by Department

Department	FY 2023 Actual	FY 2024 Budget	FY 2024 Estimate	FY 2025 Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
Art Museum	2,040,000	2,142,000	2,142,000	2,642,000	2,142,000	2,142,000	2,142,000	2,142,000
Auditing	9,734,403	11,148,245	11,148,245	11,148,245	11,148,245	11,148,245	11,148,245	11,148,245
Board of Ethics	1,008,915	1,382,433	1,382,433	1,382,433	1,382,433	1,382,433	1,382,433	1,382,433
Board of Revision of Taxes	1,092,178	1,192,431	1,212,431	1,147,431	1,147,431	1,147,431	1,147,431	1,147,431
City Commissioners	28,219,522	29,117,650	29,117,650	33,404,298	29,672,788	29,688,643	29,704,821	29,704,821
City Council	17,642,059	19,751,418	23,551,418	25,001,418	24,501,418	24,501,418	24,501,418	24,501,418
City Treasurer	4,797,363	5,114,652	5,114,652	5,289,652	5,289,652	5,289,652	5,289,652	5,289,652
Civil Service Commission	183,040	213,651	213,651	213,651	213,651	213,651	213,651	213,651
Civil Service Comm - Provision for Future Labor Obligations	0	13,360,000	11,200,000	43,505,010	69,620,168	77,620,168	96,620,168	119,620,168
Commerce	12,399,056	18,545,558	16,678,618	13,922,041	13,805,103	13,805,103	13,732,703	13,732,703
Commerce - Convention Center Subsidy	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Commerce - Economic Stimulus	16,720,961	16,334,550	23,114,490	32,795,294	36,295,294	37,295,294	38,295,294	40,295,294
District Attorney	50,124,700	51,119,070	54,119,070	54,286,779	54,243,579	54,243,579	54,243,579	54,243,579
Finance	198,163,923	52,600,924	123,219,924	27,587,281	25,366,851	25,933,311	26,890,226	28,015,518
Finance-Reg #32	4,334,997	5,200,000	5,200,000	7,200,000	7,200,000	7,200,000	7,200,000	7,200,000
Finance-Budget Stabilization	65,128,000	42,261,000	42,261,000	58,291,000	59,676,000	57,754,000	0	0
Finance - Recession and Inflation Reserve and Reopening	0	54,000,000	0	0	0	0	0	0
Finance - Community College Subsidy	67,126,386	51,003,181	61,003,181	56,003,181	51,003,181	51,003,181	51,003,181	51,003,181
Finance - Employee Benefits	1,625,941,393	1,660,996,026	1,625,487,164	1,677,120,077	1,716,927,855	1,757,871,049	1,804,083,833	1,919,834,823
Finance - Hero Awards	24,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Finance - Payment to Housing Trust Fund	29,066,068	30,612,698	30,612,698	31,006,714	31,209,366	31,714,875	32,198,718	32,854,372
Finance - Indemnities	10,792,504	49,246,000	74,246,000	61,246,000	61,246,000	61,246,000	61,246,000	61,246,000
Finance - Refunds	124,150	250,000	750,000	250,000	250,000	250,000	250,000	250,000
Finance - School District Contribution	269,953,201	282,052,590	282,052,590	284,052,590	284,052,590	284,052,590	284,052,590	284,052,590
Finance - Witness Fees	170,900	180,094	330,094	180,094	180,094	180,094	180,094	180,094
Fire	395,726,507	400,794,784	402,090,784	432,093,306	420,382,514	420,505,639	420,896,797	421,044,368
First Judicial District	122,480,856	129,052,430	129,152,430	129,901,368	129,233,818	129,233,818	129,233,818	129,233,818
Fleet Services	55,728,850	55,253,706	57,753,706	52,312,815	52,312,815	52,312,815	52,312,815	52,312,815
Fleet Services - Vehicle Lease/Purchases	22,582,373	15,359,245	40,359,245	6,047,245	15,359,245	15,359,245	15,359,245	15,359,245
Free Library	50,533,587	70,934,523	70,934,523	71,703,640	71,813,390	71,825,226	71,837,690	71,837,690
Human Relations Commission	2,387,906	2,756,401	2,756,401	2,758,676	2,761,031	2,763,468	2,765,990	2,765,990
Human Services	184,752,720	219,709,887	219,709,887	222,404,818	226,454,990	226,454,990	226,454,990	226,454,990
Labor	3,390,043	4,768,554	5,122,731	4,653,592	4,648,967	4,648,967	4,648,967	4,648,967
Law	24,887,694	28,854,870	31,054,870	29,701,870	29,740,870	29,740,870	29,140,870	29,140,870
Licenses & Inspections	38,917,404	44,257,829	45,672,151	43,226,201	43,226,201	43,226,201	43,226,201	43,226,201
L&I: Board of Building Standards	83,357	86,609	86,609	86,609	86,609	86,609	86,609	86,609
L&I: Board of L&I Review	180,203	182,543	182,543	182,543	182,543	182,543	182,543	182,543
Managing Director	110,083,074	187,205,603	173,531,965	177,556,197	107,493,960	109,087,105	109,624,316	109,624,316
Managing Director - Defender's Association	54,283,600	61,997,780	63,997,780	65,997,780	65,997,780	65,997,780	65,997,780	65,997,780
Managing Director - Citizens Police Oversight Commission	1,390,833	3,023,642	3,023,642	3,023,642	3,023,642	3,023,642	3,023,642	3,023,642
Managing Director - Clean and Green	0	0	0	1,055,000	1,055,000	1,055,000	1,055,000	1,055,000
Managing Director - Public Safety	0	0	0	13,384,101	8,528,158	8,528,158	8,528,158	8,528,158

City of Philadelphia
FY 2025 - 2029 Five Year Financial Plan
General Fund
Summary by Department

