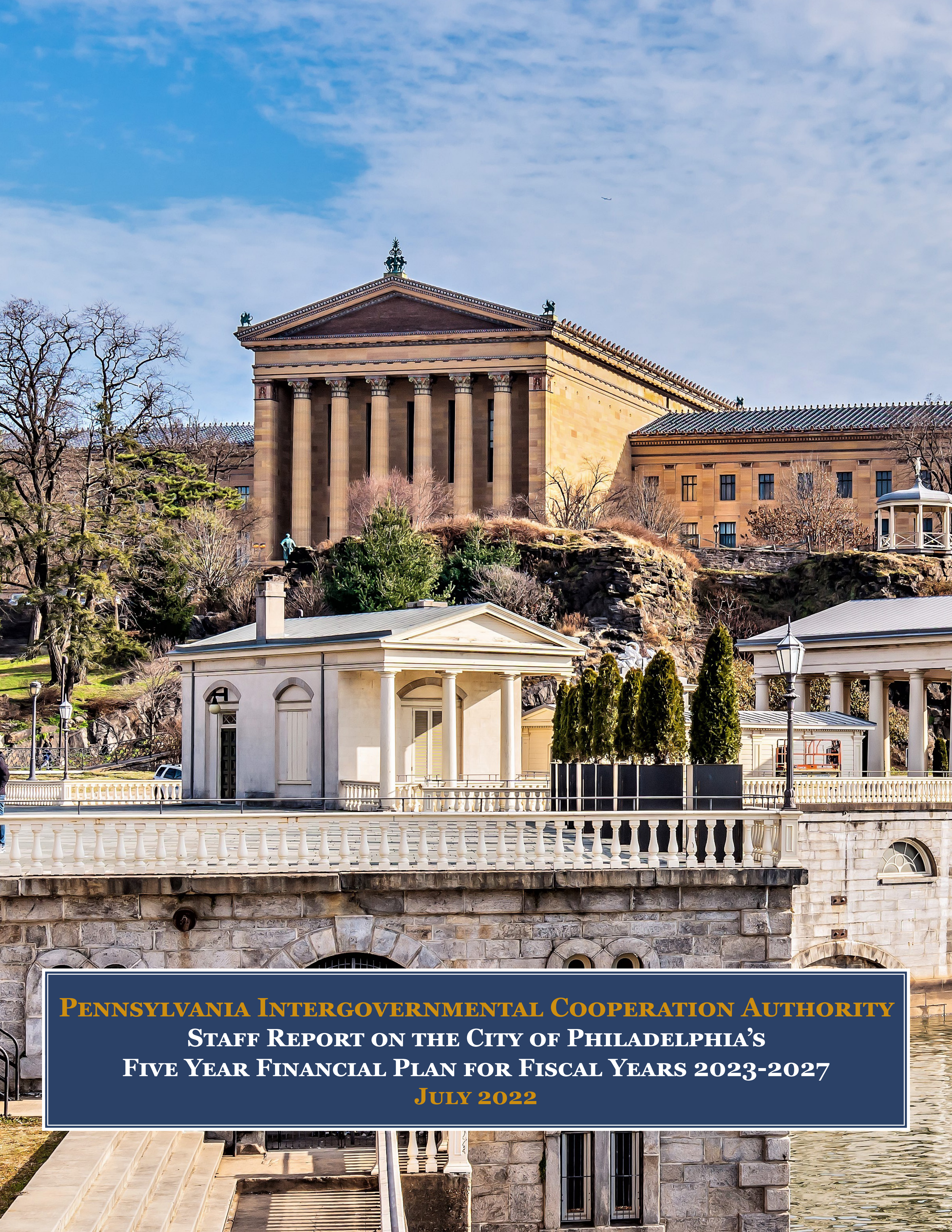

Pennsylvania Intergovernmental Cooperation Authority

Staff Report on the City of Philadelphia's Five Year Financial Plan for Fiscal Years 2023-2027

July 2022

Pennsylvania Intergovernmental Cooperation Authority

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Pennsylvania Intergovernmental Cooperation Authority

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July 27, 2022

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 2023 through 2027* (the "Plan").

This report provides a comprehensive review and assessment of the Plan and its compliance with the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "PICA Act"). It analyzes the revenue, expenditure, and fund balance projections, evaluates the reasonableness of the assumptions, 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, Mr. Charles Swanson. I would also like to thank the City of Philadelphia's Office of the Director of Finance, the Budget Office, and the Department of Revenue for their cooperation, support and continued assistance.

Sincerely,

Harvey M. Rice

Harvey M. Rice
Executive Director

Executive Summary

Based on a thorough analysis of the City of Philadelphia's *FY2023-FY2027 Five Year Financial Plan* (the "Plan"), PICA staff recommends approval. The following reasons present our rationale:

- 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.

- The Plan projects positive year end fund balances in all five years of the Plan. In FY2023, a year end fund balance of $372.2 million is projected, with a slight decrease in FY2024, but reaching $420.6 million in FY2025. After which, the fund balance is projected to decline, reflecting the expiration of the ARPA funds, falling to $86.6 million in FY2027. In addition, the FY2022 year end fund balance climbed to $492.4 million, a $358.6 million increase over the projection in the Revised FY2022-2026 Plan.

- The Plan includes $1.425 billion in American Rescue Plan Act funds. These funds continue to provide a vital lifeline to the City's fiscal stability to counteract the adverse impact from the COVID-19 global Pandemic.

- The Plan projects annual contributions to the Budget Stabilization Reserve of over $40 million each in FY2023 through FY2026, totaling $166.1 million.

- The Plan includes a Recession, Inflation & Reopening contingency totaling $165 million, to safeguard against potential inflation and supply chain pressures that currently exist.

- The Plan includes a total of $517 million set aside for potential costs related to future labor contracts. Spread across each year of the Plan, these funds are primarily for current contracts or awards that will expire at the end of FY2024.

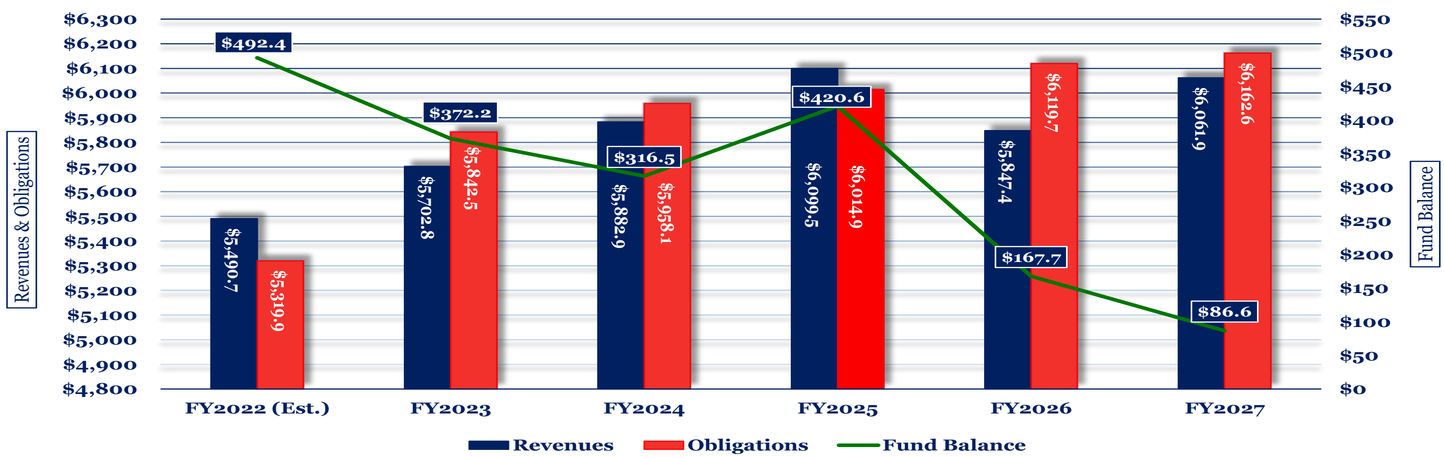
- The Plan projects increased funding for anti-violence programs, the School District of Philadelphia, Community College of Philadelphia, The Free Library, and expands the PHL Pre-K program, community schools and adult education, as well as commits investments for racial equity.

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

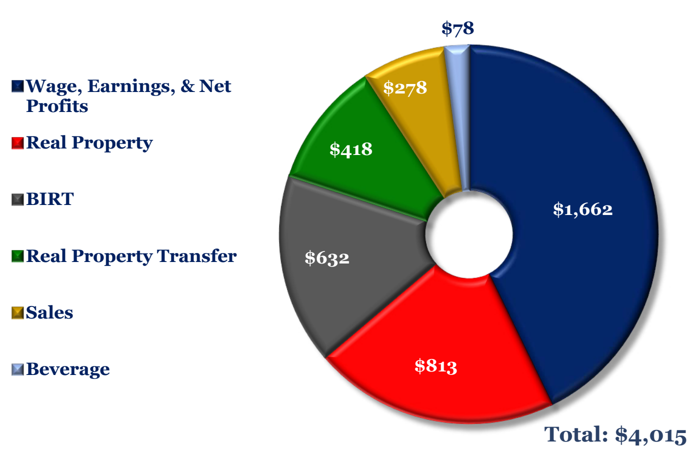
- a slower than anticipated economic growth;
- impact of gun violence;
- low fund balance levels;
- pension funding; and,
- overtime costs.

Highlights of the Report

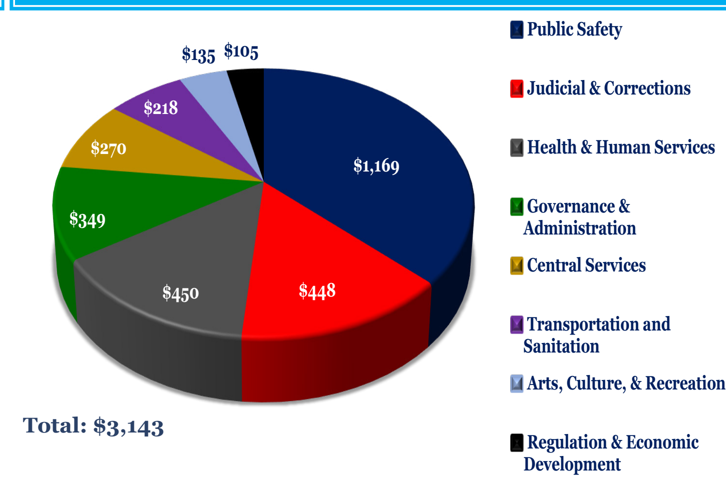
Five Year Plan



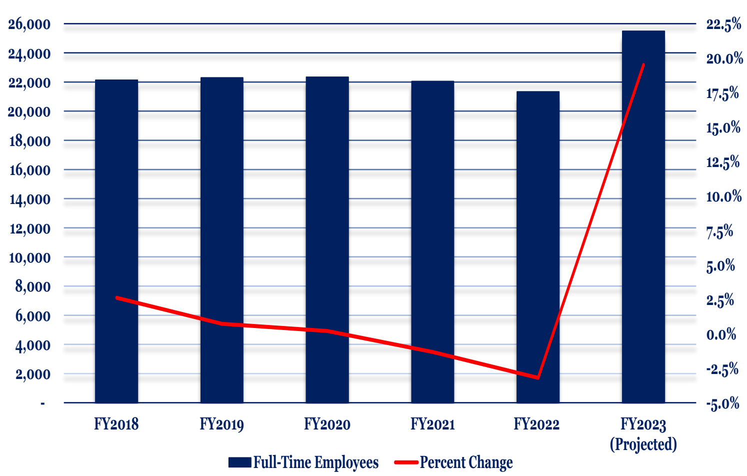
FY2023 Tax Revenue Projections



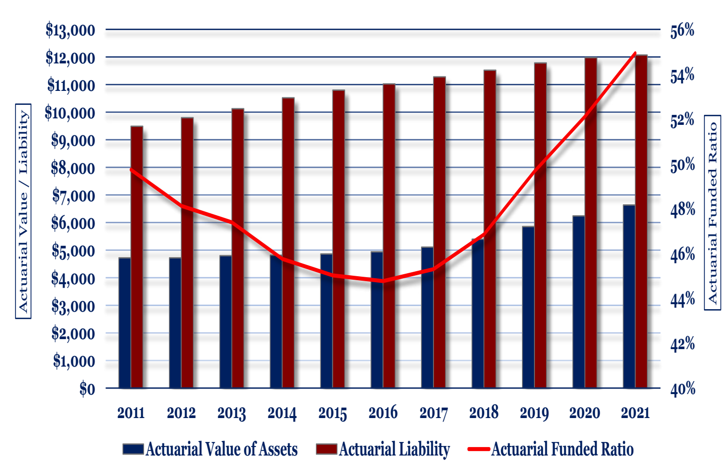
FY2023 Agency Obligations Projections



General Fund Staffing Levels



Pension System Funding Status



Risks to the Plan

Fund Balance

Economic Growth

Pension Funding

Impact of Gun Violence

Overtime Costs

Note: $ in Millions

I. Introduction

I. Introduction

Purpose of the Report

The Pennsylvania Intergovernmental Cooperation Authority ("PICA") is mandated with assessing the City of Philadelphia's annual Five Year Financial Plan. The framework for evaluating the Plan is provided by the Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class (the "Act").

PICA's original enabling legislation enacted in 1991 was set to expire upon the retirement of all outstanding PICA bonds which would have been June 30, 2023. Subsequently, legislation extending PICA was enacted by the Commonwealth of Pennsylvania (the "Commonwealth") Legislature and signed by the Governor on July 7, 2022.

Under this legislation, PICA shall be in existence until January 2, 2047, or until all outstanding debts and/or liabilities have been fully discharged. This new legislation reaffirms that PICA is authorized to review budget and fiscal affairs of the City of Philadelphia (the "City") and mandates that five year plans be submitted and revised on an annual basis, mirroring the 1991 legislation.

The City of Philadelphia's FY2023-FY2027 Five Year Financial Plan (the "Plan") was submitted to PICA on June 30, 2022. The objective of this report is to provide an overview of the Plan; discuss potential risks; evaluate spending and personnel trends; assess indicators of financial health; review the capital program; and make a recommendation for PICA Board action.

PICA Organization

PICA was created in 1991 by the Commonwealth of Pennsylvania Legislature for the purpose of providing financial assistance to the City 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 the 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 nonvoting members. The Governor; the President Pro Tempore and the Minority Leader of the State Senate; and the Speaker 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 on 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.[1]

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.[2]

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."[3]

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"). 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).[4] 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."[5]

Plan Requirements

As mandated in the Act, the Plan is required to include:[6]

- Projected revenues and expenditures of the principal operating funds of the City for five fiscal years (the current fiscal year and the next four); and

- Components to "(i) eliminate any projected deficit for the current fiscal year; (ii) restore to special fund accounts money from those accounts used for purposes other than those specifically authorized; (iii) balance the current fiscal year budget and subsequent budgets in the plan through sound budgetary practices, including, but not limited to, reductions in expenditures, improvements in productivity, increases in revenues, or a combination of such steps; (iv) provide procedures to avoid a fiscal emergency condition in the future; and (v) enhance the ability of the City to regain access to the short- and long-term credit markets."[7]

[1] Act of June 5, 1991, Pub. L. No. 9, 53 Pa. Stat. Ann. § 12720.
[2] PICA Act, Section 102(b).
[3] PICA Act, Section 203(c)(4).
[4] Intergovernmental Cooperation Agreement by and between Pennsylvania Intergovernmental Cooperation Authority and The City of Philadelphia, Section 5.04, January 8, 1992.
[5] Agreement, Section 5.05.
[6] PICA Act, Section 209.
[7] PICA Act, Section 209(b).

There are also statutorily mandated standards for the development of the plan and the manner in which it is to be evaluated by PICA:

- All projections of revenues and expenditures are to be based upon consistently applied reasonable and appropriate assumptions and methods of estimation;

- Revenues are to be recognized in the accounting period in which they become both measurable and available.

The Act also mandates standards for the basis for estimation of City revenues:

City sources - current or proposed tax rates, historical collection patterns, and generally recognized econometric models;

State sources - historical patterns, currently available levels, or levels proposed in a budget by the Governor;

Federal sources - historical patterns, currently available levels, or levels proposed in a budget by the President or in a Congressional budget resolution; and

Non-tax sources - current or proposed rates, charges or fees, historical patterns, and generally recognized econometric models.

The plan is also required to include 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 (filled and unfilled), inclusive of estimates of wage and benefit levels for various groups of employees.

The Act requires that PICA solicit an opinion or certification from the City Controller, prepared in accordance with auditing standards generally accepted in the United States, with respect to the reasonableness of the assumptions and estimates in the plan. The Act does not, however, require that the Controller's determinations bind the PICA Board in its evaluation of the plan.

The Act stipulates that approval of a financial plan is contingent upon a "qualified majority" of the PICA Board (four of its five voting members).

Once a plan is approved by the PICA Board, the City is required to stay "in compliance" with the current plan. The City may occasionally be faced with a situation where it comes out of compliance with a currently approved plan for several reasons, including extraordinary contracts, collective bargaining agreements, arbitration awards, or other unforeseen variances in revenues and/or expenditures.

For example, if the City executes an extraordinary contract—a contract not in compliance with the current plan—that contract is not void by virtue of being out of compliance, but the City must submit a proposed revision to the plan incorporating those costs for consideration by the PICA Board.[8] Collective bargaining agreements and arbitration awards require revisions as well, if they are out of compliance with a currently approved plan. Each of these categories trigger their own respective time frames for submission of proposed revisions and subsequent Board consideration.

[8] Agreement, Section 5.06.

II. Analysis of Plan Projections

II. Analysis of Plan Projections

Required Elements of the Plan

As discussed in the Introduction, the statutory criteria are used as a baseline for assessing the Plan. These are the minimum requirements that the Plan must meet to gain PICA approval. Table 2.1 presents the criteria as stipulated in the PICA Act. The discussion below summarizes PICA's assessment of the Plan's adherence to these requirements.

Projecting Revenues and Expenditures. The Plan includes projections of General Fund revenues and expenditures for five fiscal years, fiscal year 2023 through fiscal year 2027, as required by the PICA Act.