Department	FY 2023 Actual	FY 2024 Budget	FY 2024 Estimate	FY 2025 Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
Mayor	6,756,501	6,067,744	8,167,744	15,275,533	15,275,533	15,275,533	15,275,533	15,275,533
Mayor - Scholarships	76,000	100,000	100,000	0	0	0	0	0
Mayor - Office of Chief Administrative Officer	13,745,419	18,420,959	19,036,819	20,225,522	11,288,135	11,288,135	10,288,135	10,288,135
Office of Children and Families	502,591	481,098	481,098	949,098	949,098	949,098	949,098	949,098
Office of Arts and Culture and the Creative Economy	0	0	0	10,825,601	5,145,601	5,145,601	5,145,601	5,145,601
Mayor's Office of Community Empowerment and Opportunity	1,704,202	3,449,909	3,464,267	5,913,909	6,036,659	6,159,409	6,282,159	6,282,159
Mural Arts Program	3,198,517	3,683,320	4,183,320	3,683,320	2,683,320	2,683,320	2,683,320	2,683,320
Office of Behavioral Health and Intellectual disAbilities	27,986,417	29,024,448	29,024,448	28,998,703	28,960,676	28,960,676	28,960,676	28,960,676
Office of Homeless Services	78,342,285	80,556,703	91,564,048	88,714,379	80,446,538	80,479,663	80,513,781	80,513,781
Office of Human Resources	7,658,194	12,710,756	14,934,756	10,376,056	9,833,756	9,516,756	9,520,756	9,520,756
Office of Innovation and Technology	88,523,703	96,415,805	95,015,805	107,622,232	108,755,357	106,218,901	106,927,581	107,654,810
Office of Innovation and Technology - 911	18,572,354	31,855,521	31,855,521	27,840,014	27,240,014	26,430,452	26,430,452	26,430,452
Office of Inspector General	1,625,270	2,346,548	2,346,548	2,846,548	2,846,548	2,846,548	2,846,548	2,846,548
Office of Property Assessment	15,366,387	18,310,182	18,310,182	18,310,182	18,310,182	18,310,182	18,310,182	18,310,182
Office of Sustainability	2,169,160	2,974,885	3,381,513	2,450,013	2,400,013	2,400,013	2,400,013	2,400,013
Parks and Recreation	75,227,124	79,418,097	83,315,097	81,498,310	77,959,016	77,974,016	77,974,016	77,974,016
Planning & Development	34,759,317	35,404,422	35,604,422	17,780,802	13,780,802	13,780,802	13,780,802	13,780,802
Police	829,210,826	855,831,761	878,331,761	877,435,832	867,449,384	867,627,261	867,817,589	867,817,589
Prisons	235,170,098	292,774,430	302,768,812	300,962,781	301,437,580	302,137,819	302,880,950	302,880,950
Procurement	6,348,981	7,235,722	7,235,722	6,769,498	6,769,498	6,769,498	6,769,498	6,769,498
Public Health	132,074,650	148,736,320	153,736,320	151,826,661	157,928,679	157,814,551	157,814,551	157,814,551
Public Property	91,356,854	95,659,168	94,713,590	88,063,779	90,596,344	92,988,182	95,769,408	98,695,761
Public Property - SEPTA Subsidy	100,699,000	109,567,000	109,567,000	133,291,440	139,300,440	146,267,440	152,917,440	159,853,440
Public Property - Space Rentals	32,123,081	37,448,243	37,923,243	40,038,929	40,748,787	41,955,613	43,007,895	44,292,588
Public Property - Utilities	35,547,994	31,162,103	31,162,103	26,276,250	27,202,536	28,161,289	29,153,668	30,179,096
Records	4,113,075	4,564,421	4,718,151	4,595,951	4,480,264	4,487,141	4,494,023	4,494,023
Register of Wills	4,734,032	5,024,798	5,024,798	5,774,798	5,774,798	5,774,798	5,774,798	5,774,798
Revenue	25,542,833	28,854,507	28,854,507	31,997,395	29,835,358	28,535,358	28,535,358	28,535,358
Sheriff	31,657,866	32,866,448	34,166,448	35,666,954	35,263,454	35,263,454	35,263,454	35,263,454
Sinking Fund Commission (Debt Service)	292,884,815	324,217,521	324,217,521	355,527,473	362,117,883	398,980,528	411,685,081	384,107,094
Streets	223,506,818	163,138,584	197,702,520	167,130,445	168,589,816	172,943,042	177,170,813	180,952,462
Total	5,918,381,090	6,195,414,000	6,335,544,660	6,367,483,000	6,333,331,301	6,432,889,872	6,472,294,647	6,604,077,519

City of Philadelphia
General Fund
FY 2025 - 2029 Five Year Financial Plan
Estimated Fringe Benefit Allocation

Expenditure Category	FY 2023 Actual	FY 2024 Budget	FY 2024 Estimate	FY 2025 Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
Unemployment Comp.	1,609,121	4,468,204	4,468,204	4,600,000	4,600,000	4,600,000	4,600,000	4,600,000
COVID-19 Funeral Expense	22,885	0	0	0	0	0	0	0
Employee Disability	92,323,076	96,192,786	96,192,786	112,137,837	116,761,015	121,088,311	125,138,658	128,929,785
Pension	929,683,859	868,190,117	826,762,500	833,146,961	852,929,714	857,753,726	866,082,694	941,916,676
FICA	89,055,014	98,247,674	98,247,674	101,729,695	102,570,214	103,507,973	104,426,111	105,433,511
Health / Medical	499,824,327	576,660,058	582,578,813	607,955,584	622,516,912	653,371,039	686,286,370	721,404,851
Group Life	6,386,906	8,760,382	8,760,382	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000
Group Legal	6,094,612	6,438,177	6,438,177	6,500,000	6,500,000	6,500,000	6,500,000	6,500,000
Tool Allowance	155,750	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Flex Cash Payments	785,843	1,688,628	1,688,628	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000
Total	1,625,941,393	1,660,996,026	1,625,487,164	1,677,120,077	1,716,927,855	1,757,871,049	1,804,083,833	1,919,834,823

City of Philadelphia
Fiscal Year 2025 Operating Budget
FY 2025-2029 Five Year Plan
General Fund Full-Time Positions

Department	Filled Positions 6/30/23	FY 2024 Adopted Budget	November 2023 Increment	FY 2025 Adopted Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
Auditing	110	135	105	138	138	138	138	138
Board of Ethics	10	14	10	14	14	14	14	14
Board of Revision of Taxes	15	16	16	16	16	16	16	16
City Commissioners	146	187	143	200	200	200	200	200
City Council	164	185	169	215	215	215	215	215
City Treasurer	20	22	19	23	23	23	23	23
Civil Service Commission	2	2	2	2	2	2	2	2
Commerce	53	80	59	84	84	84	84	84
District Attorney Civilian	*541*	*572*	*568*	*608*	*608*	*608*	*608*	*608*
District Attorney Uniform	*32*	*33*	*34*	*34*	*34*	*34*	*34*	*34*
District Attorney - Total	573	605	602	642	642	642	642	642
Finance	121	139	127	142	142	142	142	142
Fire Civilian	*133*	*177*	*134*	*177*	*177*	*177*	*177*	*177*
Fire Uniform	*2,661*	*3,215*	*2,648*	*3,215*	*3,215*	*3,215*	*3,215*	*3,215*
Fire - Total	2,794	3,392	2,782	3,392	3,392	3,392	3,392	3,392
First Judicial District	1,685	1,720	1,710	1,710	1,857	1,857	1,857	1,857
Fleet Management	266	319	270	319	319	319	319	319
Free Library	764	1,009	780	1,009	1,009	1,009	1,009	1,009
Human Relations Commission	30	34	32	35	35	35	35	35
Human Services	415	549	426	551	551	551	551	551
Labor	34	52	37	57	57	57	57	57
Law	193	205	211	223	223	223	223	223
Licenses & Inspections	329	430	334	441	441	441	441	441
L&I-Board of Building Standards	1	1	1	1	1	1	1	1
L&I-Board of L & I Review	2	2	2	2	2	2	2	2
Managing Director	371	477	485	598	598	598	598	598
MDO - Citizens Police Oversight Commission	16	24	16	25	25	25	25	25
MDO - Clean and Green	0	0	0	7	7	7	7	7
MDO - Public Safety	0	0	0	15	15	15	15	15
Mayor	53	45	39	113	113	113	113	113
Mayor - Office of the Chief Administrative Officer	73	76	65	100	101	101	101	101
Office of Arts and Culture	0	0	0	9	9	9	9	9
Office of Children and Families	5	3	3	9	9	9	9	9
Mayor's Office of Community Empowerment and Opportunity	0	20	18	50	50	50	50	50
Mural Arts Program	9	10	7	10	10	10	10	10
Office of Behavioral Health and Intellectual disAbility	44	53	44	53	53	53	53	53
Office of Human Resources	82	96	83	99	99	99	99	99
Office of Innovation & Technology	349	398	368	421	421	421	421	421
Office of Inspector General	18	26	21	26	26	26	26	26
Office of Property Assessment	182	226	175	226	226	226	226	226
Office of Homeless Services	113	149	122	149	149	149	149	149
Office of Sustainability	18	23	20	23	23	23	23	23
Parks & Recreation	678	945	644	926	926	926	926	926
Planning & Development	66	83	63	86	86	86	86	86
Police Civilian	*801*	*1,103*	*862*	*1,230*	*1,230*	*1,230*	*1,230*	*1,230*
Police Uniform	*5,550*	*6,380*	*5,484*	*6,380*	*6,380*	*6,380*	*6,380*	*6,380*
Police - Total	6,351	7,483	6,346	7,610	7,610	7,610	7,610	7,610
Prisons	1,312	2,186	1,270	2,186	2,186	2,186	2,186	2,186
Procurement	36	54	36	53	53	53	53	53
Public Health	690	864	700	871	871	871	871	871
Public Property	119	176	143	158	158	158	158	158
Records	53	60	55	60	60	60	60	60
Register of Wills	63	73	66	85	85	85	85	85
Revenue	326	401	314	400	400	400	400	400
Sheriff	328	459	328	459	459	459	459	459
Streets	2,068	1,690	1,433	1,885	1,885	1,885	1,885	1,885
TOTAL GENERAL FUND	**21,150**	**25,198**	**20,701**	**25,928**	**26,076**	**26,076**	**26,076**	**26,076**

Note: The Adopted Budget position counts represent the maximum level of positions during the year. Attrition lowers the position count throughout the year. **Also, beginning in FY24 808 Streets positions were transferred to the Transportation Fund.