Eliminating Deficits. The Plan projects positive General Fund year end fund balances for the current fiscal year, FY2023, and the four subsequent fiscal years, FY2024 through FY2027, thus meeting the criterion of PICA Act Section 209 (b). To avert deficits, the Plan must be realistic as the Act states: projections must be based on "reasonable and appropriate assumptions and methods of estimation" that are "consistently applied."

Restoring Funding to Special Accounts. At the time PICA was created, the City faced a cash crisis and had resorted to using restricted funds

for general operations. The Act required that the Plan demonstrate that the City would restore these funds to proper accounts. Aided with PICA's 1992 deficit bonds, this criterion has been met.

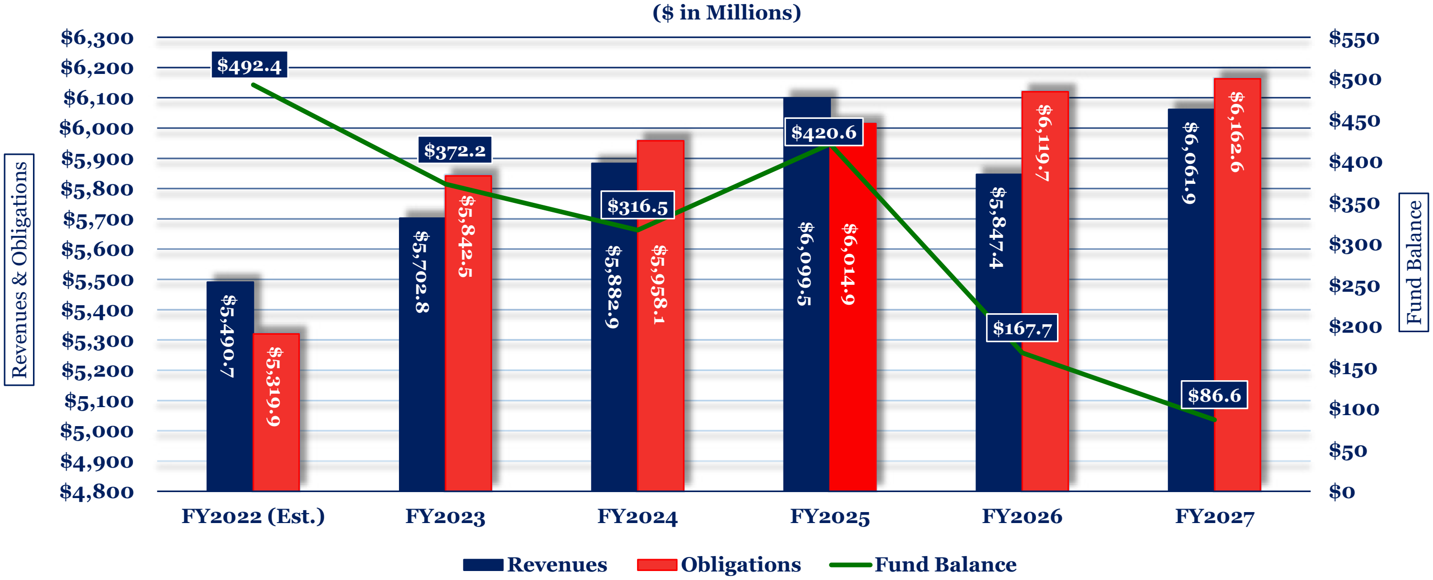
Sound Budgetary Practices. This provision applies to several fundamental practices, namely "reductions in expenditures, improvements in productivity, increases in revenues, or a combination of such steps." Although the City faces some challenges with regard to high fixed costs, it is making strides in improving efficiencies. However, adverse economic impact caused by the COVID-19 global Pandemic hindered this process.

Table 2.1: PICA Act Criteria

PICA Act Provision	PICA Act Text
Section 209(b)(1)	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
Section 209(b)(2)(i)	Eliminate any projected deficit for the current fiscal year and for subsequent fiscal years
Section 209(b)(2)(ii)	Restore to special fund accounts money from those accounts used for purposes other than those specifically authorized
Section 209(b)(2)(iii)	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
Section 209(b)(2)(iv)	Provide procedures to avoid a fiscal emergency condition in the future
Section 209(b)(2)(v)	Enhance the ability of the City to regain access to the short-term and long-term credit markets

Source: Pennsylvania Intergovernmental Cooperation Authority Act for Cities of the First Class ("PICA Act")

Figure 2.1: Summary of FY2023-FY2027 Five Year Plan Projections
($ in Millions)



The City's budget process is evolving as a result of PICA's advocacy and City Council's legislation for program-based budgeting. Under the current budget process, which was implemented in FY2017, resources are displayed by program, taking into account direct and indirect costs and revenues generated by each program. The City has also adopted performance measures associated with each program, in order to assess program impact, efficiency and return on investment. For the FY2023 budget, except for some departments led by independently elected officials, all City departments that fall under the Mayor are utilizing program-based budgeting.

The City also seeks to modernize its approach to revenue collections, with the overall goal of maximizing collections and reducing delinquencies. Additionally, the City has embarked on an effort to modernize its financial, procurement, and taxpayer information systems.

Avoiding a Fiscal Emergency. The City should continue to address its major financial challenges. It should develop financial policies to address key issues that form the core of its financial condition: a sound economy; tax competitiveness; managing long-term obligations, such as pensions; providing quality infrastructure; and ensuring adequate financial reserves. These policies should be comprehensive, publicly reported, and include quantitative targets, and the City should also convey its progress toward meeting them.

The Plan should specifically address the City's policies related to its financial condition and its plans for improvement over the coming years. This has been achieved in recent years with the addition of sections on debt management, fund balance, and the budget process. Recently, a separate section on racial equity was also added to the Plan. Additional discussion should be included regarding more detailed plans to address the City's economic development, tax policy, high fixed costs, overtime costs, and crime and quality of life issues.

Access to the Credit Markets. The City maintains access to the credit markets, as the City has an 'A' category rating for its General Obligation debt from all three major credit rating agencies. However, the City's ratings are relatively weak and rank the second lowest of the 20 largest cities (behind Chicago) in the United States as of December 2021.[1] In April 2020, S&P revised the City's bond rating outlook from 'positive' to 'stable' due to the worsening U.S. economic forecast spurred on by the COVID-19 global Pandemic. In July 2021, Fitch revised the City's outlook from 'negative' to 'stable', due primarily to the receipt of American Rescue Plan Act (the "ARPA") funds. In July 2022, Fitch upgraded the City's credit rating to "A" from "A-" and maintained its 'stable' outlook.

Efforts to improve credit ratings remain important to reduce the costs of borrowing and to ensure continued access to the credit markets (see Section V discussion, "Bond Ratings").

[1] City of Philadelphia, Five Year Financial and Strategic Plan for Fiscal Years 2023-2027, March 31, 2022: p.77.

Standards for Formulation of the Plan

The PICA Act stipulates that all projections of revenues and expenditures are to be based upon consistently applied reasonable and appropriate assumptions and methods of estimation. The Act's language that assumptions must be "reasonable and appropriate" is intended to convey the idea that "reasonable" assumptions are those which represent a likely scenario, neither too optimistic, nor too pessimistic.

This has historically been interpreted to refer to realistic assumptions surrounding certain risks over which PICA has expressed concern, including: the underfunded pension system, growing health benefit costs, potential and/or pending labor costs, increasing indemnities, fund balances below the GFOA recommendation, and lacking reserve funds.

PICA credits the City on consistently providing a balanced budget. PICA and the City have consistently agreed that larger fund balances are necessary for the fiscal health of the City. However, accumulating robust and healthy fund balances remains a challenge.

Due to stronger than anticipated tax collections (primarily from the real estate transfer tax), and the infusion of the ARPA funds of over $1.4 billion, year end fund balances are notably higher than in recent years.

The Plan includes projected contributions to the Budget Stabilization Reserve (the "BSR") fund in FY2023 through FY2026, totaling $166.1 million. This Plan also includes a Recession & Reopening Reserve of $165.0 million over the life of the Plan as a contingency to the continuing economic impact of the COVID-19 global Pandemic and the inflationary pressures the economy is currently experiencing. In addition, the Plan includes labor reserves totaling $517.0 million to cover the correctional officers bargaining contract which expired at the end of FY2021, and for the remaining labor contracts which will expire at the end of FY2024.

Table 2.2: Summary of FY2023-FY2027 Five Year Plan Projections[1] ($ in Millions)

Plan Component	Actual	Estimate	Projected				
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Revenues							
Taxes	3,423.9	3,922.6	4,015.7	4,148.5	4,280.4	4,429.6	4,589.4
Locally Generated Non-Tax	344.2	373.2	372.8	336.5	335.4	355.0	381.9
Other Governments	836.6	872.6	913.4	942.9	971.5	999.5	1,027.6
Other Funds	87.8	322.3	401.0	455.0	512.1	63.2	62.9
Total Revenues	**$4,692.5**	**$5,490.7**	**$5,702.8**	**$5,882.9**	**$6,099.5**	**$5,847.4**	**$6,061.9**
Percent Change	-	17.0%	3.9%	3.2%	3.7%	-4.1%	3.7%
Obligations							
Agencies	2,635.9	2,942.3	3,143.2	3,161.8	3,106.6	3,102.9	3,102.3
Employee Benefits	1,270.3	1,504.8	1,603.5	1,651.2	1,700.3	1,749.8	1,781.8
Other Obligations	811.6	872.8	1,095.7	1,145.1	1,208.0	1,267.1	1,278.6
Total Obligations	**$4,717.8**	**$5,319.9**	**$5,842.5**	**$5,958.1**	**$6,014.9**	**$6,119.7**	**$6,162.6**
Percent Change	-	12.8%	9.8%	2.0%	1.0%	1.7%	0.7%
Fund Balance							
Prior Year Adjustments	33.1	23.0	19.5	19.5	19.5	19.5	19.5
Adjusted Operating Surplus/(Deficit)	7.9	193.9	(120.2)	(55.7)	104.1	(252.9)	(81.1)
Prior Year Fund Balance	290.6	298.5	492.4	372.1	316.4	420.6	167.7
Fund Balance	**$298.5**	**$492.4**	**$372.1**	**$316.4**	**$420.6**	**$167.7**	**$86.5**
Fund Balance as % of Obligations	6.3%	9.3%	6.4%	5.3%	7.0%	2.7%	1.4%

[1] All figures rounded for readability
Source: FY2023-FY2027 *Five-Year Financial Plan* submitted to PICA on June 30, 2022

The PICA Act also requires that estimates for tax revenues collected by the City should be "based on current or proposed tax rates, historical collection patterns, and generally recognized econometric models;" while revenues received from federal or state government should be based on "historical patterns," "currently available levels," or levels contained in a budget proposed by the Governor, President, or in a Congressional budget resolution. Locally generated non-tax revenue estimates should be based on "current or proposed rates, charges or fees, historical patterns and generally recognized econometric models." The Plan does meet these criteria.

Furthermore, the City derives projections on the growth of its tax base from forecasts created by a consultant, IHS Markit ("IHS"). The forecasts are then reviewed by a group of professional economists before they are used by the City to estimate the tax base. As explained later in the "Evaluation of Plan Projections" section, some of the estimates related to tax base growth for several taxes were modified from the proposed Plan (issued on March 31, 2022).

With regard to expenditures, estimates are required to include "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." The Act continues by stating that obligations from previous fiscal years "not covered by encumbered funds" should also be included in estimated expenditures.

If there are any obligations not factored into the Plan that may be incurred "during the fiscal year or in the 24-month period following," such as new contracts, debt service, or settlements, they could pose risks to the Plan.

The Act also requires that estimates be made on a modified accrual basis, whereas revenues are recognized in the accounting period in which they become both measurable and available. The City uses the modified accrual basis of accounting to recognize revenues and expenditures for budgeting purposes. Therefore, the Plan meets this criterion, and all projections are shown in this manner.

Overall, the Plan adheres to important provisions in the PICA Act with regard to structure, as well as how to formulate a significant portion of its assumptions. However, the Plan could be made more transparent with the incorporation of background information and data used to formulate the projections within.

Evaluation of Plan Projections

Table 2.2 presents a summary of the Plan revenue, obligations, and fund balance projections for each of the five fiscal years. The Plan, as required, projects a positive year end fund balance in each of its years. Although the projected fund balances are positive, they are lower than the City's own targets in three out of five years, while simultaneously being lower than the Government Finance Officers Association's (the "GFOA") recommendation in all years of the Plan. The City's target is between

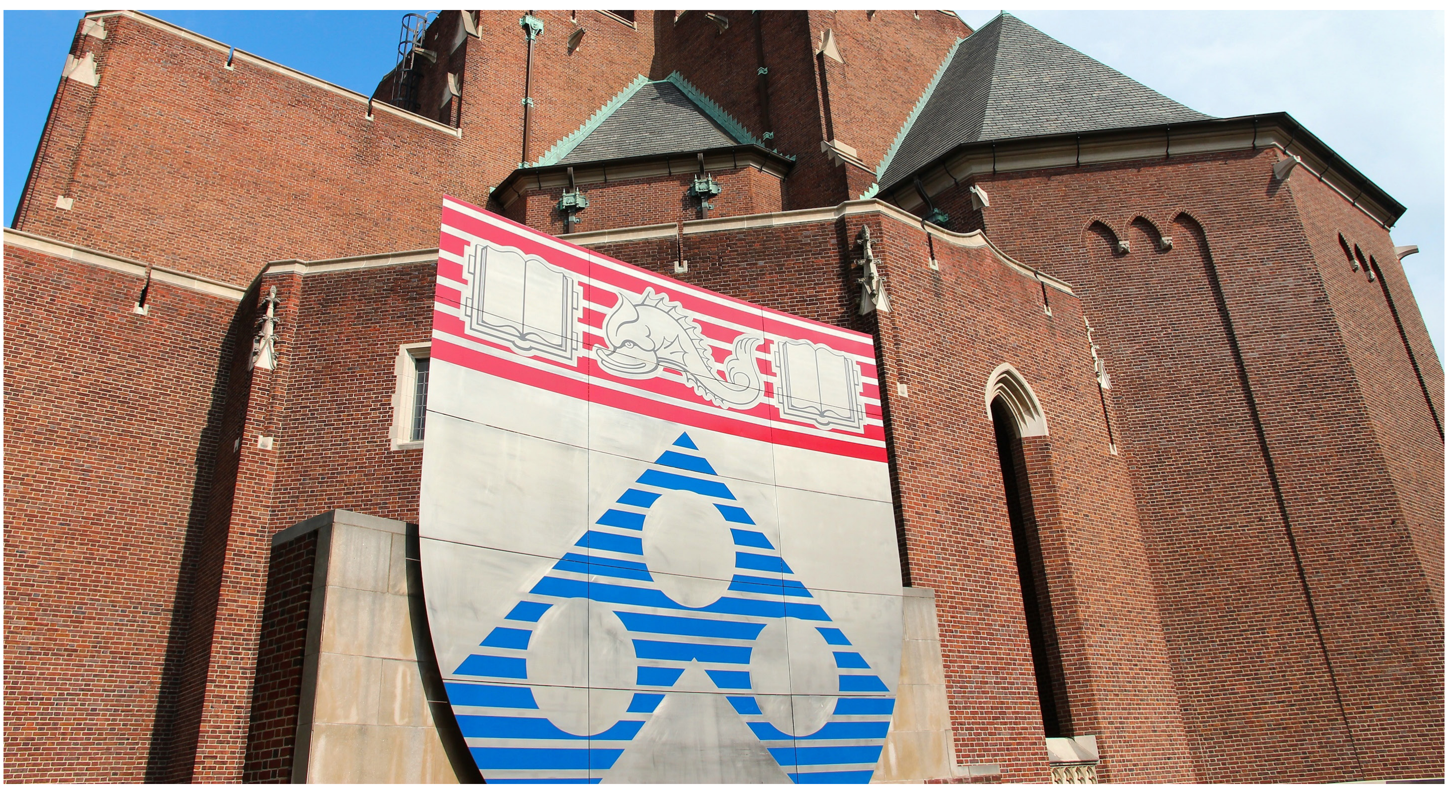
6 and 8 percent of obligations, while the GFOA recommends fund balances of at least 17 percent of obligations. (See Section III discussion "Fund Balance"), Figure 2.1 illustrates the Plan projections.

As indicated in Table 2.3, taxes generate the majority of revenues. Total tax revenue, including revenue from the PICA tax, represents 70.4 percent of General Fund revenue in FY2023. Upon depletion of the ARPA funds, this percentage increases to 75.8 percent in FY2026. It should be noted that in previous years prior to the COVID-19 global Pandemic, this category of revenue accounted for over 81 percent of total revenues, thus showing the impact the Pandemic has had and continues to have on tax revenues. The City's largest tax category is wage and earnings, which makes up over 41.3 percent of projected tax revenue in FY2023 through FY2027. The real estate tax, which is the primary source of tax revenue in most comparable jurisdictions, accounts for just 20.3 percent of tax revenues. The ARPA Funds, shown under Revenue From Other Funds, totals $335.0 million for FY2023, and represents 5.9 percent of total revenues. These critical federal funds enabled the City to present a balanced budget without reductions to services in FY2022 and again in FY2023.

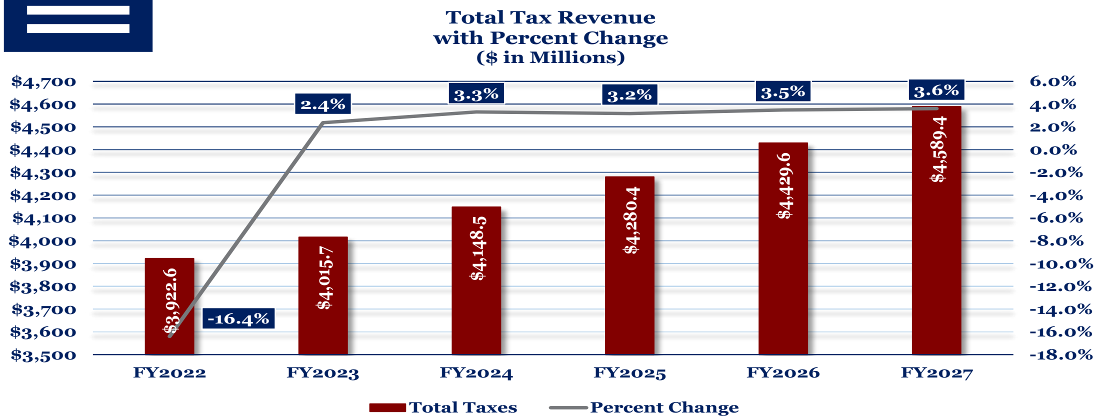
The Plan projects total FY2023 obligations at $5.842 billion, a $522.6 million or 9.8 percent increase over FY2022. Of this amount, Agency Obligations total $3.143 billion, Employee Benefits total $1.603 billion, and Other Obligations total $1.095 billion. Other Obligations includes debt service, and contributions to the School District of Philadelphia ("School District"), the Southeastern Pennsylvania Transportation Authority ("SEPTA"), Community College of Philadelphia, and the Pennsylvania Convention Center. Also included in this category are BSR and Recession & Reopening reserves, and a provision for future labor negotiations.

Agency Obligations are projected to initially increase by 6.8 percent from FY2022 into FY2023. After which, they level off and gradually decrease for the remaining Plan period. Employee Benefits are projected to increase by 6.6 percent, and gradually increase in the remaining years of the Plan.

The remainder of this section describes key assumptions that form the basis of the projections of revenues and obligations in the Plan. Some of the policy issues raised by the projections are also discussed.



General Fund Revenue Projections: Taxes



- *Wage*
- *Business Income and Receipts ("BIRT")*
- *Real Estate*
- *Real Estate Transfer*
- *Parking*
- *Beverage*

Taxes

Projected General Fund tax revenues over the Plan period are presented in Table 2.3. For FY2023, the majority of projected City tax revenue is generated by the wage and earnings (41.3 percent), real estate (20.3 percent), business income and receipts (15.7 percent), real estate/property transfer (10.4 percent), and sales taxes (6.9 percent). Table 2.3 also includes Locally Generated Non-Tax revenue, Revenue From Other Governments, and Revenue From Other Funds. Table 2.4 presents the Plan's projected tax rates for each tax, while Table 2.5 presents the Plan's projected rates of tax base and tax revenue growth over the Plan period.

Revenue projections are dependent on local economic conditions and are based on projected tax base growth for each tax. The City relies on an external economic forecasting consultant, IHS Markit ("IHS"), to develop the revenue projections. Base growth projections for every tax, except the real estate tax, was initially made by IHS. Prior to the release of the proposed Plan, the projections were reviewed and deliberated by regional economists at a meeting held in February which was hosted by PICA. At that time, the IHS projections were generally accepted by the experts attending the discussion as some projections were included, while others were modified by the City before inclusion in the proposed Plan.

As part of the Plan review process, PICA engages its own economic consultant to evaluate the reasonableness of the City's revenue projections. PICA's consultant's forecast for total tax revenues over the Plan period is slightly lower than the City's projection. PICA's consultant concluded that while some City projections differ from his own estimates, overall, they are within range and appear reasonable.

As always, revenue forecasting is vulnerable to the level of economic growth. Table 2.5 shows the annual base growth projections for tax revenues, except for real estate transfer, increasing from FY2022 to FY2023. The City anticipates strong economic growth in FY2023, as the base growth rates are positive for each tax except real estate transfer. The base growth rates continue to increase, but at a slower rate, for the remaining years of the Plan.

Table 2.5 also presents annual revenue growth rates in the Plan. These growth rates reflect projected tax rates, tax bases, deductions or abatements, 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. See above figure, "Total Tax Revenues," for a visualization of projected tax growth.

Similar to the base growth rate, except for the real estate transfer tax, the revenue growth rates also indicate an increase in FY2023 and they continue to increase at a slower pace in the remaining years of the Plan. Specifically, total General Fund tax revenues are projected to grow by 2.4 percent in FY2023, reaching $4.015 billion, followed by over 3.0 percent growth in each of the remaining years of the Plan, steadily rising to $4.589 billion in FY2027.

Wage, Earnings, and Net Profits. This tax is collected from all employees that work or live in the City, regardless of where they live. It is called the wage tax when remitted by the employer, the earnings tax when submitted directly by the employee, and the net profits tax when submitted by self-employed residents or non-residents who conduct business in the City. Projected at $1.661 billion, this tax is the largest source of General Fund tax revenue, representing 41.3 percent of total FY2023 projected tax revenues.

The Plan reinstates gradual reductions in tax rates for the wage, earnings, and net profits taxes. As shown in Table 2.4, the resident tax rate is reduced from 3.8398 percent in FY2022 to 3.7900 percent in FY2023 and remains at this level through the Plan period. This is a significant reduction compared to last year's five year plan where the rate was projected to gradually decline each year until it reached 3.8245 percent in FY2026. The non-resident tax rate also declines from 3.4481 percent in FY2022 to 3.4400 percent in FY2023 and remains at this level through the Plan period. This reduction is less than the reduction projected in last year's plan where the rate gradually declined in each year until it reached 3.4343 percent in

Table 2.3: General Fund Revenue Projections ($ in Millions)[1]

Revenues	Actual	Estimate	Projected				
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Taxes							
Real Estate	723.3	718.7	813.4	841.4	869.5	899.5	934.7
Wage Earnings and Net Profits	1,495.1	1,573.3	1,661.6	1,733.8	1,810.8	1,886.1	1,963.1
Business Income and Receipts	541.6	633.2	631.5	648.0	655.7	677.4	701.3
Sales	230.4	268.4	277.6	289.2	302.1	315.7	329.1
Real Property Transfer	304.0	537.7	418.3	418.6	421.8	427.1	434.1
Parking	53.2	88.3	93.1	95.8	98.7	101.6	104.4
Beverage	70.2	76.9	77.9	78.8	78.0	77.6	77.3
Construction Impact	-	0.5	15.0	15.0	15.0	15.0	15.0
Other Taxes[2]	6.0	25.6	27.1	27.9	28.8	29.6	30.4
Total Taxes	**$3,423.9**	**$3,922.6**	**$4,015.7**	**$4,148.5**	**$4,280.4**	**$4,429.6**	**$4,589.4**
Locally Generated Non-Tax							
Innovation and Technology	16.8	22.4	18.3	17.4	16.5	15.7	14.9
Streets	30.6	31.3	29.4	29.6	29.8	30.0	30.0
Fire	33.6	32.5	37.0	42.0	42.0	42.0	42.0
Public Property	3.2	14.3	18.9	5.9	5.9	5.9	32.9
Licenses and Inspections	76.7	76.0	72.3	77.0	77.0	77.0	77.0
Records	19.7	21.8	19.2	19.2	19.2	19.2	19.2
Public Health	65.2	65.4	65.4	44.9	44.9	65.1	65.9
First Judicial District	16.8	21.9	23.9	23.9	23.9	23.9	23.9
Finance	21.7	22.3	14.5	14.5	14.5	14.5	14.5
Other	59.9	65.4	74.1	62.3	61.9	61.8	61.7
Total Locally Generated Non-Tax	**$344.2**	**$373.2**	**$372.8**	**$336.5**	**$335.4**	**$355.0**	**$381.9**
Revenues from Other Governments							
Federal	62.4	68.5	55.9	35.9	35.9	35.9	35.9
State	229.8	230.2	231.5	231.7	232.0	232.2	232.2
Other Governments	43.7	62.1	63.1	64.0	65.1	66.1	67.1
PICA	509.0	509.8	560.9	609.2	636.6	663.3	690.4
Other Authorized Adjustments	(8.3)	2.0	2.0	2.0	2.0	2.0	2.0
Total Revenues from Other Govts.	**$836.6**	**$872.6**	**$913.4**	**$942.9**	**$971.5**	**$999.5**	**$1,027.6**
Revenues from Other Funds							
Water	10.4	8.7	9.1	9.5	10.0	10.5	11.0
Aviation	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Grants - American Rescue Plan	-	250.0	335.0	390.8	449.4	-	-
Grants - Other	34.6	55.0	48.3	46.1	44.2	44.2	43.4
Other	39.3	5.0	5.0	5.0	5.0	5.0	5.0
Total Revenues from Other Funds	**$87.8**	**$322.3**	**$401.0**	**$455.0**	**$512.1**	**$63.2**	**$62.9**
Total General Fund Revenues	**$4,692.5**	**$5,490.7**	**$5,702.8**	**$5,882.9**	**$6,099.5**	**$5,847.4**	**$6,061.9**

[1] All figures rounded for readability
[2] Includes Amusement, Smokeless Tobacco, and other miscellaneous taxes

FY2026. These tax rate reductions are estimated to cost the City $20.5 million in FY2023.[1]

From FY2016 to FY2019, wage, earnings, and net profits tax collections increased by 15.7 percent, reaching $1.618 billion in FY2019. Despite the Pandemic, the tax increased slightly in FY2020 reaching a high of $1.628 billion. Due to the Pandemic and restrictions associated with it, the resulting low economic activity and high unemployment, FY2021 collections declined by $133.2 million, or 8.2 percent, reaching a low of $1.495 billion. For FY2022, collections slightly rebounded by 5.3 percent and are estimated to reach $1.573 billion, a $78.1 million increase from FY2021.

The City formulates wage revenue projections based on IHS forecasts of the national and local economy. The IHS estimates are then adjusted to reflect historical trends of the interrelationship between the national economy and actual Philadelphia wage tax collections. Subsequently, the City adjusts for tax rate changes in this revenue stream before finalizing projections.

The wage tax is among the City's revenue streams that is most vulnerable to declines in economic growth. This was apparent in FY2021, when the Pandemic induced economic contraction and the switch to remote work adversely impacted tax collections. However, while sensitive to changes in the economy, the wage tax is projected to grow during the Plan period. IHS projects that employment will take longer to return to their previous national model assumptions (previously it assumed that the region would reach full employment by at least the summer of 2022) for the region, and that wage growth will strengthen as the labor market tightens.[2]

Another challenge presented by the Pandemic is that non-residents are not liable to pay the wage tax if their employer requires them to work from a remote location (outside City boundaries). Despite the roll back of Pandemic related restrictions and the rise of vaccinations, many office workers continue to work from home (remote work). During the Pandemic, some employers changed payroll withholding status for employees working remotely, therefore reducing collections. As such, IHS' growth rate projections incorporate an assumption that 25 percent of non-resident wages will not return to the tax base through FY2027.[3] This will also negatively impact the City' commercial real estate sector if it leads to

[1] Collins Walsh, Sean and Pananjady, Kasturi, "Philly Budget deal expands property tax relief and cuts business taxes," *Philadelphia Inquirer*," June 16, 2022: https://www.inquirer.com/politics/philadelphia/philadelphia-city-council-budget-homestead-exemption-business-tax-20220615.html.

[2] City of Philadelphia, Five Year Financial and Strategic Plan for Fiscal Years 2023-2027, March 31, 2022: p.47.

[3] *Ibid*, p.48.

Table 2.4: Philadelphia Tax Rates (Percent)

Tax Type	Actual	Projected					
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Real Estate							
City	0.6317	0.6317	0.6317	0.6317	0.6317	0.6317	0.6317
School District	0.7681	0.7681	0.7681	0.7681	0.7681	0.7681	0.7681
Total	1.3998	1.3998	1.3998	1.3998	1.3998	1.3998	1.3998
Wage, Earnings, and Net Profits							
Resident	3.8712	3.8398	3.7900	3.7900	3.7900	3.7900	3.7900
Non-Resident	3.5019	3.4481	3.4400	3.4400	3.4400	3.4400	3.4400
Business Income and Receipts							
Net Income	6.20	6.20	5.99	5.99	5.99	5.99	5.99
Gross Receipts[1]	0.1415	0.1415	0.1415	0.1415	0.1415	0.1415	0.1415
Sales[2]	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Real Property Transfer	3.278	3.278	3.278	3.278	3.278	3.278	3.278
Parking	25.0	22.5	22.5	22.5	22.5	22.5	22.5
Beverage[3]	1.5	1.5	1.5	1.5	1.5	1.5	1.5

[1] Alternative gross receipts tax rates permitted for manufacturers, wholesalers and retailers
[2] The School District of Philadelphia receives annual allocation of $120 million in sales tax revenue
[3] Assessed per ounce

reduced demand for office space.[4] In FY2021, the City anticipated wage tax refund requests of approximately $125.0 million, ultimately about $92.6 million in refund requests were received. For FY2022, the City anticipated $70.0 million in refund requests, through June 7, 2022, $69.5 million was refunded, with another $27.1 million pending.

The City projects an increase of 5.6 percent in collections for wage taxes in FY2023, 4.3 percent in FY2024, and over 4.0 percent increase in each of the remaining years of the Plan, shown in Table 2.5.

PICA's economic consultant's projections are similar to the City's projections through the life of the Plan mainly due to a tight labor market, which tends to increase both employment levels and wages.

Real Estate. The real estate tax is levied on the taxable assessed value of all property, residential and commercial, in the City. Since 2014, the real estate tax is based on 100 percent of the assessed value of the property. The assessed value should reflect the market value of the property. Projected at $813.4 million for FY2023, this tax is the second-largest source of General Fund tax revenue, representing 20.3 percent of total tax revenues. It should be noted that other cities and counties rely more heavily on property taxes as a proportion of their budget.

The real estate tax rate is a combination of City and School District rates, which together equal 1.3998 percent. The overall tax includes a City-dedicated portion of 0.6317 percent and a School District portion of 0.7681 percent. Therefore, only 45 percent of the total real estate tax collected benefits the City, while 55 percent is allocated to the School District. The above projected tax amount only represents the City's portion.

The real estate tax projection process begins with the City's estimate of the tax base. This estimate is not based on IHS projections, but rather on an

[4] *Ibid*, p.43.

Table 2.5: Tax Base and Revenue Growth (Percent)

Tax Type	Estimate	Projected			
	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Real Estate						
Base[1]	(0.58)	13.81	3.00	3.00	3.00	3.00
Revenue	(0.64)	13.18	3.45	3.33	3.45	3.91
Wage and Earnings						
Base	7.59	6.95	4.35	4.41	4.14	4.08
Revenue	6.06	5.62	4.34	4.40	4.13	4.07
Net Profits						
Base	(28.88)	6.48	5.21	7.60	6.28	5.14
Revenue	(22.09)	5.37	4.54	6.66	5.55	4.58
Business Income and Receipts						
Base	17.11	2.00	2.60	1.19	3.30	3.53
Revenue	16.92	(0.27)	2.60	1.19	3.31	3.54
Sales						
Base	10.84	2.37	2.90	3.16	3.23	3.06
Revenue	16.51	3.43	4.15	4.47	4.51	4.23
Real Property Transfer						
Base	76.87	(22.20)	0.08	0.75	1.25	1.66
Revenue	76.97	(22.20)	0.08	0.75	1.25	1.66
Parking						
Base	65.91	5.50	2.86	3.04	2.90	2.78
Revenue	65.91	5.50	2.86	3.04	2.90	2.78

Notes:
[1] Includes estimates of revised assessment values, net of the homestead exemption, and projected appeal losses

assumption as to the rate of growth of taxable assessed value, which includes residential and commercial property classifications. The real estate tax revenue projection also reflects other factors, including: the amount of new construction and rehabilitated properties returning from abatement that year to taxable status, homestead exemptions, Longtime Owner Occupants Program ("LOOP") discounts, Tax Increment Financing ("TIF") programs, and the Senior Citizen Tax Freeze program. Also reflected in the Plan is the impact of enforcement initiatives, including the Revenue Department's data warehouse, sequestration, and delinquent billing policies.

Properties returning from abatement in both residential and commercial categories will also impact real estate tax revenue. The expiration of ten-year abatements may result in a permanent increase in the real estate tax base overall. However, the impact on growth rates for the tax remain only in the year in which the return from abatement occurs.

Beginning with tax year 2021, the City eliminated the 1.0 percent discount for early payment of the real estate tax. The discount was granted to property owners who paid their annual bill one month before the March 31st due date.
From FY2016 to FY2019, tax collections increased by 21.9 percent, reaching $696.6 million in FY2019. Despite the Pandemic, the collections continued to rise modestly in both FY2020 and FY2021, reaching $699.1 million and $723.3 million, respectively. However, the estimated FY2022 collections are expected to decrease slightly to $718.7 million due to an increase in the delinquency rate, which is attributable to the continued effects of the Pandemic.

As mentioned above, in FY2014, the City completed the Actual Value Initiative ("AVI") which involved a comprehensive reassessment of all properties in the City–approximately 581,000, to correct outdated and partial assessments. The intent of AVI was to ensure that properties are examined annually to ensure that appraisal levels reflect current market values.[5] In FY2020, the City purchased a Computer-Assisted Mass Appraisal (the "CAMA") system to automate the assessment process and to provide a more efficient methodology for valuing properties. After a few years of development, implementation, and training, the CAMA system was used to generate new property assessments for tax year 2023.

The new CAMA system produced the first citywide property reassessment in three years, which saw residential property values increase by 31 percent on average.[6] Although accurate, the assessed values were much higher than anticipated, as they were based on current market values, and would have increased real estate taxes significantly for some property owners. To soften the impact of these potential real estate tax increases, City Council, working with the Administration, approved legislation that increased the Homestead Exemption from $45,000 to $80,000. The increase in the Homestead Exemption has been estimated at $47.8 million for FY2023.[7] In addition, eligibility guidelines for both the LOOP and the Senior Citizen Tax Freeze programs were expanded, therefore, dampening the additional real estate tax collections that the new assessments would have generated. The expanded eligibility for LOOP is estimated to cost the City's General Fund an additional $4.5 million, while there is no estimate for the Senior Citizen Tax Freeze program at this time.

[5] *Ibid*, p.48.
[6] Collins Walsh, Sean and Pananjady, Kasturi, "Philly Budget deal expands property tax relief and cuts business taxes," *Philadelphia Inquirer*," June 16, 2022: https://www.inquirer.com/politics/philadelphia/philadelphia-city-council-budget-homestead-exemption-business-tax-20220615.html.
[7] Walsh and Kasturi, "Philly Budget deal expands property tax relief."