CITY OF PHILADELPHIA

FY2025 - FY2029 FIVE YEAR FINANCIAL PLAN

AS APPROVED BY THE COUNCIL - JUNE 2024

HOUSING TRUST FUND

City of Philadelphia As Adopted Five Year Financial Plan FY2025-2029				SUMMARY OF OPERATIONS FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)				
FUND	**Housing Trust**							
NO.	ITEM	FY 2023 Actual	FY 2024 Estimate	FY 2025 Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	OPERATIONS OF FISCAL YEAR							
	REVENUES							
1	Taxes	0	0	0	0	0	0	0
2	Locally Generated Non-Tax Revenues	15,020	15,264	17,432	17,800	17,800	17,800	17,800
3	Revenue from Other Governments	0	0	0	0	0	0	0
4	Other Govts. - PICA City Account (1)	0	0	0	0	0	0	0
5	Sub-Total Other Governments	0	0	0	0	0	0	0
6	Revenue from Other Funds of City	29,066	30,613	31,007	31,209	31,715	32,199	32,854
7	Total - Revenue	**44,086**	**45,877**	**48,439**	**49,009**	**49,515**	**49,999**	**50,654**
8	Other	0	0	0	0	0	0	0
9	**Total Revenue and Other Sources**	**44,086**	**45,877**	**48,439**	**49,009**	**49,515**	**49,999**	**50,654**
	OBLIGATIONS/APPROPRIATIONS							
10	Personal Services	2,191	2,943	4,522	4,522	4,522	4,522	4,522
11	Personal Services-Pensions	0	809	768	768	768	768	768
12	Personal Services-Pensions Sales Tax	0	0	0	0	0	0	0
13	Personal Services-Other Employee Benefits	0	462	541	541	541	541	541
14	**Sub-Total Employee Compensation**	**2,191**	**4,214**	**5,831**	**5,831**	**5,831**	**5,831**	**5,831**
15	Purchase of Services	56,293	65,775	65,206	65,206	65,206	65,206	65,206
16	Materials, Supplies and Equipment	0	150	150	150	150	150	150
17	Contributions, Indemnities, and Taxes	0	0	0	0	0	0	0
18	Debt Service	0	0	0	0	0	0	0
19	Payments to Other Funds	0	0	0	0	0	0	0
20	Advances & Misc. Pmts. Incl. Labor Reserve	0	0	0	20	40	60	80
21	Adv & Misc. Pmts.- Recession, Inflation Res. & Reopening	0	0	0	0	0	0	0
22	Sub-Total	58,484	70,139	71,187	71,207	71,227	71,247	71,267
23	Payment to Budget Stabilization Reserve Fund	0	0	0	0	0	0	0
24	**Total - Obligations**	**58,484**	**70,139**	**71,187**	**71,207**	**71,227**	**71,247**	**71,267**
25	Oper. Surplus (Deficit) for Fiscal Year	(14,398)	(24,262)	(22,748)	(22,198)	(21,712)	(21,248)	(20,613)
25	**Prior Year Adjustments:**							
26	Revenue Adjustments	0	0	0	0	0	0	0
27	Other Adjustments	0	19,000	19,000	19,000	19,000	19,000	19,000
28	Total Prior Year Adjustments	0	19,000	19,000	19,000	19,000	19,000	19,000
29	**Adjusted Oper. Surplus/ (Deficit)**	**(14,398)**	**(5,262)**	**(3,748)**	**(3,198)**	**(2,712)**	**(2,248)**	**(1,613)**
	OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS							
30	Fund Balance Available for Appropriation June 30 of Prior Fiscal Year	34,638	20,240	14,978	11,230	8,032	5,320	3,072
31	Fund Balance Available for Appropriation June 30	**20,240**	**14,978**	**11,230**	**8,032**	**5,320**	**3,072**	**1,459**

City of Philadelphia

Five Year Financial Plan FY2025-2029

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2023 TO 2029
(Amounts in Thousands)

FUND
Housing Trust

REVENUE
ALL

NO.	AGENCY AND REVENUE SOURCE	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(4)	(5)	(6)	(7)	(8)	(9)	(9)
	A. Taxes							
	1. Other	0	0	0	0	0	0	0
	B. Locally Generated Non-Tax							
	1. Recording Fees	12,128	10,914	11,132	11,500	11,500	11,500	11,500
	2. Zoning Permits	0	0	2,300	2,300	2,300	2,300	2,300
	3. Interest Earnings	2,892	4,350	4,000	4,000	4,000	4,000	4,000
	Subtotal	15,020	15,264	17,432	17,800	17,800	17,800	17,800
	C. Revenue from Other Governments							
	1. Other	0	0	0	0	0	0	0
	D. Revenue from Other Funds							
	1. Contribution from the General Fund	29,066	30,613	31,007	31,209	31,715	32,199	32,854
	Total	44,086	45,877	48,439	49,009	49,515	49,999	50,654

City of Philadelphia
Housing Trust Fund
FY 2025- 2029 Five Year Financial Plan
Summary by Class

Expenditure Class	FY 2023 Actual	FY 2024 Budget	FY 2024 Estimate	FY 2025 Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
Class 100 - Wages	1,611,650	3,914,143	2,943,000	4,522,143	4,522,143	4,522,143	4,522,143	4,522,143
Class 100 - Benefits	579,640	310,425	1,271,000	1,308,857	1,308,857	1,308,857	1,308,857	1,308,857
Class 200 - Contracts / Leases	56,293,449	107,309,432	65,775,000	65,206,000	65,206,000	65,206,000	65,206,000	65,206,000
Class 300/400 - Supplies, Equipment	0	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Class 500 - Indemnities / Contributions	0	0	0	0	0	0	0	0
Class 700 - Debt Service	0	0	0	0	0	0	0	0
Class 800 - Payments to Other Funds	0	0	0	0	0	0	0	0
Class 900 - Advances / Misc. Payments	0	0	0	0	20,000	40,000	60,000	80,000
Total	58,484,739	111,684,000	70,139,000	71,187,000	71,207,000	71,227,000	71,247,000	71,267,000

CITY OF PHILADELPHIA

FY2025 - FY2029 FIVE YEAR FINANCIAL PLAN

AS APPROVED BY THE COUNCIL - JUNE 2024

TRANSPORTATION FUND

City of Philadelphia
As Adopted
Five Year Financial Plan FY2025-2029

SUMMARY OF OPERATIONS
FISCAL YEARS 2023 TO 2029
(Amounts in Thousands)