As a result, the Plan projects that the real estate tax base will increase by almost 14 percent in FY2023, followed by over 3 percent increases in each of the remaining years of the Plan, as shown in Table 2.5. The City reduced the forecasted collection rate from 97.5 percent to 95 percent for the duration of the Plan. Prior to the Pandemic, the City gradually raised the collection rate from 91.6 percent in FY2016, to 96.1 percent in FY2020. During the Pandemic, economic uncertainty made tax collections more difficult and court orders temporarily removed some enforcement tools, therefore, reducing the collection rate. In addition, the City expects that appeals will reduce the assessment increase by 12 percent for residential properties and by 15 percent for commercial properties.[8]

PICA's economic consultant's projections are slightly lower than the City's projections due to a less optimistic estimate for appeals outcomes, the possibility that Philadelphia's real estate market is currently experiencing a bubble, and thus a higher likelihood for a downward price correction in the future.[9]

[8] Swanson, Charles, Associate Professor of Economics, Temple University, "Discussion of Tax Revenue Estimates," July 13, 2022.
[9] Swanson, "Discussion of Tax Revenue Estimates."

Business Income and Receipts. Every individual, partnership, association, limited liability company, and corporation engaged in a business, profession, or other activity for profit within the City of Philadelphia with over $100,000 in receipts must file a business income and receipts tax (the "BIRT") return, whether or not a profit was earned during the preceding year. The BIRT is filed and paid annually for business activity from the prior year. Recently, the requirement for new businesses to make an estimated payment in their first year of operation was eliminated. Projected at $631.5 million, this tax is the third-largest source of General Fund tax revenue, representing 15.7 percent of total FY2023 projected tax revenues.

BIRT is composed of separate levies on net income (profits) and gross receipts (sales). The BIRT is filed and paid annually for business activity from the prior year. The net income tax rate will decline to 5.99 percent in FY2023 and through the remaining years of the Plan. The gross receipts portion will remain at 0.1415 percent throughout the Plan period. This rate cut is estimated to cost the City $13.6 million in FY2023.[10] The rate cut was a result of negotiations between City

[10] Walsh and Kasturi, "Philly Budget deal expands property tax relief."

Table 2.6: General Fund Revenue Trends ($ in Millions)[1]

Revenues	Actual						Estimate
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Taxes							
Real Estate	571.6	587.1	650.4	696.6	699.1	723.3	718.7
Wage Earnings and Net Profits	1,398.4	1,471.2	1,574.6	1,617.7	1,628.4	1,495.1	1,573.3
Business Income and Receipts	474.2	417.5	446.1	540.9	534.2	541.6	633.2
Sales	169.4	188.4	198.4	224.2	204.6	230.4	268.4
Real Property Transfer	237.3	247.3	331.5	328.4	319.8	304.0	537.7
Parking	92.7	96.1	96.5	99.3	77.3	53.2	88.3
Beverage	-	39.5	77.4	76.9	69.9	70.2	76.9
Construction Impact	-	-	-	-	-	-	0.5
Other Taxes[2]	23.0	24.4	27.0	30.8	22.7	6.0	25.6
Total Taxes	**$2,966.6**	**$3,071.4**	**$3,401.8**	**$3,614.8**	**$3,555.9**	**$3,423.9**	**$3,922.6**
Locally Generated Non-Tax	**$291.0**	**$309.5**	**$320.6**	**$349.1**	**$365.1**	**$344.2**	**$373.2**
Revenues from Other Governments							
PICA Funding	383.4	409.5	454.2	493.6	495.9	509.0	509.8
Other	305.6	307.7	323.9	311.1	362.6	327.6	362.8
Total Revenues from Other Govts.	**$689.1**	**$717.2**	**$778.2**	**$804.7**	**$858.5**	**$836.6**	**$872.6**
Revenues from Other Funds	**$42.3**	**$60.1**	**$55.4**	**$51.7**	**$53.8**	**$87.8**	**$322.3**
Total General Fund Revenues	**$3,989.0**	**$4,158.2**	**$4,556.1**	**$4,820.3**	**$4,833.4**	**$4,692.5**	**$5,490.7**

[1] All figures rounded for readability
[2] Includes Amusement, Smokeless Tobacco, and other miscellaneous taxes

Council and the Administration, after the new assessed property values for tax year 2023 were higher than anticipated. It should be noted that in the proposed Plan, the City did not include any changes to BIRT, as the new assessments were not available at that time. However, it indicated that the Administration was open to tax relief and reforms that were scaled to the magnitude of the changes as the data becomes available.

As with the wage tax, the BIRT imposes a tax burden that far exceeds comparable taxes in the suburbs and its structure is unique compared to most other major US cities. However, the City has taken steps to reduce and reform this tax by instituting an exemption on the first $100,000 of gross receipts and a single sales factor apportionment to determine net income. The City also eliminated the requirement for eligible new businesses to make an estimated payment in their first year of operation. Starting with tax year 2020, the City also eliminated the need to file for businesses with gross receipts of less than $100,000.

Many firms subject to the tax receive rebates after filing their taxes if their actual tax bill differs from the original filing. As such, the City cannot quantify the total amount of rebates until after the end of a given fiscal year. Projections for this tax are further complicated by the need to anticipate corporate earnings, which comprise the tax base and which are more volatile than wage earnings.

Additionally, BIRT revenue is also impacted by business activity outside the City limits conducted by companies not located in the City, but having some operations in Philadelphia. As such, national business activity interplays with local activity and the local tax structure, combining into a complex revenue stream. Therefore, due to these factors, BIRT revenue is difficult to project.

From FY2016 to FY2019, BIRT tax collections increased by 14.1 percent, reaching a high of $540.9 million in FY2019. Despite the Pandemic, BIRT collections declined only slightly in FY2020, to $534.2 million, then rebounded slightly in FY2021, to $541.6 million. For FY2022, BIRT is estimated to total $633.2 million, representing a 16.9 percent increase over the prior year, primarily due to strong corporate earnings experienced in tax year 2021.

However, the current uncertain economic conditions and the resulting lower than expected corporate earnings in tax year 2022, combined with the lower BIRT tax rate mentioned above have tampered growth expectations for the BIRT tax. The Plan projects a decline in revenue growth in FY2023 of less than half of one percent, followed by a slight increase of 2.6 percent in FY2024. For each of the remaining years of the Plan, revenue growth increases from 1.2 percent to 3.5 percent.

PICA's economic consultant's projections are slightly lower than those of the City's over the life of the Plan, primarily due to a consensus amongst economic analysts anticipating a large reduction in profits due to cost increases.[11]

Real Estate Transfer. The real estate transfer tax ("RTT") applies to the sale or transfer of real estate located in Philadelphia. The tax becomes payable when a property deed (or other document showing realty ownership) is filed with the Records Department. It is levied on the sale price or assessed value of the property, plus any assumed debt of the real property sold or transferred. Projected at $418.3 million, this tax is the fourth-largest source of General Fund tax revenue, representing 10.4 percent of total FY2023 projected tax revenues.

Similar to the sales tax, there is a City and a Commonwealth component. The City's rate was increased from 3.1 percent to 3.278 percent on July 1, 2018, while the Commonwealth's rate remains at 1.0 percent, for a total of 4.278 percent. The tax is usually split evenly between the buyer and seller, but this is not a legal requirement.

This revenue stream 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. However, activity and real property values, and therefore sale prices, increased in recent years, so too have collections. From FY2016 to FY2019, collections

[11] Swanson, "Discussion of Tax Revenue Estimates."

increased by 38.4 percent, reaching $328.4 million in FY2019.

As the Pandemic took hold, tax collections decreased in FY2020 and then again in FY2021, dropping to $304.0 million. However, demand and market values for residential property have significantly increased since the real estate market reopened after the Pandemic related shutdown. As a result, it is estimated that this tax will exceed $537.7 million in FY2022 collections, representing a 76.9 percent increase over FY2021.

Although the real estate market is still strong, the increase in mortgage interest rates, the limited residential inventory and an expected slowdown in the commercial market could dampen the growth of this tax. As such, the Plan projects a decline of 22.2 percent in FY2023 for a reduced total of $418.3 million. The Plan projects the tax leveling off in FY2024 and FY2025, with a slight increase in the last two years of the Plan, reaching $434.1 million in FY2027.

PICA's consultant estimates the RTT at slightly lower levels over the Plan period due to the likelihood that the recent surge in activity was temporary and does not reflect a permanent change in the real estate market.

Sales. The sales tax is charged on taxable goods and services by retailers and service providers. Retailers and service providers are required to collect this tax at the time of purchase and then remit it to the Commonwealth of Pennsylvania. Projected at $277.6 million, this tax is the fifth-largest source of General Fund tax revenue, representing 6.9 percent of total FY2023 projected tax revenues.

The sales tax in Philadelphia is 8.0 percent, with 6.0 percent going to the Commonwealth of Pennsylvania, and the remaining 2.0 percent as a local Philadelphia tax. Payment of this tax is made directly to the Commonwealth's Department of Revenue, not the City. The 2.0 percent local tax is allocated between the City and the School District, with the first one percent allotted to the City, and the remaining one percent shared between the School District and the City. Under state legislation, the School District's share is capped at $120 million annually, with all residual revenue over this amount dedicated to the City's pension fund.

Sales tax revenue has increased in recent years as more goods and services were purchased during the pre-Pandemic economic expansion, and additional categories of goods were deemed taxable by the State Legislature in July of 2016. From FY2016 to FY2019, sales tax collections (excluding the School District portion) increased by 32.4 percent, reaching a high of $224.2 million.

After declining in FY2020 due to the initial impact of the Pandemic, sales tax rebounded in FY2021, reaching a high of $230.4 million. Sales tax collections continued to outperform expectations and increased in FY2022 to an estimated $268.4 million, $38.0 million, or 7.0 percent higher than FY2021.

Revenue growth is projected to continue throughout the Plan period but at a more moderate level. The Plan projects revenue growth in FY2023 of over 3.4 percent and a steady increase of over 4.0 percent in each remaining year. For FY2023, the projected revenue allocated to the City is $198.8 million, while $120.0 million is allocated to the School District and $78.8 million is allocated to the pension system.

PICA's consultant estimates sales tax collections slightly higher than the City's over the Plan period, due to the effects of higher wages in a labor market characterized by high demand, low unemployment, and forecasted inflation levels.[12]

Parking. The parking tax is levied on the gross receipts from all transactions involving parking or storing of automobiles in parking lots and garages. The rate was increased to 25.0 percent in FY2021 when it was temporarily increased to counter the financial impact of the COVID-19 global Pandemic. For FY2022 and through the life of the Plan, the rate has reverted to 22.5 percent.

The parking tax, which prior to the COVID-19 Pandemic was exhibiting reliable levels of growth, increasing by 7.2 percent from FY2016 to FY2019, reached a high of $99.3 million. After which, it declined severely during the Pandemic induced stay-at-home order, which disrupted air travel, sporting events, and commuting to Center City. Specifically, FY2020 collections declined by 22.2 percent, while FY2021 collections declined by an additional 31.2 percent, falling to a low of $53.2 million.

During FY2022, with the easing of Pandemic restrictions, the parking tax experienced a rebound more quickly than expected reaching an estimated $88.3 million in collections, a 65.9 percent increase over the prior year. As a result, the Plan projects continued moderate growth of 5.5 percent, reaching $93.1 million in FY2023. The growth rate is almost 3.0 percent in each of the remaining years of the Plan, reaching a high of $104.4 million in FY2027. Despite this growth rate, collection levels are not projected to return to pre-Pandemic levels until FY2026.

PICA's consultant estimates a slightly higher growth rate in parking revenue than the City, reflecting higher inflation and the return to pre-Pandemic trend levels.[13]

Beverage. The beverage tax is a tax on any non-alcoholic beverage, syrup, or other concentrate used to prepare a beverage that lists as an ingredient any form of caloric sugar-based sweetener or sugar substitute. The beverage tax is levied on distributors at the rate of 1.5 cents per ounce, and for this reason, changes in price do not impact collections. Concentrates and/or syrups are also taxed based on the final beverage produced.

Collections for this tax continue to clarify certain questions related to the size of the tax base, the impact of the tax on consumption, and the rate of enforcement. Therefore, the City uses experience to project this tax, but for this Plan period, the City also solicited the help of IHS in forming the forecast. Unlike most other taxes, beverage tax collections have declined in every year, except FY2022, since its inception in January of 2017 due to changes in beverage consumption habits, and an increase of sweetened beverages purchased outside City limits.

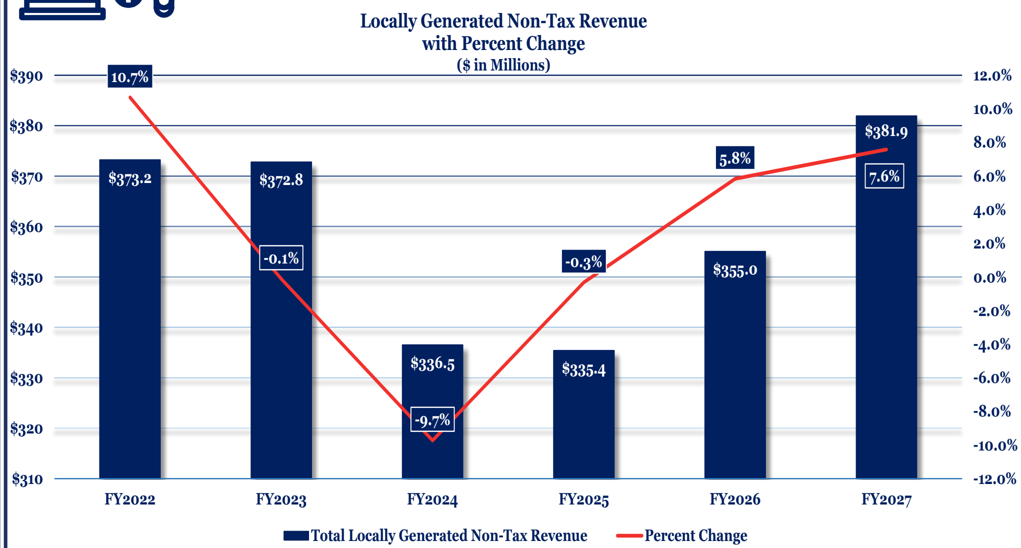
From FY2018 to FY2020, the tax decreased by 9.7 percent, reaching a low of $69.9 million. Despite the Pandemic, collections increased slightly to $70.2 million in FY2021, and are estimated to almost reach pre-Pandemic levels in FY2022, at $76.9 million, a 9.7 percent increase over the prior year. As a result, the Plan anticipates modest growth in FY2023 and FY2024, of slightly above 1.2 percent. After which, the Plan projects a decline in collections, which reflect national trends in decreased consumption of sweetened beverages, reaching $77.3 million in FY2027.

PICA's economic consultant's projections are slightly higher than those of the City's over the life of the Plan due to the expected continued rise in activity at sporting events and taverns.

[12] Swanson, "Discussion of Tax Revenue Estimates."

[13] Swanson, "Discussion of Tax Revenue Estimates."

General Fund Revenue Projections: Locally Generated Non-Tax



- *Fees*
- *Emergency Medical Services*
- *Commercial Refuse Collections*
- *Court Costs*
- *Fines*
- *Permit Fees*
- *Sale of Assets (Property)*

Locally Generated Non-Tax

Locally Generated Non-Tax revenue includes various fees, fines, permits, and other charges assessed by the City, as well as proceeds from asset sales.

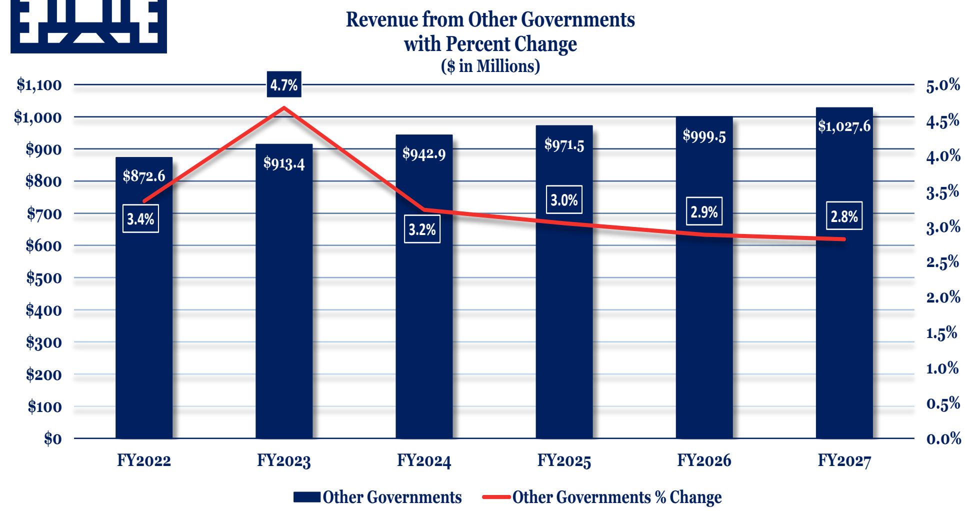
Specifically, this category includes a variety of revenue sources, including fees related to cable franchises, emergency medical services, commercial property refuse collections, business licenses, and the court system. Fine revenue is also included. Revenues collected by City agencies that account for a significant portion of this category are shown in Table 2.3. Departments with major revenue sources include Licenses & Inspections, Public Health, Fire, Streets, and the Office of Innovation and Technology.

Prior to the Pandemic related economic downturn, Locally Generated Non-Tax revenue was increasing annually, primarily as a result of increased permit applications related to the development boom experienced in the City. From FY2016 to FY2019, revenues in this category increased by 20.0 percent, reaching a high of $349.1 million. Despite the onset of the Pandemic, collections totaled $365.1 million in FY2020, representing an increase of 4.6 percent over the prior year. For FY2021, collections declined by 5.6 percent to a low of $344.2 million. However, a slight collective rebound was experienced in FY2022, as collections are estimated to total $373.2 million, an 8.4 percent increase over the prior year, attributed primarily to the reopening of the economy and the end of the Pandemic restrictions.

Locally Generated Non-Tax revenue growth is projected to level off in FY2023 and then decline in both FY2024 and FY2025, dropping to $335.4 million. This decline is attributable to less revenues stemming from patient care payments under the Department of Public Health. After which, moderate growth of over 5.8 percent is projected in the remaining years of the Plan.

Among the highest projected revenue-producing departments in this category for FY2023 are: Licenses & Inspections ($72.3 million), Public Health ($65.4 million), Fire Department ($37.0 million), Streets Department ($29.4 million), and First Judicial District ($23.9 million). See above figure for Locally Generated Non-Tax projected revenue growth (see Section III discussion, "Speculative Revenues").

General Fund Revenue Projections: Revenue From Other Governments



- *State and Federal Grants*
- *Health Program Reimbursements*
- *Commercial Refuse Collections*
- *Philadelphia Gas Works*
- *Rental Fees*
- *State Pension Aid*
- *State Funding to Support Wage Tax Reduction*
- *Philadelphia Parking Authority On-Street Parking Revenue*
- *Grants to Support the Courts*
- *PICA City Account Revenue*

Revenue From Other Governments

Revenue From Other Governments includes grants and other revenue from state and federal programs to support a variety of City programs. Major categories include reimbursement for certain health programs, the Philadelphia Gas Works annual rental fee, state pension aid, state funding to support wage tax reduction, Philadelphia Parking Authority on-street parking revenue, certain grants to support the court system, and PICA funding. These revenues and projections are shown in Table 2.3.

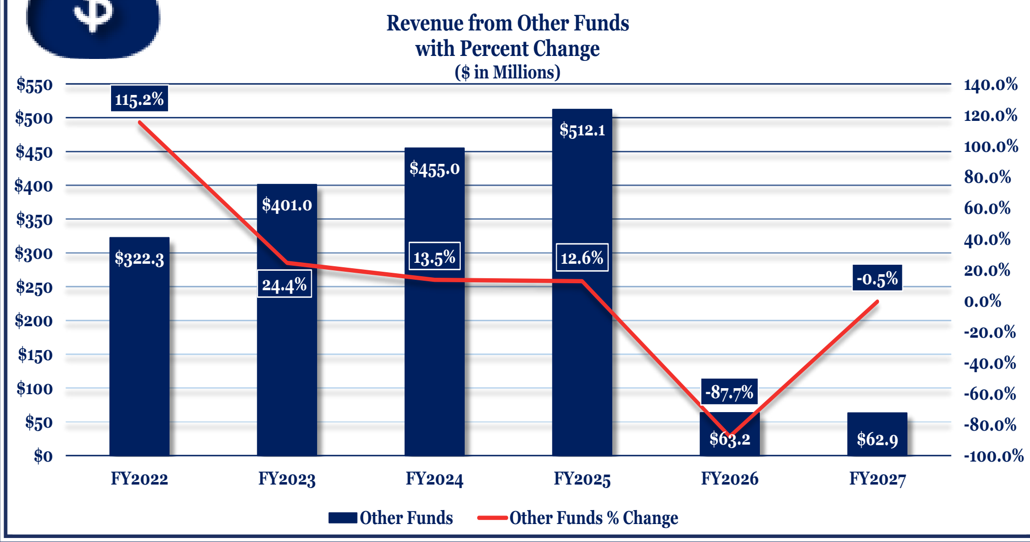
Revenue from Other Governments has been volatile in recent years. Whereas the state's contribution to the City has been and is projected to remain reliable, funds from federal grant programs have decreased. For instance, federal funding totaled $85.5 million in FY2020 and declined to $62.4 million in FY2021, while it is estimated to slightly increase in FY2022 to $68.5 million. The Plan projects this federal funding to decrease to $35.9 million by FY2024 where it is projected to remain until the end of the five year period, primarily due to the completion of the Emergency Management grant under the Managing Directors Office. As such, federal funding is difficult to project.

The largest source of revenue within this category comes from PICA. PICA receives a share of the resident portion of the wage, earnings, and net profits taxes to pay debt service on outstanding PICA bonds. PICA has a "first dollar" claim on the resident portion of the wage tax, earnings, and net profits tax. Revenues from PICA-dedicated taxes not needed to pay debt service (and other administrative expenses) are returned directly to the City. This revenue source is projected at $560.9 million in FY2023 and is projected to increase in every year of the Plan, reaching $690.4 million in FY2027. The increase is primarily attributed to the maturing of PICA's outstanding bonds in FY2023.

Other than PICA, the next highest sources of funds in the Plan are from the state. Specifically, Wage Tax Relief, which is used to reduce wage tax rates, is projected at $86.3 million annually; and Pension Aid – State Act 205, is projected at $79.9 million annually. In addition, the Philadelphia Parking Authority is projected to generate over $44.7 million annually in each year of the Plan, from on-street parking revenues, violations, and fines.

For FY2023, the Plan projects $913.4 million in total Revenue From Other Governments, which represents a 4.7 percent increase from the prior year. For FY2024 through FY2027, the Plan projects an annual growth rate of about 3.0 percent, yielding collections of $942.9 million in FY2024 and increasing to $1.028 billion by FY2027.

General Fund Revenue Projections: Revenue From Other Funds



- *Water*
- *Aviation*
- *Grants - American Rescue Plan*
- *Other Grants*

Revenue From Other Funds

Revenue From Other Funds accounts for payments from other City funds to the General Fund. Such funds include the Enterprise Funds (Water and Aviation) or from the Grants Fund. They also include payments from the City's Special Revenue Funds, which include the Housing Trust Fund, the Hotel Room Rental Tax Fund, Community Development Fund, the Budget Stabilization Reserve Fund, and other similar funds.

Funds from the American Rescue Plan Act ("ARPA") are included in this category. These funds represent federal Pandemic relief funding enacted to help states, local governments, and municipalities replace lost revenue and to support core government services and Pandemic response efforts. The City received the first and second tranche of funds in May 2021 and 2022, respectively. In total, the City is projected to spend $1.425 billion in ARPA funds.

Prior to the Pandemic, revenues in this category fluctuated depending on the activity in the funds mentioned above but hovered at approximately $50 million. In FY2021, the total jumped to $87.8 million primarily due to an increase in the 911 Surcharge and the infusion of funds from the BSR of $34.3 million. With the infusion of $250.0 million in ARPA funds, this category is estimated to spike to $322.3 million in FY2022.

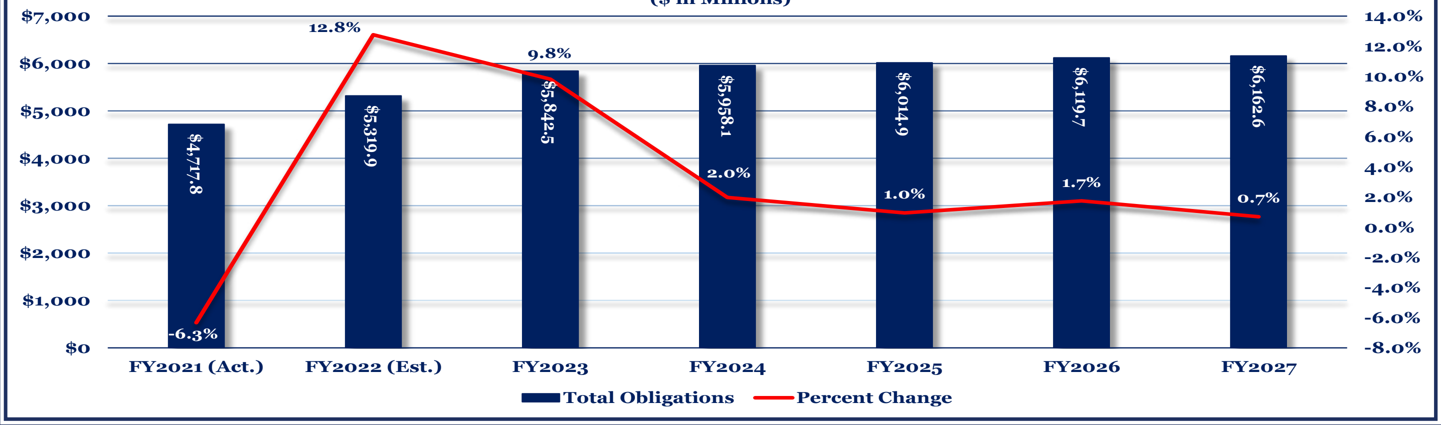
For FY2023, the Plan projects this revenue source to increase to $401.0 million. The increase is due primarily to the projected draw-down of $335.0 million in ARPA funds. The remaining federal funds are projected to be drawn down in FY2024 and FY2025 in the amount of $390.8 million and $449.4 million, respectively. As stated above, these critical federal relief funds enabled the City to present a balanced budget.

General Fund Obligations Projections

- FY2023 Projected: **$5.843 Billion**
- Change from FY2022: **$522.6 / 9.8%**
- Annual Growth FY2023-FY2027: **1.3%**

- *Agency Function*
- *Employee Benefits*
- *Other Obligations*

Projected Total Obligations with Percent Change ($ in Millions)



General Fund Obligations Projections

The Plan projects General Fund obligations to increase from $5.843 billion in FY2023 to $6.163 billion in FY2027, an increase of $320.1 million, or 5.5 percent, at an average annual increase of 1.3 percent. The first year of the Plan experiences the largest increase of $522 million, or 9.8 percent, while the subsequent four years of the Plan experience growth at a much slower pace.

Additionally, obligations are projected to exceed six billion dollars in FY2025 for the first time, after surpassing five billion dollars just five years earlier, in FY2020. While the largest recent increases are seen in FY2022 and FY2023, years in which revenues are augmented by American Rescue Plan Act ("ARPA") funds, the accelerated growth in total obligations is notable.

General Fund obligations are comprised of three major categories: Agency Functions, Employee Benefits, and Other Obligations (see Table 4.1 for a list of agencies and obligations included in each function and category). Agency Functions are PICA's categorization of the City's departments and offices funded at least in part by the General Fund (agencies such as the Water Department and Airport, which are funded entirely by their own dedicated funds, are not included). These agencies range from major departments, such as Police and Prisons, to relatively minor offices and

Figure 2.2: Projected Obligations by Category with Percent Change ($ in Millions)

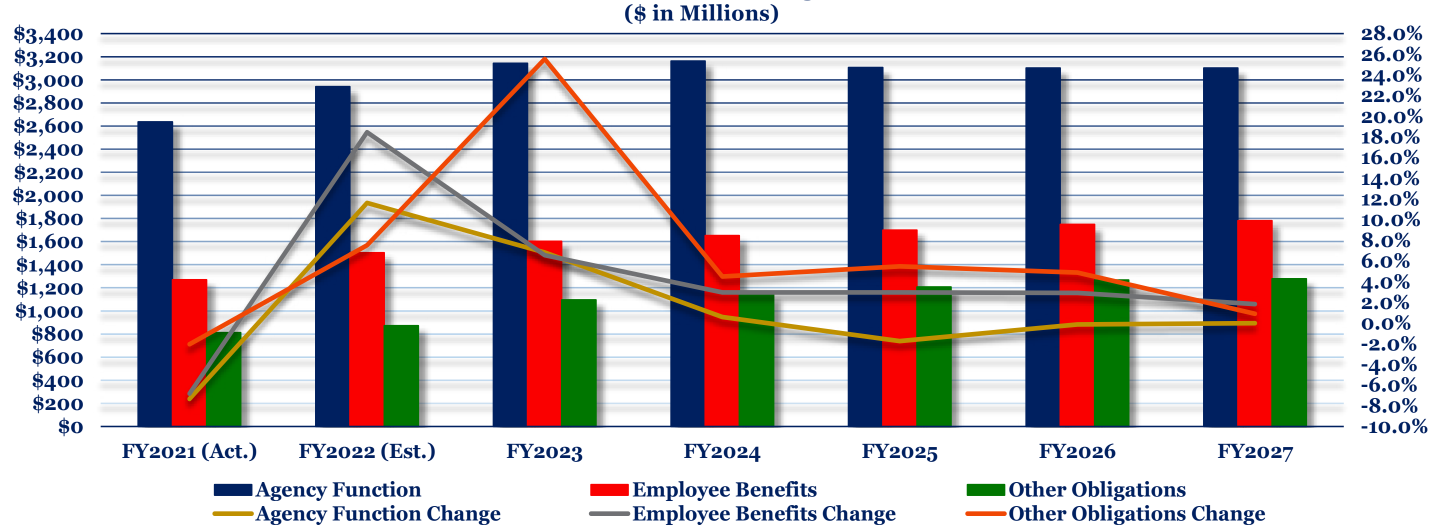


Table 2.7: General Fund Obligations ($ in Millions)[1]

Obligations Category	Actual	Estimate	Projected				
	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Agency Functions[2]							
Public Safety	1,080.0	1,131.2	1,168.9	1,224.3	1,225.8	1,211.0	1,206.2
Judicial and Corrections	404.8	447.6	448.2	451.4	451.5	450.9	450.9
Health and Human Services	371.0	429.1	449.7	428.3	420.1	429.5	429.4
Regulation and Economic Development	59.5	80.9	104.5	104.6	82.6	82.6	82.6
Arts, Culture, and Recreation	92.2	113.4	134.9	139.6	138.8	139.0	139.0
Transportation and Sanitation	154.6	175.6	217.8	227.8	221.8	224.2	226.6
Central Services	210.0	251.3	270.2	257.3	262.9	265.2	266.6
Governance and Administration	263.8	313.2	349.0	328.6	303.2	300.6	301.0
Total Agency Functions	**$2,635.9**	**$2,942.3**	**$3,143.2**	**$3,161.8**	**$3,106.6**	**$3,102.9**	**$3,102.3**
Employee Benefits							
Pensions[3]	664.4	802.8	842.5	864.7	872.2	883.3	881.0
Health and Welfare[4]	452.1	528.7	577.8	591.8	625.7	656.2	688.7
Disability/Workers' Compensation	70.1	78.5	84.6	90.2	96.1	102.5	102.5
Social Security	81.5	89.4	94.1	100.0	101.7	103.4	105.1
Unemployment Compensation	2.2	5.5	4.5	4.5	4.5	4.5	4.5
Total Employee Benefits	**$1,270.3**	**$1,504.8**	**$1,603.5**	**$1,651.2**	**$1,700.3**	**$1,749.8**	**$1,781.8**
Other Obligations							
Sinking Fund (Debt Service)	273.8	293.2	308.8	348.4	366.0	379.1	392.7
School District Contribution	252.6	256.0	270.0	282.1	288.2	288.2	288.2
SEPTA Subsidy	84.6	91.2	100.7	104.8	108.4	112.2	116.0
Recession and Reopening Reserve	-	-	32.0	32.0	32.0	37.0	32.0
Indemnities[5]	42.5	49.2	67.2	49.2	49.2	49.2	49.2
Legal Services (Defender Association)	50.6	52.4	59.8	59.8	58.8	58.8	58.8
Community College Subsidy	41.6	48.1	50.1	50.9	50.9	50.9	50.9
Provision for Future Labor Obligations	0.0	9.9	54.0	63.0	96.0	133.0	171.0
Budget Stabilization Reserve Fund	0.0	0.0	40.1	41.6	43.2	41.1	0.0
Housing Trust Fund	0.0	0.0	29.1	29.6	29.9	30.4	30.7
Utilities	23.6	24.9	33.0	34.0	35.0	36.0	37.0
Space Rentals	25.0	30.2	33.3	32.0	32.8	33.6	34.5
PA Convention Center Subsidy	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Miscellaneous[6]	0.2	0.6	0.6	0.6	0.6	0.6	0.6
Total Other Obligations	**$811.6**	**$872.8**	**$1,095.7**	**$1,145.1**	**$1,208.0**	**$1,267.1**	**$1,278.6**
Total General Fund Obligations	**$4,717.8**	**$5,319.9**	**$5,842.5**	**$5,958.1**	**$6,014.9**	**$6,119.7**	**$6,162.6**

[1] All figures rounded for readability
[2] See Table 4.1 for definitions of Agency Functions
[3] Includes pension fund payments, debt service on pension obligation bonds, and pension relief payments from the sales tax
[4] Includes Health and Medical, Group Life and Legal, Tool Allowance, and Flex Cash payments
[5] FY2021 indemnities not included in function costs
[6] Includes refunds, witness fees, Hero Awards, and Mayor's scholarships

commissions (in terms of funding), such as the Office of Sustainability and the Commission on Human Relations.

Some are under the jurisdiction of the Mayor, such as the Office of the Managing Director and the Chief Administrative Officer, while others are led by independently elected officials, such as the Sheriff and the Register of Wills. Again, all agencies in the Agency Function categories have at least some employees paid through General Fund appropriations, and most have other direct General Fund expenditures for contracted services, materials and supplies. All of these costs are included in the Agency Functions.

Employee Benefits is comprised of various payments into the Pension Fund, contributions to employee health and welfare benefits such as the City health and medical plans, and other benefits such as unemployment compensation, worker's compensation, and Social Security (FICA).

Finally, the Other Obligations category includes General Fund contributions to various non-City and quasi-government entities such as the School District of Philadelphia, Community College of Philadelphia, the Pennsylvania Convention Center, SEPTA, and the Philadelphia Museum of Art. Non-departmental line items are also included, such as debt service payments, indemnities, and support for the (Public) Defender Association, as are certain operations costs such as fees for space rentals and utilities.

As of FY2023, Other Obligations includes the Housing Trust Fund, to which a payment of 0.5 percent of each year's General Fund appropriations was mandated by City Council ordinance, and approved by voters in a November 2021 ballot measure. This fund includes $149.7 million for affordable housing initiatives over the life of the Plan (see Section III discussion, "Housing Trust Fund Mandated Appropriation").

The City's reserve funds are also included in the Other Obligations category. Examples include a Provision for Future Labor Obligations, in the amount of $517.0 million, for increased contract costs in the fiscal years following the expiration of current labor contracts (see Section III discussion, "Future Labor Costs").

Another reserve is the Recession and Reopening Reserve. This Reserve sets aside funds in response to current inflation and supply chain pressures, and to support the reopening and recovery of the local economy. The Plan includes funds for the Recession and Reopening Reserve in each year of the Plan, totaling $165 million.