FUND
Transportation *

NO.	ITEM	FY 2023 Actual	FY 2024 Estimate	FY 2025 Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	OPERATIONS OF FISCAL YEAR							
	REVENUES							
1	Taxes	0	104,734	108,243	112,053	115,672	119,408	123,122
2	Locally Generated Non-Tax Revenues	0	8,640	8,640	8,640	8,640	8,640	8,640
3	Revenue from Other Governments	0	3,325	3,325	3,325	3,325	3,325	3,325
4	Other Govts. - PICA City Account (1)	0	0	0	0	0	0	0
5	Sub-Total Other Governments	0	3,325	3,325	3,325	3,325	3,325	3,325
6	Revenue from Other Funds of City	0	0	0	0	0	0	0
7	Total - Revenue	**0**	**116,699**	**120,208**	**124,018**	**127,637**	**131,373**	**135,087**
8	Other	0	0	0	0	0	0	0
9	**Total Revenue and Other Sources**	**0**	**116,699**	**120,208**	**124,018**	**127,637**	**131,373**	**135,087**
	OBLIGATIONS/APPROPRIATIONS							
10	Personal Services	0	50,801	50,801	50,801	50,801	50,801	50,801
11	Personal Services-Pensions	0	20,749	20,815	20,815	20,815	20,815	20,815
12	Personal Services-Pensions Sales Tax	0	0	0	0	0	0	0
13	Personal Services-Other Employee Benefits	0	17,951	23,685	23,686	23,686	23,686	23,685
14	**Sub-Total Employee Compensation**	**0**	**89,501**	**95,301**	**95,302**	**95,302**	**95,302**	**95,301**
15	Purchase of Services	0	15,456	13,991	13,991	13,991	13,991	13,991
16	Materials, Supplies and Equipment	0	10,020	9,625	9,625	9,625	9,625	9,625
17	Contributions, Indemnities, and Taxes	0	0	0	0	0	0	0
18	Debt Service	0	0	0	0	0	0	0
19	Payments to Other Funds	0	2,006	2,146	2,210	2,276	2,345	2,415
20	Advances & Misc. Pmts. Incl. Labor Reserve	0	0	0	380	760	1,140	1,520
21	Adv & Misc. Pmts.- Recession, Inflation Res. & Reopening	0	0	0	0	0	0	0
22	Sub-Total	0	116,983	121,063	121,508	121,954	122,403	122,852
23	Payment to Budget Stabilization Reserve Fund	0	0	0	0	0	0	0
24	**Total - Obligations**	**0**	**116,983**	**121,063**	**121,508**	**121,954**	**122,403**	**122,852**
25	Oper. Surplus (Deficit) for Fiscal Year	0	(284)	(855)	2,510	5,683	8,970	12,235
	Prior Year Adjustments:							
26	Revenue Adjustments	0	0	0	0	0	0	0
27	Other Adjustments	0	284	1,716	0	0	0	0
28	Total Prior Year Adjustments	0	284	1,716	0	0	0	0
29	**Adjusted Oper. Surplus/ (Deficit)**	**0**	**0**	**861**	**2,510**	**5,683**	**8,970**	**12,235**
	OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS							
30	Fund Balance Available for Appropriation June 30 of Prior Fiscal Year	0	0	0	861	3,371	9,054	18,024
31	Fund Balance Available for Appropriation June 30	**0**	**0**	**861**	**3,371**	**9,054**	**18,024**	**30,259**

*Transportation Fund was newly created in FY24.

City of Philadelphia Five Year Financial Plan FY2025-2029	SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2023 TO 2029 (Amounts in Thousands)

FUND
Transportation

REVENUE
ALL

NO.	AGENCY AND REVENUE SOURCE	FY 2023 Actual	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(4)	(5)	(6)	(7)	(8)	(9)	(9)
	A. Taxes							
	1. Parking	0	104,734	108,243	112,053	115,672	119,408	123,122
	B. Locally Generated Non-Tax							
	1. Survey Charges	0	875	875	875	875	875	875
	2. Streets Issued Permits	0	5,250	5,250	5,250	5,250	5,250	5,250
	3. Prior Year Reimbursements	0	25	25	25	25	25	25
	4. Right of Way Fees	0	10	10	10	10	10	10
	5. DAS Application Fee	0	2,480	2,480	2,480	2,480	2,480	2,480
	Subtotal	0	8,640	8,640	8,640	8,640	8,640	8,640
	C. Revenue from Other Governments							
	Federal:							
	1. Highways	0	350	350	350	350	350	350
	2. Bridge Design	0	215	215	215	215	215	215
	3. Delaware Valley Reg. Plan. Comm.	0	185	185	185	185	185	185
	Subtotal	0	750	750	750	750	750	750
	State:							
	4. Snow Removal	0	2,500	2,500	2,500	2,500	2,500	2,500
	5. PennDot Bridge Design	0	50	50	50	50	50	50
	6. PennDot Highways	0	25	25	25	25	25	25
	Subtotal	0	2,575	2,575	2,575	2,575	2,575	2,575
	D. Revenue from Other Funds							
	1. Other	0	0	0	0	0	0	0
	Total	0	116,699	120,208	124,018	127,637	131,373	135,087

City of Philadelphia
Transportation Fund
FY 2025- 2029 Five Year Financial Plan
Summary by Class

Expenditure Class	FY 2023 Actual	FY 2024 Budget	FY 2024 Estimate	FY 2025 Budget	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
Class 100 - Wages	0	50,455,160	50,801,224	50,801,224	50,801,224	50,801,224	50,801,224	50,801,224
Class 100 - Benefits	0	25,013,578	38,700,000	44,500,921	44,500,921	44,500,921	44,500,921	44,500,921
Class 200 - Contracts / Leases	0	13,990,739	15,455,739	13,990,739	13,990,739	13,990,739	13,990,739	13,990,739
Class 300/400 - Supplies, Equipment	0	9,624,523	10,019,523	9,624,523	9,624,523	9,624,523	9,624,523	9,624,523
Class 500 - Indemnities / Contributions	0	0	0	0	0	0	0	0
Class 700 - Debt Service	0	0	0	0	0	0	0	0
Class 800 - Payments to Other Funds	0	0	2,005,983	2,145,593	2,210,343	2,276,273	2,345,151	2,415,035
Class 900 - Advances / Misc. Payments	0	0	0	0	380,000	760,000	1,140,000	1,520,000
Total	0	99,084,000	116,982,469	121,063,000	121,507,750	121,953,680	122,402,558	122,852,442

CITY OF PHILADELPHIA
PENNSYLVANIA

OFFICE OF THE CONTROLLER

CITY OF PHILADELPHIA

FORECASTED GENERAL FUND

STATEMENT OF OPERATIONS

FISCAL YEARS 2025 - 2029

City Controller

Christy Brady, CPA

Ensuring transparency, accountability, and fiscal integrity in city government

CONTENTS

CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679
(215) 686-6680 FAX (215) 686-3832

CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

INDEPENDENT ACCOUNTANT'S REPORT

To the Chair and Board Members of the
Pennsylvania Intergovernmental Cooperation Authority

We have examined the accompanying forecast of the City of Philadelphia, Pennsylvania, which comprises the forecasted general fund statements of operations and summaries of significant assumptions and accounting policies for each of the five years ending through June 30, 2029, of the City of Philadelphia, Pennsylvania, based on the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). City of Philadelphia's Office of the Director of Finance management is responsible for preparing and presenting the forecast in accordance with the guidelines for the presentation of a forecast established by the AICPA. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the forecast is presented in accordance with the guidelines for the presentation of a forecast established by the AICPA, in all material respects. An examination involves performing procedures to obtain evidence about the forecast. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the forecast, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

In our opinion, the accompanying forecast is presented, in all material respects, in accordance with the guidelines for the presentation of a forecast established by the AICPA, and the underlying assumptions are suitably supported and provide a reasonable basis for management's forecast.