The Budget Stabilization Reserve ("BSR") is a rainy day fund established in 2011 through a Council-proposed and voter-approved Home Rule Charter change. The legislation calls for the City to reserve 0.75 percent of the unrestricted local General Fund revenues when the projected fund balance reaches three percent of General Fund appropriations in the coming fiscal year. It also includes certain emergency stipulations for drawing from the fund. This reserve is intended to help the City avoid budget and service cuts, and/or tax increases, in case of an economic downturn or other fiscal emergency.

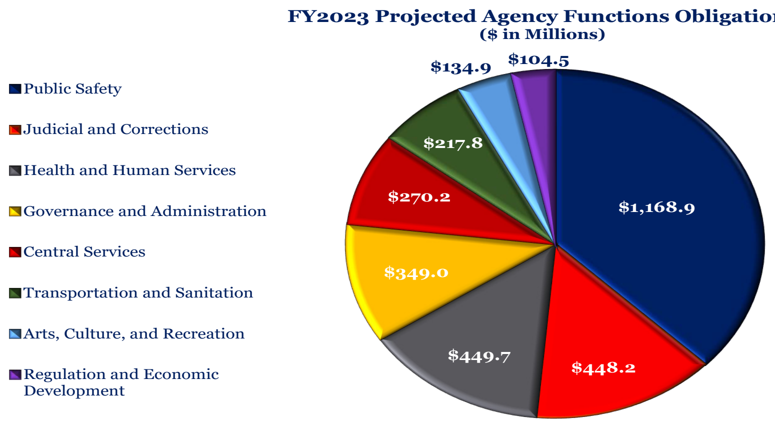
The City made its first-ever contribution of $34.3 million into the BSR in FY2020, but that reserve was spent in FY2021 to weather additional expenses and declining revenues resulting from the COVID-19 Pandemic-related economic shutdown. The City projects a deposit into the BSR in every year of the Plan except FY2027, totaling $166.1 million (see Section III discussion, "Budget Stabilization Reserve").

It should be noted that each of these reserves was created and funded as a result of PICA's advocacy, and in partnership with the City. Such reserves are considered best practices for fiscally sound budgeting, and the City's commitment to funding reserves will ensure future financial stability.

General Fund Obligations Projections: Agency Functions

- FY2023 Projected: **$3.143 Billion**
- Change from FY2022: **$201.0 Million / 6.8%**
- Annual Growth FY2023-FY2027: **-0.3%**

Percent of Obligations FY2023: **53.8%**



- *Public Safety*
- *Judicial & Corrections*
- *Health & Human Services*
- *Regulation & Economic Development*
- *Arts, Culture, & Recreation*
- *Transportation & Sanitation*
- *Central Services*
- *Governance & Administration*

Agency Functions

PICA categorizes City departments into Agency Functions based on its own methodology in order to categorize the City's spending priorities. Public Safety is the perennial highest-spending category. It includes the Police and Fire Departments, whose combined obligations are projected at $1.169 billion in FY2023, representing 37.2 percent of Agency Functions and 20.0 percent of total General Fund obligations. Public Safety costs are projected to increase by $37.2 million, or 3.2 percent over the life of the Plan.

Judicial and Corrections is the next largest Function, with $448.2 million in projected obligations in FY2023, representing 14.3 percent of Agency Functions and 7.7 percent of total obligations. Obligations are expected to increase by just $2.7 million, or 0.6 percent over the life of the Plan.

Of the six remaining Agency Functions, two, Transportation and Sanitation and Arts, Culture, and Recreation are projected to increase obligations, by $8.8 million or 4.0 percent, and $4.1 million or 3.0 percent, respectively, over the life of the Plan, while the rest are projected to decrease obligations. Governance and Administration is projected to decrease spending by $47.9 million (13.7 percent); Regulation and Economic Development by $21.9 million (21.0 percent), Health and Human Services by $20.4 million (4.5 percent); and Central Services by $3.6 million (1.3 percent). See Table 2.7 for a detailed list of projected obligations for Agency Functions.

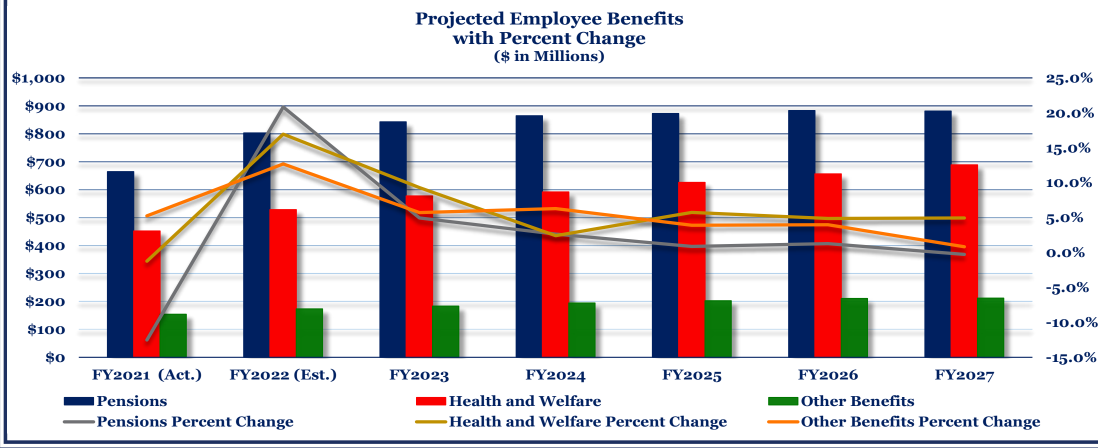
The Plan projects a net decrease in Agency Function obligations of $41.0 million, or 1.3 percent. This decrease is concerning because year-over-year reductions in departmental spending are rare, except in the case of strict budget cuts. Furthermore, the Regulation and Economic Development and Governance and Administration Functions are projected to decrease by 21.0 percent and 13.7 percent, respectively. Based on a review of prior year spending, such double-digit decreases are likely unrealistic.

Some of the largest decreases are projected for departments are within the Office of the Managing Director ("MDO") ($39.1 million; 29.5 percent), Planning and Development ($17.6 million; 58.3 percent), and Public Health ($13.6 million; 8.4 percent). While each of these departments will use ARPA and other outside funding for enhanced programming in FY2023, public officials and stakeholders can be hesitant to cut funding to programs once they are in place, potentially adding additional fiscal pressure after such funding has run out–especially in years where the risk of a recession is high.

General Fund Obligations Projections: Employee Benefits

- FY2023 Projected: **$1.604 Billion**
- Change from FY2022: **$98.7 Million / 6.6%**
- Annual Growth FY2023-FY2027: **2.7%**

Percent of Obligations FY2023: **27.4%**



- *Pensions*
- *Health & Welfare*
- *Workers' Compensation*
- *Social Security*
- *Unemployment Compensation*

Employee Benefits

Employee Benefits obligations are projected to increase by $178.3 million, or 11.1 percent over the life of the Plan, after decreasing by $7.7 million in FY2020 and $93.1 million in FY2021. FY2023 benefits costs are projected at $1.604 billion, an increase of $98.7 million, or 6.6 percent over FY2022, representing 27.4 percent of total General Fund Obligations.

The largest Employee Benefits obligations category, by far, is the Pensions category, which is projected at $842.5 million in FY2023, representing more than half of Employee Benefits costs at 52.5 percent, and 14.4 percent of total obligations. Pension costs are projected to increase by $38.5 million over the life of the Plan, or 4.6 percent, at an average annual increase of 1.1 percent and a total cost of $4.343 billion (see Section III and Section V discussions, "Pension Funding" and "Pension Funding Status").

The second largest Employee Benefits category is Employee Health and Welfare costs, which includes contributions to the City's health plans; group life insurance and legal services; tool allowances; and flex cash payments for active and retired workers. Employee Health and Welfare benefits are provided under various plans covering members of the major municipal unions (see Table 3.2 for a list of the City's bargaining units) and a City-administered plan that covers non-represented, exempt, and unionized workers who opt out of the union plans.

Health and Welfare costs are projected at $577.8 million in FY2023, representing 36.0 percent of Employee Benefits and 9.9 percent of total obligations. All but $18.3 million of that total funds the employee health plan. These costs are projected to increase to $688.7 million by FY2027, an increase of $110.9 million, or 19.2 percent, at an average annual increase of 4.5 percent–making Health and Welfare the fastest-growing Employee Benefits category. The City reports that growth in Health and Welfare is driven by the postponement of healthcare and medical procedures during the COVID-19 Pandemic period. These costs are projected to total $3.140 billion over the life of the Plan.

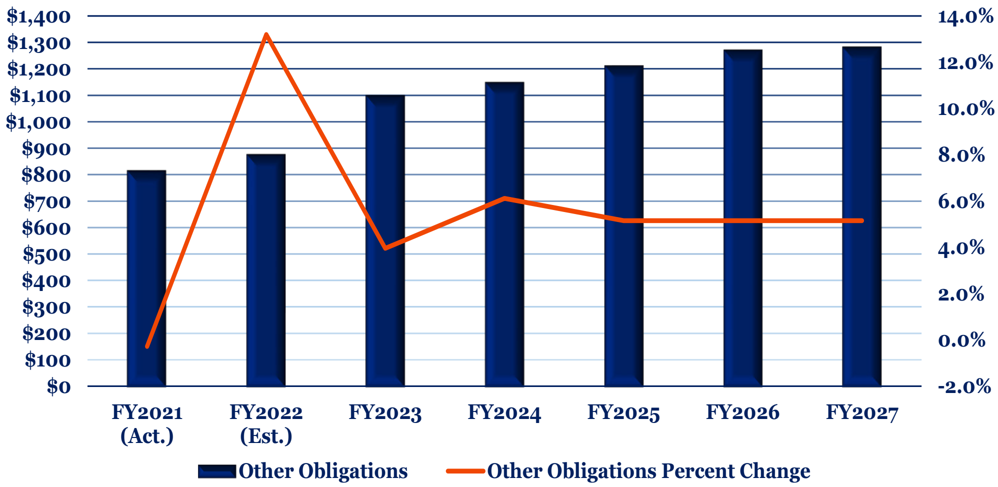
The final Employee Benefits category is Other Benefits, which includes Unemployment Compensation, Employee Disability (workers' compensation), and Social Security (FICA). These benefits make up a relatively small portion of the City's Employee Benefits package; costs are projected at $183.2 million in FY2023, and are projected to increase to $212.1 million in FY2027, an increase of $28.9 million, or 15.8 percent, increasing at an annual rate of 3.7 percent.

General Fund Obligations Projections: Other Obligations

- FY2023 Projected: **$1.096 Billion**
- Change from FY2022: **$223.0 Million / 25.5%**
- Annual Growth FY2023-FY2027: **3.9%**

Percent of Obligations FY2023: **18.8%**

Projected Other Obligations with Percent Change
($ in Millions)



- *Sinking Fund Commission*
- *Art Museum Subsidy*
- *Convention Center Subsidy*
- *Community College Subsidy*
- *SEPTA Subsidy*
- *School District Contribution*
- *Indemnities*
- *Space Rentals*
- *Utilities*
- *Defender Association*
- *Budget Stabilization Reserve*
- *Provision for Future Labor Negotiations*
- *Housing Trust Fund*
- *Pandemic Reserve*
- *Refunds*
- *Witness Fees*
- *Hero Awards*
- *Mayor's Scholarships*

Other Obligations

As discussed previously, the Other Obligations category includes City funding for various quasi-City entities; debt service; indemnities; the (Public) Defender Association; Budget Stabilization, Provision for Future Labor, and Recession and Reopening Reserves; other miscellaneous line items including space rentals and utility payments; and, as of FY2023, the Housing Trust Fund. See Table 2.7 for a full listing of Other Obligations.

The City's debt service payment (Sinking Fund Commission) is the highest-cost and fastest-growing cost in the Other Obligations category, projected to increase by $83.9 million, or $27.2 percent over the life of the Plan, at an average annual rate of 6.2 percent. In FY2023 the City projects debt service at $308.8 million, representing 28.2 percent of Other Obligations and 5.3 percent of total obligations. Debt Service costs are projected to rise to $392.7 million in FY2027, totaling $1.795 billion over life of the Plan.

The next highest Other Obligations category is the contribution to the School District of Philadelphia ("School District"). While this contribution saw some considerable year-over-year increases in the years following the School District's return to local control in FY2018, it has begun to level off over the life of the current Plan, increasing by just $18.2 million, or 6.8 percent in FY2023. The contribution is projected to rise to $288.2 million in FY2027, for a total $1.417 billion over the life of the Plan. Additionally, the School District will receive $1.1 billion in relief funding through September 2024 as part of the ARPA (see Section III discussion, "School District of Philadelphia).

Aside from the various reserves, discussed previously in this section, only the City's contribution to SEPTA, which is formula-driven, is projected to increase by any notable amount. The contribution is projected to increase by $15.3 million, or 15.2 percent, increasing to $116.0 million in FY2027, for a total cost of $542.1 million over the life of the Plan.

As a whole, Other Obligations are projected to exceed one billion dollars for the first time in FY2023, after having increased by $223.0 million from FY2022–another indication of the City's fast-rising costs. In total, Other Obligations are projected to increase by $182.2 million, or 16.7 percent over the life of the Plan, rising to $1.279 billion in FY2027.

III. Risks to the Plan

III. Risks to the Plan

Key Risks

The PICA Act requires that Plan projections of revenues and obligations are based on reasonable assumptions and methods of estimation. This requirement was included in the Act to ensure that the Plan provides adequate assurance that the City will continue to maintain financial stability, most notably exhibited through positive fund balances. Reasonable assumptions and methods of estimation, in addition to other budget balancing measures, ensure a positive General Fund balance each fiscal year over the Plan period.

The discussion below focuses on key risks to the Plan and its projections. They include: economic growth, impact of gun violence, fund balance, pension funding, and overtime costs. Other financial concerns, which are worth noting, but are not considered by PICA as key risks to the Plan, are also listed in the latter part of this section.

PICA recommends approval of the FY2023 to FY2027 Plan as currently proposed. Any significant deviation from projected revenues, obligations or fund balance, as appropriately deemed as a variance by PICA will require a revision to the Plan in accordance with the PICA Act and the Intergovernmental Cooperation Agreement.

Economic Growth

A significant risk to any five year plan is the possibility that slower than projected economic growth could result in actual tax revenues below plan projections.

The COVID-19 global Pandemic was an unprecedented medical and financial crisis, and its impact on City finances was catastrophic. The economic fallout sent tax revenues reeling, caused a historic spike in unemployment, and emptied Center City of tourists, commuters, and suburban shoppers. Despite the Pandemic, economic conditions during calendar year 2021 were very strong, as measured by employment and wage conditions. However, intangible factors, such as

inflation, worker shortages, supply chain issues, and the war in Ukraine, are likely to determine the future of the local economy, and varied projections from experts further complicate the economic outlook, though most expert projections lean pessimistic.

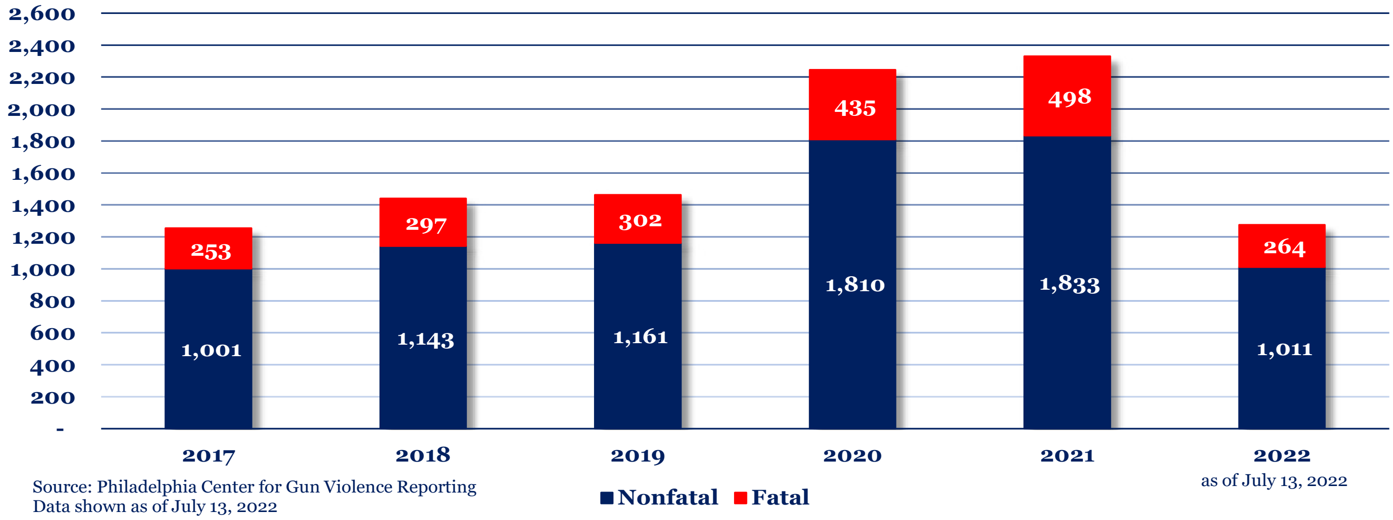
According to PICA's economic consultant, worker shortages may endure in the U.S. and Philadelphia for at least three years.[1] In Philadelphia, these labor market trends imply higher wages for workers, and hence, higher wage tax revenue–but also greater difficulty filling these jobs, resulting in reduced business activity, and lower tax revenue for business income and net profits. Thus, there is an increased possibility that the City may not realize its current tax revenue projections.

In addition, the World Bank warns that the global economy is "…entering a period of feeble growth and elevated inflation," raising the risk of coming "stagflation." Furthermore, three of four scenarios offered by the Pew Charitable Trust's Philadelphia Research and Policy Initiative are negative, citing the possibility for "uneven gains," "competitive loss," and "stunted recovery" from the COVID-19-related economic downturn.[2]

1 Swanson, Charles, Associate Professor of Economics, Temple University, "Discussion of Tax Revenue Estimates," July 13, 2022.

2 Pew Charitable Trust Philadelphia Research and Policy Initiative, "4 Possible Scenarios for Philadelphia's Economy," February 24, 2022: https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/02/4-possible-scenarios-for-philadelphias-economy.