There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Emphasis of a Matter – Growth in Revenues Resulting from the American Rescue Plan Act

The forecasted statement referred to above, and footnote C.6. reflect significant growth in revenues for fiscal year 2025 due to grant funding received under the American Rescue Plan Act (ARPA). ARPA provided direct relief to state and local governments in the wake of negative economic impacts caused by the COVID-19 public health emergency. The City received a $1.395 billion grant in FY 21 that, in accordance with federal regulations, must be obligated by December 2024. As such, no new ARPA grant funding is anticipated in fiscal years 2026 through 2029. The City's forecasted annual spending combined with the ARPA fiscal cliff represent a substantial risk to the City's fund balance, which is forecasted to decrease significantly from fiscal year 2026 through 2029. Our opinion is not modified with respect to this matter.

Emphasis of a Matter – Labor Agreements

The forecasted statement referred to above, and footnote 7.A. includes assumptions that are particularly sensitive due to the uncertainty in the outcome of expected future negotiations with the major unions. Currently, one-year contract extensions are granted for the Fraternal Order of Police, International Association of Firefighters, Deputy Sheriffs, Steelworkers, and Correctional Officers. Contracts with District Councils 33 and 47 employees have not been extended past June 30, 2024. Our opinion is not modified with respect to this matter.

Charles Edacheril

CHARLES EDACHERIL, CPA
Deputy City Controller

Christy Brady

CHRISTY BRADY, CPA
City Controller

Philadelphia, Pennsylvania
July 15, 2024

Forecasted General Fund Statements of Operations

Fiscal Years Ending June 30, 2025 through June 30, 2029

Prepared by:

Office of Budget and Program Evaluation
Office of the Director of Finance

City of Philadelphia - Office of the Director of Finance
Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

(Amounts in thousands)

NO.	ITEM	FY 2025 Adopted	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	OPERATIONS OF FISCAL YEAR					
	REVENUES					
1	Taxes	4,260,467	4,376,370	4,531,580	4,693,270	4,861,337
2	Locally Generated Non-Tax Revenues	391,844	365,668	382,272	424,743	374,250
3	Revenue from Other Governments	1,137,828	1,196,612	1,196,495	1,226,776	1,258,320
4	Sub-Total (1 thru 3)	**5,790,139**	**5,938,650**	**6,110,347**	**6,344,789**	**6,493,907**
5	Revenue from Other Funds of City	481,223	119,605	65,570	61,770	62,292
6	**Total Revenue and Other Sources (4)+(5)**	**6,271,362**	**6,058,255**	**6,175,917**	**6,406,559**	**6,556,199**
	OBLIGATIONS/APPROPRIATIONS					
7	Personal Services	2,279,091	2,272,166	2,285,576	2,287,538	2,287,538
8	Personal Services-Pensions	833,147	852,929	857,754	866,082	941,916
9	Personal Services-Other Employee Benefits	843,974	863,999	900,117	938,002	977,920
10	**Sub-Total Employee Compensation (7 thru 9)**	**3,956,212**	**3,989,094**	**4,043,447**	**4,091,622**	**4,207,374**
11	Purchase of Services	1,422,267	1,345,332	1,350,674	1,370,053	1,362,057
12	Materials, Supplies and Equipment	148,326	139,623	138,494	138,615	138,629
13	Contributions, Indemnities, and Taxes	432,724	413,594	413,094	413,094	413,094
14	Debt Service	234,667	242,227	274,825	281,871	279,388
15	Payments to Other Funds	71,491	74,165	76,982	80,420	83,916
16	Payment to Budget Stabilization Reserve Fund	58,291	59,676	57,754	0	0
17	Advances & Misc. Pmts. / Labor Reserve	43,505	69,620	77,620	96,620	119,620
18	**Total - Obligations (10 thru 17)**	**6,367,483**	**6,333,331**	**6,432,890**	**6,472,295**	**6,604,078**
19	Oper.Surplus (Deficit) for Fiscal Year (6)-(18)	(96,121)	(275,076)	(256,973)	(65,736)	(47,879)
20	**Prior Year Adjustments:**					
21	Other Adjustments	36,500	36,500	35,500	35,500	35,500
22	Total Prior Year Adjustments	36,500	36,500	35,500	35,500	35,500
23	**Adjusted Oper. Surplus/ (Deficit) (19)+(22)**	**(59,621)**	**(238,576)**	**(221,473)**	**(30,236)**	**(12,379)**
	OPERATIONS IN RESPECT TO					
	PRIOR FISCAL YEARS					
	Fund Balance Available for Appropriation					
24	June 30 of Prior Fiscal Year	628,098	568,477	329,901	108,428	78,192
	Fund Balance Available for Appropriation					
25	June 30 (23)+(24)	**568,477**	**329,901**	**108,428**	**78,192**	**65,813**

See accompanying summaries of significant accounting policies and assumptions and accountant's report.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

A. Nature of the Forecast

The City of Philadelphia Budget Office (Budget) is responsible for providing revenue and obligation estimates to the Director of Finance and the Mayor for discussion and inclusion in the FY2025 Budget and the FY25-29 Five Year Financial Plan (FYP) submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on June 25, 2024. These financial forecasts present, to the best of management's knowledge and belief, the City of Philadelphia's (City) expected results of operations for the forecast periods. Accordingly, the forecasts reflect the City's judgment as of June 25, 2024, the date of these forecasts, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecasts. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as forecasted or expected and those differences may be material.

B. Summary of Significant Accounting Principles

The Forecasted General Fund Statements of Operations are presented on the budgetary basis of accounting. The budgetary basis of accounting differs from the modified accrual (Generally Accepted Accounting Principles) basis used in the preparation of the City's governmental fund financial statements in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as a reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

C. Summary of Significant Forecast Assumptions

1. Approach to Revenue Forecasting

The City's estimated general fund revenues for FY25 total $6.3 billion. Approximately 68% of the City's revenue comes from local taxes and 18.1% comes from other governments (including the PICA tax). In FY25, $481.2 million (nearly 7.7% of revenues) will come from Other Funds of the City, $419 million of which is federal American Rescue Plan Act (ARPA) funds being drawn down. The City has received $1.395 billion in ARPA funds, all of which is allocated by the end of calendar year 2024 (halfway through FY25). Locally Generated Non-Tax Revenues, which include revenues from fees, fines and permits, account for just over 6.2% of revenues.

Budget provides forecasts for the City's taxes, totaling $4.3 billion in the Adopted FY25 Budget, as well as $391.8 million of Locally Generated Non-Tax revenues and $1.1 billion in Revenue from Other Governments. These three sources comprise 92.3% of the revenues anticipated for the FY25 budget.

Budget employs several approaches to developing its forecasts of local revenues. These include:

a) Forecasts of economic activity provided by several sources including the Congressional Budget Office;
b) Continuous evaluation of national and local economic data on employment, inflation, interest rates, and economic growth;
c) Ongoing examination of the City's current tax receipts;
d) Economic forecasting of tax revenues provided by a revenue forecasting consultant;

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

e) Analysis and tax history provided by experienced staff within the Philadelphia Department of Revenue;
f) Discussions with economists at a meeting at the Federal Reserve Bank of Philadelphia; and
g) The extensive experience of its staff.

Budget's tax forecasts for the FYP were developed in conjunction with a revenue forecasting consultant, S&P Global Market Intelligence (formerly IHS Markit, Ltd, or "IHS"). S&P created econometric models which included variables such as wage and salary disbursements in the metropolitan statistical area (MSA) and the county, personal income in the county, the unemployment rate, home prices in the county, real estate transaction growth, and national corporate profits. These models, together with their forecast of the Philadelphia economy, were used by S&P to forecast tax revenues for the City. S&P focused on the following taxes – Wage and Earnings Tax, Net Profits Tax, Business Income and Receipts Tax, Realty Transfer Tax, Philadelphia Beverage Tax, and Sales Tax. These forecasts were refined by Budget after discussions with economists at a meeting hosted by PICA at the Federal Reserve Bank of Philadelphia, as well as with experienced staff within the Department of Revenue. Forecasts for the remaining major tax – Real Estate – were developed using the internal expertise of employees within the City. The Real Estate Tax estimates were forecasted by Budget with data and input from the Office of Property Assessment and the Department of Revenue.

The revenue projections for FY25-29 reflect permanent changes to Philadelphia's tax base following the pandemic. The estimates have been revised since the March 14, 2024 introduction of the Five Year Plan based on updated collections information and macroeconomic conditions.

As the City continues to recover from the pandemic, the outlook has remained positive albeit less optimistic than last year's adopted plan. According to S&P's May monthly economic outlook for Philadelphia, April 2024 payrolls were up by 17,400 jobs when compared to 2023, largely driven by gains in education and health care services. However, the Federal Reserve Bank of Philadelphia's May 2024 Manufacturing Business Outlook Survey indicated a slowdown in manufacturing growth, with indices for new orders and current shipments showing declines. Despite this, median advertised rents in the region were 1.5% higher year-over-year in April, contrasting with a broader national trend of decreasing rents, suggesting a balanced market for renters amidst ongoing housing adjustments post-pandemic.

Fiscal 2024 Sales Tax collections through May are $8.2M above year-to-date collections in FY23 ($264.8M vs. $256.5M) and are projected to grow an average of 3.79% from FY25 through FY29.

Overall, Realty Transfer Tax collections remain below FY23's level, with an overall projected year-over-year decline of 28.2%. The residential real estate market continues to be impacted by higher mortgage rates and, with record lows in inventory, supply remains tight. Commercial real estate, too, continues to be impacted by relatively high interest rates.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

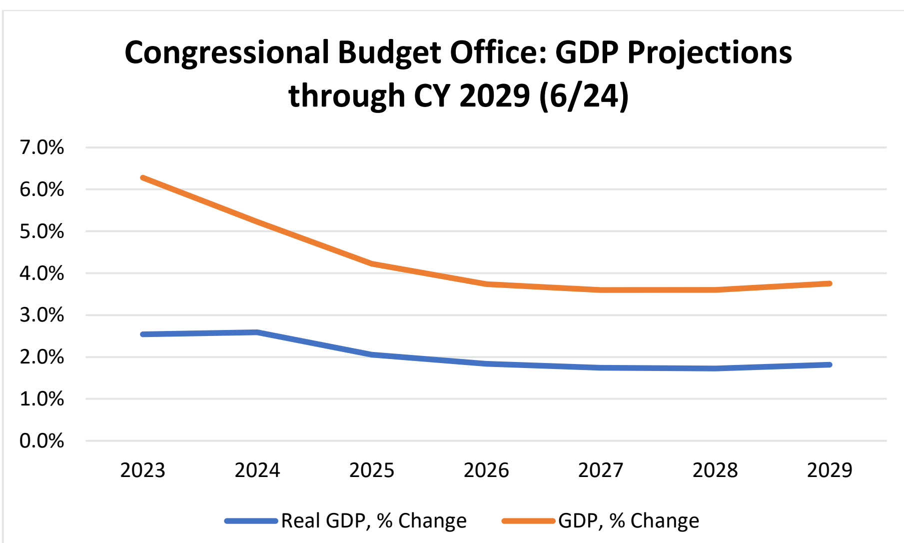
The Business Income and Receipts Tax (BIRT) preliminary collections posted through May total $603.2M, a decrease of $73.5M when compared to 2023. Estimates for the BIRT have been adjusted to $606.7M, down from the original estimate of $669.7M for FY24.

The Administration anticipates that the City's main revenue source, Wage, Earnings, and Net Profits collections, will grow by 4.65% in FY25. This growth reflects ongoing recovery from the pandemic and wage growth from the tight labor market, despite the Plan's incorporating the assumption of a permanent loss of 25% of the non-resident Wage Tax base within the overall Wage Tax projections. This 25% loss has already happened and continues throughout the Plan.

Projections show growth for all major tax types in FY25, leading to a growth of $251M (6.3%) when compared to the FY24 estimate ($4.00 billion in FY24, increasing to $4.26 billion in FY25).

2. The National and Local Economic Context

The strength of the economy is a key determinant of the fiscal health of the City since local tax revenues, which are directly tied to the economy's strength, account for approximately 68% of the City's General Fund revenue in FY25. As of June 2024, the Congressional Budget Office (CBO) forecast for U.S. Real Gross Domestic Product anticipates growth in 2024 of 2.6% percent. After 2024, the CBO anticipates the annual growth of Real GDP to average 1.8% percent from 2025 to 2029 and 1.7% and 1.8% for 2030-34. While labor force participation is projected to increase each year (0.8% annually between 2024 and 2029), the unemployment rate is projected to increase from 3.9% in 2024 to 4.5% in 2029.



[1]

[1] https://www.cbo.gov/publication/60039

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

On May 30, 2024, S&P Global Market Intelligence provided updated projections for the national, state, and city domestic product, indicating mostly comparable outlooks in 2024 for the City of Philadelphia, Pennsylvania, and the country, with Philadelphia projected to lag behind the Pennsylvania and national projections in 2025.

Economic Indicators: National, State, and City

	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2023	2024	2025
United States								
Employment (millions)	157.1	157.8	158.5	159.0	159.3	156.1	158.7	159.7
Real Per Capita Income (Thousand $)	49.7	49.8	49.8	50.0	50.2	49.6	49.9	51.0
GDP Growth Rate (%)	3.4	1.6	2.1	1.9	1.5	2.5	2.5	1.6
Pennsylvania								
Employment (millions)	6.11	6.14	6.16	6.17	6.18	6.09	6.16	6.18
Real Per Capita Income (Thousand $)	58.7	59.3	59.4	59.8	60.1	58.5	59.6	61.1
GSP Growth Rate (%)	3.8	1.9	2.5	2.2	1.5	2.2	2.9	1.5
Philadelphia City								
Employment (thousands)	773.6	776.6	778.7	778.1	775.7	766.0	777.3	776.4
Real Per Capita Income (Thousand $)	50.1	50.8	50.8	50.9	51.1	49.6	50.9	51.9
GMP Growth Rate (%)	4.9	1.5	2.4	0.6	-1.1	3.6	2.7	0.2

[2]

3. *The City's Major Taxes*

The City receives revenue to fund its services and programs from the City's major taxes which are budgeted to contribute approximately 68% of the expected General Fund revenue in FY25. These include:

1. Wage and Earnings and Net Profit Tax (Wage),
2. Real Property Tax,
3. Business Income and Receipts Tax (BIRT),
4. Realty Transfer Tax (RTT),
5. Sales Tax, and
6. Philadelphia Beverage Tax.[3]

The remaining taxes, including the Amusement Tax, are budgeted to provide 0.8% of General Fund revenue. Philadelphia's reliance on the Wage and Net Profits Tax (43.3% of General Fund revenues, including the PICA portion), Business Income and Receipts Tax (9.8%), and the Sales Tax (5.1%) places the City at risk from economic trends and employment fluctuations of the local economy. By contrast, other cities and counties that rely more heavily on property tax revenues are more susceptible to dramatic shifts in the housing market.