Figure 3.1: Philadelphia Shooting Victims



Source: Philadelphia Center for Gun Violence Reporting
Data shown as of July 13, 2022

In addition, according to the July 2022 Bloomberg monthly survey of economists, "the probability of a downturn over the next 12 months stands at 47.5 percent, up sharply from 30 percent odds in June." As a result, "...[the] odds are now close to even that the US economy will slip into a recession within the next year as persistent and rapid inflation emboldens the Federal Reserve to pursue larger interest-rate hikes."[3]

Overall, the current Plan assumes a tax revenue growth rate of approximately 2.4 percent in FY2023 and increases to a range of 3.2 percent to 3.6 percent in the remaining years of the Plan. PICA's economic consultant projects total tax revenue slightly lower than the City's estimates, albeit by a small margin.[4]

PICA's consultant's forecasts for the wage and earnings, amusement, and beverage tax projections were similar to the City's estimates over the five year period. The forecasts for real estate, BIRT, and real estate transfer taxes were slightly lower than the City's forecast.[5] Partially offsetting these lower amounts were the consultant's slightly higher estimates for sales and parking taxes, resulting from forecasted inflation levels.

If the economy were to stagnate or experience a downturn in the coming years, it would impact City tax revenues and threaten the future tax projections as they appear in the Plan. Therefore, the uncertainty related to economic growth is a significant risk to the Plan.

Impact of Gun Violence

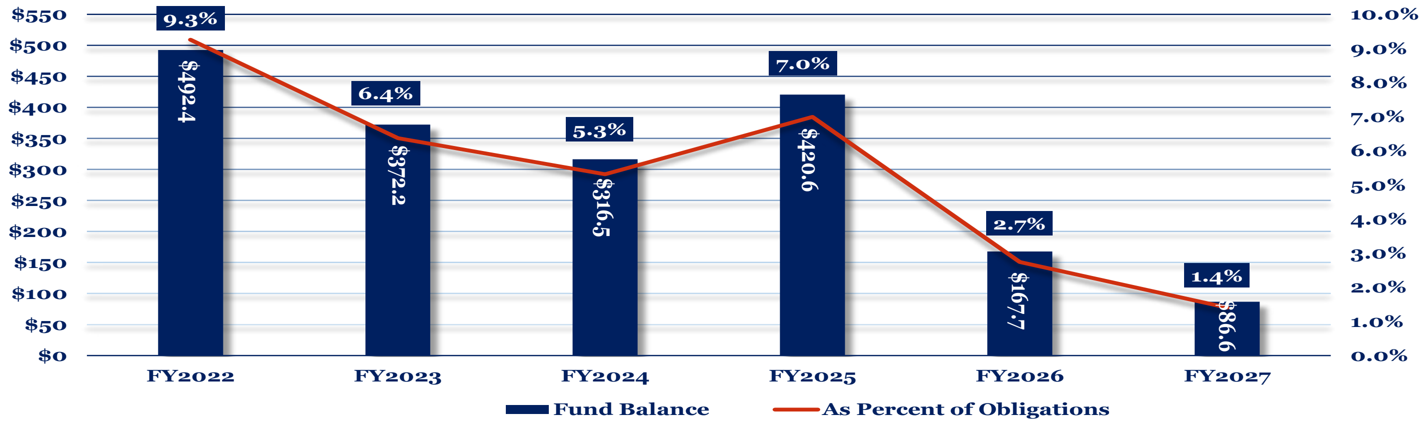
Gun violence in Philadelphia is considered a significant risk to the Plan, as it jeopardizes the future viability and fiscal stability of the City.

As Figure 3.1 illustrates, gun violence has spiked compared to levels recorded just five years ago. Shooting deaths in 2021 totaled 498, nearly doubling the 2017 total of 253, while non-fatal shootings totaled 1,833, an increase of over 800 from the 2017 total of 1,001.[6] As of July 13, 2022, there have been 264 homicides by firearms with six months remaining in the year. As of July 20, 2022, the Police Department is reporting 302 overall homicides for calendar year 2022, of which 90 percent were by firearms.

While the human cost of shootings is especially concerning to PICA, there is an indirect economic cost to increased levels of gun violence with the potential to stress City revenues. These costs include reductions of economic activity, and tax revenue for the City.[7] For instance, the indirect cost of crime is the result of decisions people make to avoid being the victims of crime, such as non-residents deciding to work outside the City, and suburbanites choosing their dining, shopping and entertainment closer to home.

[3] Golle, Vince and Yoo, Kyungjin, "Odds of US Recession Within Next Year Near 50%, Survey Shows," Bloomberg, July 15, 2022: https://www.bloomberg.com/news/articles/2022-07-15/odds-of-us-recession-within-next-year-near-50-survey-shows.
[4] Swanson, "Discussion of Tax Revenue Estimates."
[5] Swanson, "Discussion of Tax Revenue Estimates."
[6] The Philadelphia Center for Gun Violence Reporting, "Philadelphia Shooting Victims Dashboard," accessed June 8, 2022: https://www.pcgvr.org/philadelphia-shooting-victims-dashboard.
[7] Swanson, "Discussion of Tax Revenue Estimates."

Figure 3.2: Projected Fund Balances
as Percent of Obligations
($ in Millions)



City revenues will be adversely affected should businesses leave Philadelphia and commuters hesitate to return to in-person jobs due to the threat of violence. Specifically, such commercial losses could negatively affect revenues from BIRT, and wage taxes, and may result in the loss of jobs. The threat of gun violence could deter tourists and residents of the surrounding regions from visiting Philadelphia and contributing to a host of tax categories, such as parking and amusement taxes.

An Urban Institute study linking gun homicides and economic activity found that, in Oakland, each additional homicide resulted in five fewer job opportunities the following year; in Minneapolis, one less homicide per census tract created 80 jobs along with $9.4 million in sales the following year; and in Washington, DC, each additional homicide was associated with two fewer retail and service businesses in the following year.[8] These statistics show the resultant potential loss of tax revenue, specifically wage tax revenue, as a serious financial concern for Philadelphia.

In addition, gun violence has an impact on property taxes. According to a study conducted by the Office of the City Controller of Philadelphia, in 2019, "a single homicide lowers sales prices by 2.3 percent in the immediate neighborhood, therefore a reduction of one homicide will lead to a corresponding 2.3 percent increase of sales prices in the immediate neighborhood." Therefore, homicides reduced by 10 percent in a single year translates to an approximate $13.0 million increase in property tax revenue.[9]

According to PICA's economic consultant, these risk-avoidance behaviors have the potential to reduce annual revenues by $50 to $200 million when only the wage tax is considered, a $2 billion per year revenue stream on which the City is over-reliant.[10] With current economic uncertainty, fund balances in the Plan already below GFOA recommendations and the expiration of the ARPA funds, the City cannot afford the potential revenue losses resulting from ongoing high levels of gun violence, making it a risk to the Plan.

Fund Balance

One of the most important measures of the City's financial health is the fund balance. Maintaining a healthy and robust fund balance can safeguard the City from unforeseen contingencies and offers a level of financial flexibility through cash availability, favorable credit ratings, higher investment earnings, and lower interest costs.

As illustrated in Figure 3.2, the year end fund balance projected in the Plan is $372.2 million, $316.5 million, and $420.6 million in FY2023, FY2024, and FY2025, respectively. The fund balance declines to $167.7 million and $86.6 million, in FY2026 and FY2027, after the depletion of the ARPA funds, as follows:

- FY2023 – $372.2 million, or 6.4% of obligations
- FY2024 – $316.5 million, or 5.3% of obligations
- FY2025 – $420.6 million, or 7.0% of obligations
- FY2026 – $167.7 million, or 2.7% of obligations
- FY2027 – $86.6 million, or 1.4% of obligations

[8] Urban Affairs, "Is Gun Violence Stunting Business Growth?," November 3, 2016: https://www.urban.org/features/gun-violence-stunting-business-growth.

[9] Office of the Philadelphia City Controller, "Report on the Economic Impact of Homicides," October 23, 2019."

[10] Swanson, "Discussion of Tax Revenue Estimates."

Projected year end fund balances in all five years of the Plan are in compliance with the PICA Act provisions requiring positive fund balances. However, it is important to note that, once again, the positive fund balances are primarily a result of including the federal relief funds from the American Rescue Plan Act (the “ARPA”) funds.

In addition, although positive, the fund balances are relatively low when compared to the projected obligations. For instance, the projected FY2023 fund balance represents only 6.3 percent of obligations, and despite reaching 6.9 percent in FY2025, it drops to 1.4 percent in FY2027. Excluding the ARPA funds, the annual fund balance projections and related percentages would decline even more significantly. For example, the FY2023 fund balance would be $37.2 million, or less than 1.0 percent of obligations, with deficits in FY2024 and FY2025, indicating once again the City’s heavy reliance on federal ARPA funds for its fiscal stability.

The Government Finance Officers Association (“GFOA”) recommends that city governments, regardless of size, maintain “unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.”[11] In recognition of the GFOA guidance, the City has stated its own fund balance internal target to be 6 to 8 percent of General Fund expenditures. For FY2023, the GFOA recommended year end fund balance would be over $993 million, while the City’s target would be significantly lower at approximately $409 million.

Along with the fund balances, the Plan sets aside additional funds for the Budget Stabilization Reserve (see Section III discussion, “BSR”), totaling $166.1 million over the life of the Plan. The Plan also includes a Recession & Reopening Reserve, to support its public health response to the Pandemic and for costs related to the current inflationary conditions, comprised of $32.0 million in the first three years of the Plan, $37.0 million in FY2026, and $32.0 million in FY2027, for a total of 165.0 million. In addition, the Plan includes reserves for future labor costs (see Section III discussion, “Future Labor Costs”) since all current contracts are set to expire by June 30, 2024. For FY2023, FY2024, and FY2025, the Plan includes $54.0 million, $63.0 million, $96.0 million, respectively, $133.0 million in FY2026, and $171.0 million in FY2027, for a total reserve of $517.0 million.

Figure 3.3: Projected Fund Balances
($ in Millions)

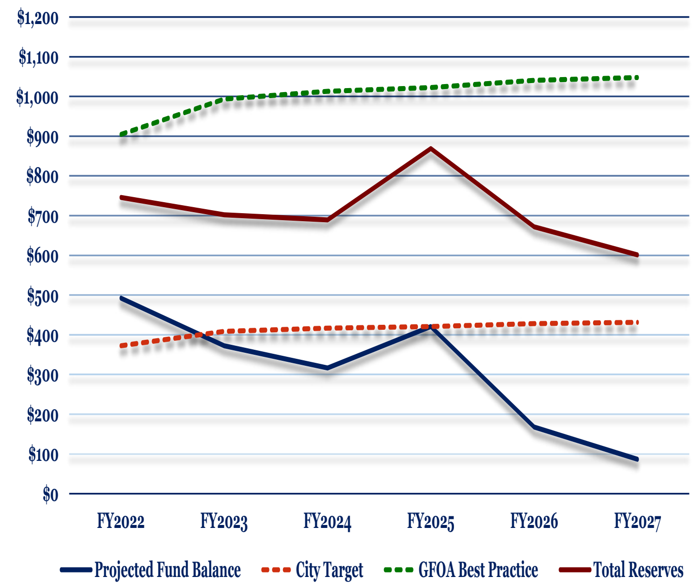


Figure 3.3 compares the City’s projected fund balance for each year of the Plan to the GFOA recommendation and the City’s target fund balance. The figure illustrates projected fund balances along with the above mentioned reserves in order to show a full picture of the funds set aside in this Plan. It also illustrates that total reserves are still well below not only GFOA recommended levels, but also the City’s own target, in three out of the five years of the Plan.

Recently, the City was meeting or exceeding its fund balance target, climbing to 8.4 percent of obligations in FY2018, and reaching a high of 9.2 percent in FY2019, when the year end fund balance climbed to $438.7 million. In FY2020, the year end fund balance decreased to $290.7 million, representing 5.8 percent of obligations.

Despite the adverse economic effects of the Pandemic, with the infusion of the federal Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) funds, and stringent fiscal discipline, the City ended FY2021 at $298.5

[11] Government Finance Officers Association, Best Practice: Fund Balance Guidelines for the General Fund, September 2015: http://www.gfoa.org/fund-balance-guidelines-general-fund

million, or 6.3 percent of obligations. For FY2022, it is estimated that the year end fund balance will be $492.4 million, or 9.3 percent of obligations. Buoyed by the ARPA funds and stronger than expected tax revenue collections, the year end fund balance was $358.6 million more than projected in the City's Five Year Plan for Fiscal Years 2022-2026, as Revised October 29, 2021.

Although the Plan projects relatively high fund balances, they still fall below the GFOA recommendation, as well as the City's own targets in three out of the five years of the Plan, therefore presenting a risk to the Plan. In addition, any unforeseen emergency or contingency, continued inflationary pressures, or a resurgence of the Pandemic could have a detrimental effect on the City's fund balance. This risk is heightened in the later years of the Plan, FY2026 and FY2027, when the ARPA funds have been depleted.

Pension Funding

As of the latest Actuarial Report (June 30, 2021) the actuarial value of assets for the City's pension system was $6.633 billion,[12] with an unfunded actuarial accrued liability (the "UAAL") of $5.441 billion,[13] resulting in a funding ratio of 54.9 percent. While the funded ratio has not been this high since 2008, it remains precariously low.

Pension system funding is based on the state mandated minimum contribution, known as the Minimum Municipal Obligation (the "MMO"). Since fiscal year 2018, the City has committed additional funding to the pension system above the MMO. As such, the City's annual contribution to the pension system is based on the Revenue Recognition Policy (the "RRP"),[14] which adds sales tax revenue and increased member contributions to the MMO. Based on these higher contributions, and along with certain reforms and initiatives, the City has set the goal of fully funding the pension system by 2033 (see Section V discussion, "Pension Funding Status").

The total projected contributions according to the RRP range from $732.3 million in FY2023 to $728.3 million in FY2027. The Plan projects the General Fund portion of these contributions to be $721.2 million in FY2023, representing over 12.3 percent of total General Fund obligations. The contribution increases every year and reaches $743.4 million in FY2027 for a projected total of over $3.675 billion over the life of the Plan.

The City also pays debt service on pension obligation bonds. In fiscal year 2021, due to budgetary constraints and the need to reduce costs to alleviate the impact of the Pandemic, the City refinanced the outstanding pension obligation bonds resulting in a reduced bond obligation in FY2021 and FY2022,[15] while increasing later year

[12] City of Philadelphia Municipal Retirement System.
[13] The UAAL is defined in the Actuarial Valuation as "the excess of the System's actuarial liability over the actuarial value of assets."

[14] City of Philadelphia Board of Pensions and Retirement. City of Philadelphia Municipal Retirement System Actuarial Valuation Report as of July 1, 2021, Cheiron: April 2022.
[15] City of Philadelphia Board of Pensions and Retirement. City of Philadelphia Municipal Retirement System Actuarial Valuation Report as of July 1, 2021, Cheiron: April 2022.

payments. As such, the Plan projects General Fund bond payments of $121.3 million in FY2023, $136.5 million in FY2024 through FY2026, and $137.5 million for FY2027.

The MMO and RRP contribution is annually calculated by the consulting actuary of the Board of Pensions and Retirement. The actuary's calculation is based on several key assumptions. If any of the assumptions are not met in any of the five years of this Plan, there is a potential risk of required higher annual contributions.

The major risk associated with the pension funding projections in any five year plan is the significant impact of investment performance and market conditions. This risk is heightened during this five year period due to the current economic conditions and uncertainty caused by the COVID-19 Pandemic, and the existing inflationary conditions which are also impacting the financial markets. (See discussion, "Economic Growth").

For instance, the investment return assumption for FY2021, the year of the most recently available Actuarial Valuation, was 7.50 percent, net of fees. The market value return, as of the Actuarial Valuation for the year ending June 30, 2021, was 28.42 percent, which was higher than the assumed rate of return. However, the actuarial value of assets return, which reflects gains and losses extended over a ten year period, was 6.28 percent.

This lower rate indicates that the pension fund has incurred substantial experience losses related to investments in prior years, the effects of which are being incrementally recognized under the City's ten-year asset smoothing policy. As the losses are recognized, they will be amortized, leading to higher required contributions. Therefore, any future losses in any of the years of the Plan will result in even higher required contributions.

It should be noted that as of December 2021, the preliminary estimated market return was only 2.64 percent, significantly below the assumed rate of return. With the stock market declining significantly in the last half of FY2022, the actual return for FY2022 could be far below the assumed rate of return.

Therefore, one of the most sensitive and significant actuarial assumptions is the projected return on investments which is currently at 7.45 percent. It should be noted that the Board of Pensions and Retirement has been lowering the assumed rate of return by 0.05 percent each year over the past decade, declining to 7.40 percent for FY2023.

Furthermore, any wage increases for union or non-represented employees alike will serve to increase the baseline of the pension benefit calculation. It should be noted that no new significant pension concessions were achieved during the FY2022 labor contract negotiations and arbitration awards. Perhaps most importantly, all credit rating agencies look to the funded ratio as an indicator of a city's financial condition; thus, a low funded ratio could eventually impact the City's credit ratings, which would in turn drive up the costs of borrowing in the future.