[2] S&P Global Market Intelligence projections from May 30, 2024.
[3] Prior to FY24, the Parking Tax was included among the City's major taxes. Starting in FY24, Parking Tax revenues appear in the Transportation Fund, which funds transportation-related obligations within the Streets Department.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

City of Philadelphia
General Fund
FY 2025 - 2029 Five Year Financial Plan
Major Taxes ($ in Millions) with Percentage Change from Previous Year

Tax	Actual FY23	Projected FY24	Projected FY25	Projected FY26	Projected FY27	Projected FY28	Projected FY29
Wage & Net Profits - Current & Prior	1,771.8	1,888.1	1,975.8	2,053.4	2,128.9	2,208.2	2,291.2
% change from prior year	n.a.	6.6%	4.6%	3.9%	3.7%	3.7%	3.8%
Real Property - Current & Prior	809.6	825.7	925.0	931.0	961.1	993.0	1,027.9
% change from prior year	n.a.	2.0%	12.0%	0.6%	3.2%	3.3%	3.5%
Business Income & Receipts - Current & Prior	673.3	606.7	616.7	621.2	643.7	666.2	688.7
% change from prior year	n.a.	-9.9%	1.6%	0.7%	3.6%	3.5%	3.4%
Sales	302.2	300.5	316.9	334.6	351.5	368.9	386.4
% change from prior year	n.a.	-0.6%	5.5%	5.6%	5.1%	5.0%	4.7%
Real Property Transfer	378.8	271.8	305.8	315.5	325.2	334.9	344.6
% change from prior year	n.a.	-28.2%	12.5%	3.2%	3.1%	3.0%	2.9%
Parking	101.9	0.0	0.0	0.0	0.0	0.0	0.0
% change from prior year	n.a.			*See note below referencing the Parking Tax.*			
Philadelphia Beverage	73.4	70.3	71.2	70.5	70.1	69.8	69.3
% change from prior year	n.a.	-4.2%	1.3%	-1.0%	-0.6%	-0.4%	-0.7%
Other Taxes	43.3	45.6	49.1	50.2	51.1	52.3	53.2
% change from prior year	n.a.	5.3%	7.7%	2.2%	1.8%	2.3%	1.7%
Total Taxes	**4,154.3**	**4,008.7**	**4,260.5**	**4,376.4**	**4,531.6**	**4,693.3**	**4,861.3**
% Change from prior year		**-3.5%**	**6.3%**	**2.7%**	**3.5%**	**3.6%**	**3.6%**

Note: Wage & Net Profits Taxes include resident tax decreases in FY23 and FY24 moving the rate to 3.75%. Wage tax does not include the PICA portion. Business Income & Receipts Tax includes decreases to the Net Income portion in FY23 and FY24 moving the rate to 5.81%. Parking Tax was removed from the General Fund in FY24 and assigned to the Transportation Fund. Real Estate Tax includes a decrease to the City millage rate in FY25 from 0.6317% to 0.6159%.

a) Wage Tax

The largest tax revenue source (comprising 46.4% of local tax revenues, excluding the PICA portion) is the Wage Tax, which encompasses the wage, earnings, and net profits taxes. The Wage Tax is collected from all employees working within city limits and all Philadelphia residents regardless of work location. In FY24, the Wage Tax rate for residents declined to 3.75% and remained at 3.44% for non-residents. These rates remain in place for FY25. The resident rate includes 1.5% that is reserved for PICA. PICA has overseen the City's finances since 1992 and, based on state legislation that was signed into law in 2022, will continue to do so through at least 2047.

The PICA statute permits the Authority a "first-dollar" claim on its portion of Wage Tax proceeds, which is used to pay debt service on bonds issued by PICA for the benefit of the City. The original PICA bonds were paid off in June 2023. Thus, starting in FY24, all PICA Wage Tax revenues are remitted to the City, minus administrative costs for PICA's operations. Excluding the PICA portion, the Wage Tax and Net Profits Tax is projected to bring in $1.98 billion in FY25. This projection includes a 4.69% base growth rate for the Wage and Earnings component and 3.63% base growth rate for the Net Profit component of the tax.[4]

[4] Growth rates referenced throughout these notes are applied to the current portion of the tax base.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

The non-resident portion of the Wage Tax remains due from employees working from outside Philadelphia if the employer is not requiring that the work location be outside the city. Revenue projections reflect a permanent 25% contraction of the non-resident tax base following the COVID-19 pandemic.

b) Real Property Tax

The Real Property Tax (Property) is the City General Fund's second-largest source of tax revenue (21.7%), estimated to contribute $925.0 million of the City's FY25 tax revenues. This tax is levied on the assessed value of residential and commercial property in the city. The Adopted FY25 Budget has a combined City/School District property tax rate for FY25 of 1.3998%, unchanged from FY24. Following the adoption of Bill No. 240180, which adjusts the millage split from 45% City/55% School District to 44% City/56% School District starting in FY25, the City portion of the tax is 0.6159% and the School District portion is 0.7839%. The property tax projection includes a $100,000 homestead exemption for owner-occupied homeowners as well as additional homeowner relief through a new low-income tax freeze and the continuation of the Longtime Owner Occupants Program (LOOP) and the Senior Tax Freeze program. In FY25, property tax revenues are projected to increase by approximately 12%. From FY26 to FY29, the FYP assumes average growth rates of 2.5% for residential properties and 3% for commercial and industrial properties.

c) Business Income and Receipts Tax

The Business Income and Receipts Tax (BIRT) is projected to produce $616.7 million in FY25, 14.5% of total local tax revenue. A majority of the BIRT is derived from business profits which are volatile and dependent on economic conditions within the City. Starting in FY20, the BIRT is collected on a quarterly basis for new businesses in the second year of operations, easing the impact on new businesses.

d) Realty Transfer Tax

The Realty Transfer Tax (RTT) is projected to provide $305.8 million in FY25 -- 7.2% of total tax revenue. In FY24, the tax is projected to decrease nearly 30% compared to FY23 ($378.8m in FY23 vs. $271.8m in FY24), followed by 12.5% growth in FY25 following a slight uptick in collections this spring compared to the rest of FY24. The City imposes a 3.278% tax on real property sales and an additional 1% is charged by the Commonwealth for a 4.278% total RTT rate.

e) Sales Tax

Sales Tax revenues are projected to generate $316.9 million for the City's General Fund in FY25, based on a base growth rate of 3.9%, comprising 7.4% of tax revenues. As part of its response to projected City budget deficits in 2009, the Commonwealth of Pennsylvania (the Commonwealth) provided authorization and the City passed legislation to temporarily increase the Philadelphia portion of the Sales Tax rate from 1% to 2% through the end of FY14. This raised the total Sales Tax rate to 8%, with 6% going to the Commonwealth and 2% to the City. This change to the tax rate was made permanent starting in FY15 with 1% of the local Sales Tax being for the benefit of the School District of Philadelphia and the City's pension fund whereby $120 million of the sales tax goes directly to the School District and remaining amounts flow through the City's General Fund to pay for debt service on a borrowing on behalf of the School

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

District, and for additional contributions to the Pension Fund. In FY18, the debt service on the borrowing was complete, and therefore all the proceeds above the $120 million in Sales Tax receipts from the second 1% go to the City's Pension Fund (projected to be $98.5 million in FY25). From FY25 through FY29, the City's pension fund is projected to receive $579.2 million from the proceeds of the Sales Tax.

f) Philadelphia Beverage Tax

The Philadelphia Beverage Tax (PBT) is still one of the City's newest revenue sources and is applied to non-retail distributions of sweetened beverages, at a rate of one-and-one-half cents per fluid ounce of sweetened beverages. The projections in the proposed FYP were based on S&P Global Market Intelligence input but closely align with national trends on consumption. The tax was effective January 1, 2017.

An estimated $350.7 million will be collected in revenue from FY25-FY29. Revenues from the PBT support three major initiatives: expanded Pre-K, community schools, and debt service for the Rebuilding Community Infrastructure program (Rebuild). As anticipated when the PBT was implemented, the costs of these programs now exceed the revenues from the PBT. The difference between the costs of these programs and the PBT revenues is covered by other General Fund revenue sources.

4. Locally Generated Non-Tax Revenues

Locally Generated Non-Tax Revenues are forecasted based on historical trends, rate changes, and current collection patterns. Certain revenues such as interest earnings, licenses and permits and recording fees are subject to economic conditions and are estimated accordingly. An estimated $391.8 million in Locally Generated Non-Tax Revenue is expected in FY25.

5. Revenue from Other Governments

Revenue from Other Governments is forecasted based on historical trends and state and federal budget information. The PICA City Account, which represents 65% of Revenue from Other Governments, is forecast using Wage Tax variables. An estimated $1.138 billion in Revenue from Other Governments is expected in FY25.

6. Revenue from Other Funds

Revenue from Other Funds has typically represented transfers for services provided by the General Fund that are reimbursed by another fund, such as fire protection at the airport, and are forecasted based on historical trends and operational expectations for the coming year. Starting in FY22 and continuing through FY25, there has been and continues to be significant growth in Revenue from Other Funds as American Rescue Plan Act (ARPA) funds deposited into the Grants Fund are drawn down to replace lost revenues to enable ongoing General Fund operations. The City has received $1.395 billion in ARPA funds. An initial drawdown of $250 million was made in FY22, $335 million was drawn down in FY23, $391 million was drawn down in FY24, and the remaining $419 million in FY25. The entire amount granted is scheduled to be drawn down by December 2024 in accordance with the federal deadline. Once remaining ARPA funds and associated interest earnings are expended in FY25 and FY26 respectively, Revenue from Other Funds is projected to return to a normal, pre-ARPA, level.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

7. Obligation Estimates

The Budget Office provided obligation estimates to the Director of Finance and the Mayor for discussion and inclusion in the revised annual FY24 budget and FY25-29 FYP submitted by the Mayor to PICA on June 25, 2024. The Budget Office provides forecasts of all major expenditure categories. FY25 obligations are budgeted at $6.367 billion, an increase of $31.9 million over the FY24 estimate. The largest driver of the increase is Personal Services, which includes salaries, pensions, and employee benefits. The FY25 obligation estimate also includes a $43.5 million Labor Reserve for future labor costs and a $58.3 million transfer to the Budget Stabilization Reserve (BSRF). The BSRF will end FY25 with a balance of $175.8 million. The FY25 projection also includes key investments in core services and targeted investments to make Philadelphia the cleanest, greenest, big city in the nation with access to economic opportunity for all.

a) Labor Agreements

The forecasted statements include a set-aside of $407 million from FY25 to FY29 in a labor reserve to cover certain recruitment and retention initiatives as well as the costs associated with upcoming labor agreements and other labor cost increases. The forecasts also include funding for all existing labor agreements, including one-year contract extensions with the Fraternal Order of Police, the International Association of Firefighters,[5] and Deputy Sheriffs, the Steelworkers, and the Correctional Officers (Local 159b). Contracts with District Councils 33[6] and 47 have not been extended past June 30, 2024.

b) Health / Medical

The Administration implemented a self-insured group health plan in 2010 for medical benefits for non-union employees. The City also increased employee copays and instituted a disease management and wellness program with financial incentives for completing wellness activities. In FY15, the City added a tobacco user surcharge. The City has assumed a 5% annual growth in costs for the City Administered Plan.

AFSCME District Council 47, the International Association of Fire Fighters (IAFF), and the Fraternal Order of Police (FOP) have also implemented self-insured group health plans. For the FOP and IAFF, because the City has no control over the design of their health plans, an increase of 7.5% per year based on medical cost trends has been included. For DC47's plan, which the City also does not control the design of, an increase of 5.0% per year based on medical cost trends has been included. AFSCME District Council 33 (DC33) projections also reflect an increase of 5.0% per year, based on trends.

c) Pensions

As part of the effort to control major cost drivers and to improve the health of the pension fund, several changes have been made over the last several years. The City continues to seek ways to improve the long-term health of the fund.

The City's Act 111 interest arbitration awards with the FOP, Lodge No. 5 and IAFF, Local 22 both required most current members to make additional contributions to the pension fund of 0.92% starting in FY18

[6] Costs for the Register of Wills are incorporated as part of the District Council 33 contract.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

and an additional 0.92% in FY19, for a combined 1.84% in additional contributions. New hires are now required to make an additional 2.5% contribution above rates in effect prior to the arbitration award.

Significant pensions changes were also included in the DC47 collective bargaining agreement, closely mirroring the earlier reforms agreed to with DC33. Effective in January 2019, current employees began participating in a tiered contribution system where those with higher annual salaries will pay higher contribution rates. New employees are now mandatory members of a stacked hybrid plan under which employees will receive a traditional defined benefit pension on their first $65,000 of salary as well as the option to participate in a voluntary defined contribution plan. These reforms have also been applied to employees who are not represented by a union, which means that all City employees, except for elected officials, are participating in strengthening the pension fund.

In addition to the abovementioned changes in pension benefits, the City's pension fund has also undergone the following changes:

- The City continues to make more than its full minimum municipal obligation (MMO) each year and has dedicated a portion of additional revenues to the fund. Under 2014 state legislation, the additional 1% local sales tax provides funding for the School District of Philadelphia (first $120 million) with any remaining funds dedicated to the pension fund. From FY25 through FY29, the City's pension fund is projected to receive $579.2 million from the proceeds of the Sales Tax. The Sales Tax revenues will supplement the City's MMO payment rather than supplanting a portion of it.
- The City also created the Revenue Recognition Policy under which the Sales Tax revenue and additional employee contributions achieved through collective bargaining and interest arbitration are to be paid above the City's annual required contribution to the pension fund. This means that the City pays more than what is legally required each year to improve the funding status of the plan more quickly.
- Over the past thirteen years, the pension fund's earnings assumption has been reduced from 8.75% to 7.30% (effective July 1, 2024). Lower earnings assumptions allow funds to moderate the risk of their investments, which can also reduce the likelihood of losses. In addition, lower earnings assumptions increase the amount the City is required to contribute to the pension fund. This improves the fund's health.

The net impact of these changes to the City's pension benefits and fund is to moderate what could have been devastating increases in pension costs and to increase the City's ability to fund existing liabilities in the long term. In seven years, the pension system's funding percent has increased from 44% to 62.2% on an actuarial basis. The specific changes to the pension fund assumptions have been tested by the City's actuary and have been determined to be actuarially sound. The pension amounts included in the FYP are provided by the City's actuary and are higher than the amounts required to be paid under state law.

The City restructured a portion of the Pension Obligation Bond (POB) payment due in FY21 and FY22 to postpone payment of $74.9 million originally due from the General Fund FY21 and $19 million due in FY22 to future years, resulting in higher ongoing pension costs due to additional interest payments. This added cost is reflected in the Plan. In FY29, the City will make a balloon payment on the remaining balance of

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

the pension obligation bonds issued in 1999. The satisfaction of these bonds, whose payment from the General Fund will increase from $130.8 million in FY28 to $201.7 million in FY29, will reduce the City's structural fixed costs over the long term. This reduction in fixed costs will be reflected in next year's Plan, starting in FY30.