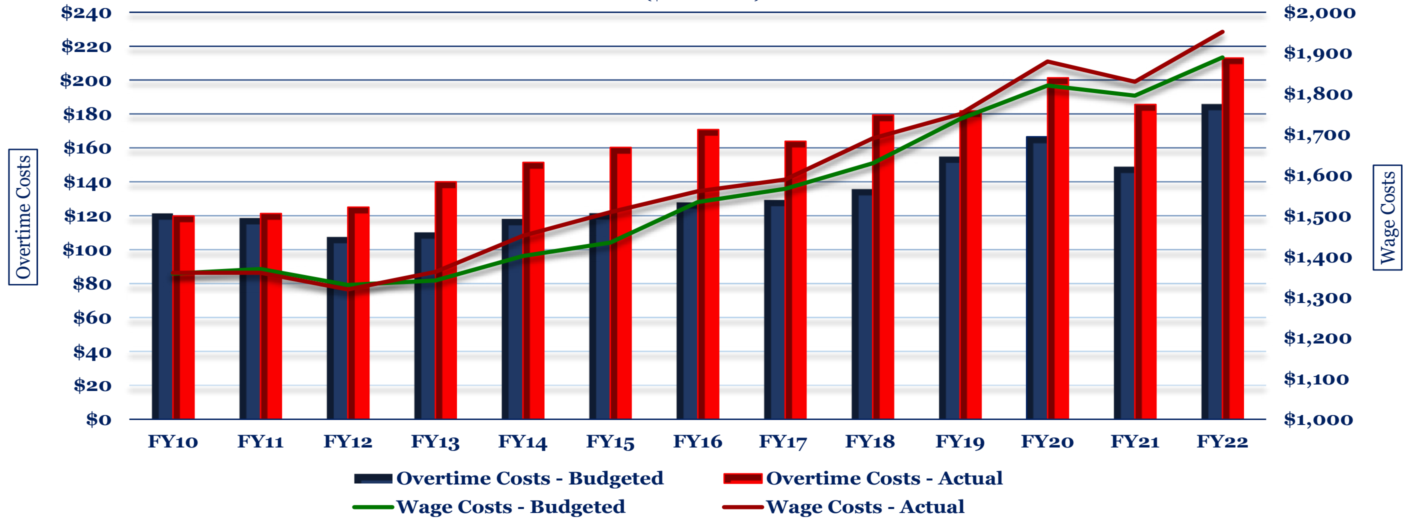
Although the City has been successful in implementing pension reforms in recent years, any investment losses from a recession or volatile market conditions would exacerbate the existing pension liability. Therefore, annual payments could potentially increase at a time of economic hardship for the City making pension funding a continued risk to the Plan.

Overtime Costs

Preliminary FY2022 General Fund overtime costs totaled $213.0 million, $27.4 million more than FY2021 and $27.2 million more than budgeted. This represents the twelfth consecutive year in which City departments exceeded their total annual overtime budget, as shown in Figure 3.4.

Although overtime spending declined to $185.6 million in FY2021, it was an atypical year, as many City offices and facilities were closed and much programming was canceled or curtailed during the height of the COVID-19 Pandemic. Thus, it appears that overtime costs are again on the rise, on pace with pre-Pandemic totals.

Figure 3.4: Budgeted vs. Actual Overtime Costs
($ in Millions)



Note: FY2022 wage and overtime costs are unaudited

Departments that exceeded their FY2022 overtime allocations by more than one million dollars include:[16]

- Police Department: $16.6 million; 127.7 %
- Streets Department: $5.9 million; 150.1%
- Department of Prisons: $5.9 million; 124.7%

The City cites understaffing as the main driver of increased overtime costs among all three departments. Total overtime costs for the Fire Department ("Fire"), which had been trending upward for years, decreased by $1.7 million over the prior year, to a total of $68.1 million.

Excessive City overtime spending pushed total wage costs (class 100) over budget in FY2022, making it necessary for the Administration to request a mid-year expenditure transfer to cover the added costs—at the expense of the City's Fund Balance. In a five year plan with fund balances below both the GFOA's recommended levels and, in some years, the City's own targets, excessive overtime spending could continue to threaten fund balance levels over the life of the Plan, and diverts much-needed funds from other City services. As a result, excessive overtime costs are a continued risk to the Plan.

Other Financial Concerns

The discussion below focuses on other financial concerns identified by PICA as impacting the City's financial future. They include: Budget Stabilization Reserve, future labor costs, School District of Philadelphia funding, employee health benefits costs, speculative revenues, and Housing Trust Fund mandated appropriation.

Budget Stabilization Reserve

This year's Plan notably makes contributions to the Budget Stabilization Reserve (the "BSR") in each of the first four years of the Plan. Total projected contributions to the BSR over the Plan period are $166.1 million, with $40.1 million being made in FY2023.This Plan marks only the second time a contribution will be made to the BSR since the inception of the reserve in 2011. The first ever contribution to this reserve was made in FY2020 in the amount of $34.3 million. To combat the adverse financial impact brought on by the COVID-19 global Pandemic, that reserve was immediately utilized to meet operating expenses in FY2021.

The BSR requires that the City appropriate 0.75 percent of Unrestricted Local General Fund Revenues (unrestricted, locally-generated taxes and non-tax revenues) to the reserve each year, when the projected General Fund balance for the upcoming fiscal year "equals or exceeds three percent (3%) of General Fund appropriations." In addition to this amount, any unencumbered balance remaining in the Reserve from the prior year, as well as investment earnings arising from these funds, must be rolled over into the Reserve

[16] Shown with amounts spent over budget and percentage of overtime budget spent in FY2022.

for the upcoming year. Ultimately, total Reserve appropriations cannot exceed five percent of General Fund appropriations.

The risk to the Plan is that the BSR contributions are not realized as projected. In previous plans where the City has projected contributions to the BSR, other contingencies have taken precedence. For example, the FY2015-FY2019 Plan submitted to PICA included a contribution to the BSR in its final year, amounting to $24.6 million. However, there were two subsequent revisions to that Plan in August and September, due to new labor agreements and changes in pension related actuarial assumptions, which resulted in the City eliminating the projected BSR contribution.

Similarly, in the FY2016-FY2020 Proposed Plan, the City projected another BSR contribution in the final fiscal year, amounting to $25.7 million; by the time the Plan was adopted by City Council, that contribution reached $26.0 million. However, in the following year, the FY2017-FY2021 Plan was submitted to PICA without a BSR contribution included.

Another example of a foregone BSR contribution arose in FY2019, when the City realized a fund balance that was higher than originally projected, which also triggered a BSR contribution. Due to intricacies in the existing BSR legislation, City Council would have had to pass an amendment to allow a contribution to be made in that particular circumstance. Unfortunately, the legislation never passed, and as a result, the contribution to the BSR was not made.

These examples reflect financial priorities that do not rank the BSR highly. This Plan, in particular, gives rise to concerns that an economic slowdown may result in more foregone BSR contributions in future years of the Plan. Although PICA is hopeful the contributions will occur as projected in each year of this Plan, projected contributions in all but one previous plan were either deferred or eliminated altogether.

The risk to the Plan is that the BSR contributions may not be realized as projected. The economic impact of the global Pandemic highlighted the need of a rainy day fund. PICA has long advocated and will continue to stress the importance for this kind of contingency planning. Until the City increases fund balance levels to allow consistent contributions to the BSR, the absence of, or infrequent contributions to Philadelphia's rainy day fund will continue to be a serious concern when considering future five-year plans. Therefore, the City should ensure that the projected contributions are made, and that the City continues to adequately fund the BSR every year thereafter.

Table 3.1: Terms of Current Labor Contracts by Bargaining Unit

Bargaining Unit[1] and Number of Employees	Term	Wage Provisions[2]
FOP – Police 6,128 employees	7/1/2021-6/30/2024	2.75% 7/1/2021 3.5% 7/1/2022 3.5% 7/1/2023
FOP – Sheriff 333 Employees	7/1/2021-6/30/2024	2.75% 7/1/2021 3.25% 7/1/2022 3.25% 7/1/2023
FOP – Register of Wills 41 Employees	7/1/2021-6/30/2024	2.50% 7/1/2021 3.25% 7/1/2022 3.25% 7/1/2023
IAFF – Fire and EMS 2,659 Employees	7/1/2021-6/30/2024	2.75% 7/1/2021 3.5% 7/1/2022 3.5% 7/1/2023
DC 33 7,809 Employees	7/1/2021-6/30/2024	2.5% 7/1/2021 3.25% 7/1/2022 3.25% 7/1/2023
DC 33 – Local 159[3] Local 1637 7,809 Employees	7/1/2020-6/30/2021	2.25% 5/1/20
DC 47 3,693 Employees	7/1/2021-6/30/2024	2.5% 7/1/2021 3.25% 7/1/2022 3.25% 7/1/2023
DC 47 – Local 810[4] 437 Employees	7/1/2021-6/30/2024	2.5% 7/1/2021 3.25% 7/1/2022 3.25% 7/1/2023

Notes:
[1] As of June 30, 2022; full and part-time employees; all funds; Non-represented (1,108) and exempt (2,712) employees are not in a bargaining unit
[2] Only provisions that affect the union pay plan are described; some unions received lump sum bonuses, but these provisions are not included
[3] Correctional Officers
[4] Court Employees

Future Labor Costs

As shown in Table 3.1, annual salary increases ranging from 2.5 percent to 3.75 percent were recently negotiated or awarded to each of the bargaining units with the exception of AFSCME DC33, Local 159. This union representing correctional officers, is currently in arbitration, with the award anticipated shortly.

Table 3.2: Wage Risk by Bargaining Unit ($ in Millions)

Estimated Wage Increase	Included in Plan		2.0%	2.0%	2.0%	Plan Total
Bargaining Unit	FY2023	FY2024	FY2025	FY2026	FY2027	
FOP – Police	$-	$-	$15.5	$31.3	$47.4	$94.0
FOP – Sheriff	-	-	0.5	1.0	1.6	3.1
FOP – Register of Wills	-	-	.1	0.1	.01	0.3
IAFF – Fire and EMS	-	-	6.6	13.3	20.2	40.1
DC 33	-	-	5.3	10.8	16.3	32.4
DC 33 – Local 159	7.3	11.1	13.3	15.6	15.6	62.8
DC 47 – Locals 2187 & 2186	-	-	3.5	7.1	7.2	17.9
DC 47 – Local 810	-	-	0.4	0.9	1.4	2.7
Bargaining Unit Totals	**$7.3**	**$11.1**	**$45.3**	**$80.1**	**$109.8**	**$253.5**
Non-Represented	-	-	1.3	2.8	4.2	8.4
Exempt[1]	-	5.0	10.0	15.0	20.3	50.3
Non-Bargaining Totals	-	5.0	11.3	17.8	24.5	$58.6
Total	**$7.3**	**$16.1**	**$56.6**	**$98.0**	**$134.3**	**$312.2**

Source: PICA estimates based on FY2022 salaries with the assumption that all bargaining units will receive 2% increases in FY2025, FY2026, and FY2027, after the current contracts/awards expire; for DC33 – Local 159, the wage increase that DC33 received was applied for FY2023 and FY2024
Note: These figures do not constitute projection of future costs, rather, they are compiled based on existing data for analytical purposes
[1] Exempt employee wage increases are only included in FY2022

The Plan includes wage costs estimates for its new contracts and awards through their expiration, the end of FY2024. The Plan does not include additional wage costs for the correctional officers, as that award has not been announced. However, the City has set aside funds for its potential costs within its provision for labor reserve.

In previous reports, PICA has advocated for the benefits of including reasonable assumptions regarding labor costs in the Plan as a positive step towards budgetary transparency. As such, the Plan includes a $517.0 million reserve for labor costs spread across each fiscal year, with $54.0 million in FY2023, $63.0 million in FY2024, $96.0 million in FY2025, $133.0 million in FY2026, and $171.0 million in FY2027. This amount is the highest ever set aside for future labor costs in any five year plan. PICA commends the City for recognizing the potential hazard of under estimating future labor costs, especially in the current inflationary environment.

However, to assess the potential impact of future negotiated labor agreements, PICA calculated additional labor costs that might arise during the life of the Plan. As such, Table 3.2 shows the potential additional annual wage costs for each bargaining unit for FY2023 through FY2027 assuming a 2.0 percent increase in wages for each

Table 3.3: Potential Impact of Wage Risk on Plan Fund Balance ($ in Millions)

	FY2023	FY2024	FY2025	FY2026	FY2027	Total
Provision for Future Labor Obligations	$54.0	$63.0	$96.0	$133.0	$171.0	$517.0
Estimated Wage Risk	7.3	16.1	56.6	98.0	134.3	312.2
Plan (Shortage)/Overage	46.7	47.0	39.4	35.0	36.7	204.8
Fund Balance as Projected in the Plan	372.2	316.5	420.6	167.7	86.6	
(Shortage)/Overage from FY2023	--	46.7	46.7	46.7	46.7	
(Shortage)/Overage from FY2024	--	--	47.0	47.0	47.0	
(Shortage)/Overage from FY2025	--	--	--	39.4	39.4	
(Shortage)/Overage from FY2026	--	--	--	--	35.0	
(Shortage)/Overage from FY2027	--	--	--	--	--	
Potential Plan Fund Balance	**$418.9**	**$410.2**	**$553.7**	**$335.8**	**$291.4**	

Source: PICA estimates based on FY2022 salaries with the assumption that all bargaining units will receive 2% increases in FY2025, FY2026, and FY2027, after the current contracts/awards expire; for DC33 – Local 159, the wage increase that DC33 received was applied for FY2023 and FY2024 bargaining unit. The assumption of 2.0 percent growth is consistent with regional inflation over the last few years; however, with the current inflationary pressures, this may need to be adjusted in future reviews.

For correctional officers, PICA assumed a wage increase similar to what other AFSCME DC33 units received. PICA also calculated potential wage costs for exempt employees for FY2024 through FY2027, as they were not included in the Plan. Based on this analysis, PICA estimates that the annual potential wage increases would result in additional labor costs of $312.2 million over the life of the Plan, which is within the parameters of the labor reserve. Table 3.3 presents the potential impact of the Plan's wage risk on the fund balance.

It should be noted that PICA's analysis only assumes an annual percent wage increase and does not take into account any potential lump-sum payments that may be negotiated or arbitrated in future labor contracts. These potential wage increases do not constitute a projection but are used solely for the purpose of this risk analysis.

Although the Plan includes a sizable labor reserve, it does not mitigate the potential for large wage increases in the last three years of the Plan, which could have a negative impact on the City's fund balances. Therefore, future labor costs remain a financial concern to the Plan. It should be noted that any future labor agreements or awards that increase General Fund costs beyond the labor reserve included in this Plan would require a revision. Accordingly, this revision would have to demonstrate the existence of sufficient funds to cover any additional costs.

School District of Philadelphia

One of the largest obligations in the Plan is the City's contribution to the School District of Philadelphia ("School District"). The Plan increases the contribution from $255.9 million in FY2022 to $269.9 million in FY2023. Projected contributions increase in FY2024 to $282.1 million and reach $288.1 million in each of the last three years of the Plan, for a total contribution of $1.416 billion.

This contribution is over and above the real estate tax, sales tax, use and occupancy tax, school income tax, and the liquor by the drink tax that the City collects for the School District. During the current Mayoral Administration, the School District has been a recipient of $1.243 billion in contributions from the City since 2016. Despite these increases in contributions, the School District remains one of the City's longstanding financial and funding challenges.

The American Rescue Plan Act appropriated over $1.1 billion to the School District from FY2021 through FY2024. According to the School District's Five Year Plan, issued March 24, 2022, the ARPA funds are supporting students and learning recovery. The FY2022 impact of these funds was the attainment of the most favorable staff to student ratios in a decade. Specifically, in FY2011, the School District had one teacher for every 13.3

students. In FY2022, the ratio was one teacher for every 12.3 students.

In addition, in FY2011, total school based staff (teachers, counselors, student support, climate, etc.) was one staff member for every 7.4 students. In FY2022, it was one staff member for every 6.6 students. According to the School District, the FY2023 budget will focus on maintaining student support services while strategically investing in new priorities, while the School District's Five Year Plan focuses on maintaining fiscal stability while advancing academic support services for all children.

As a result of this infusion of funds, the School District's Five Year Plan projections show healthy positive fund balances through FY2025, a deficit of $46.6 million in FY2026, and a deficit of $484.3 million in FY2027. Accordingly, the School District's fund balances as a percentage of total obligations are projected to be over 12.5, 12.8, and 7.7 percent in FY2023, FY2024, and FY2025, respectively.

Although not at the level the GFOA recommends (17 percent), these fund balances are still an improvement. In addition, the School District's Five Year Plan for FY2023 to FY2027 presents significantly higher fund balances than were presented in the District's previous plan.

Despite these projected positive fund balances through FY2025, there are numerous factors that could negatively impact the School District's projected year end fund balances. These include an economic downturn affecting funding assumptions, absence of new state grant funding, pension funding, and new labor contracts with significant costs.

Therefore, requests on behalf of the School District for additional contributions above projections, could pose a risk to the Plan. Such action could draw vital resources away from other City services or could impact the City's year end fund balance during the Plan period.

Employee Health Benefits Costs

Health benefits costs for active and retired workers are estimated at $528.7 million for FY2022, $33.8 million more than was budgeted in last year's Five Year Plan–illustrating the difficulty of forecasting this obligation.

According to the US Centers for Medicare and Medicaid Services, experts anticipate healthcare costs to increase by 5.1 percent annually between 2021 and 2030,[17] yet healthcare costs increased by over 9 percent between June 2021 to June 2022.[18] However, actuaries are predicting a deceleration in healthcare spending in the near and long-term.[19] Thus, it appears that experts are not in agreement as to an accurate forecast of healthcare costs in the coming years.

Complicating forecasting further, many Americans deferred preventative and elective healthcare during the height of the Pandemic in FY2020 and FY2021, leading to a rise in health benefit utilization, and causing increases in the demand for, and the cost of, healthcare services.[20] Additionally, healthcare costs are tied to trends within the broader economy, which have proven difficult to predict as of late, with experts also disagreeing on the economic direction in which the United States is heading.

The City's health plan costs projections incorporate separate calculations for the union plans and the City-administered plan, which covers non-represented and exempt employees. DC33 is the only major union still in a monthly per-employee structure. The current DC33 contract expires in FY2024, and the Plan does not project health costs increases for this union beyond the existing contract. The DC47, IAFF, FOP, and City-administered health plans are projected to grow at rates ranging from 5.0 to 7.5 percent annually, reflecting the City's assumption regarding medical costs growth for these self-insured plans. The City

[17] Centers For Medicare & Medicaid Services, retrieved July 13, 2022: https://www.cms.gov/files/document/nhe-projections-forecast-summary.pdf.

[18] Romm, Tony and Roubein, Rachel, "Democrats race to reach deal to prevent spike in health premiums," *Washington Post*, July 13, 2022: https://www.washingtonpost.com/us-policy/2022/07/13/manchin-schumer-aca-credits.

[19] Deloitte, "Breaking the cost curve: Deloitte predicts health spending as a percentage of GDP will decelerate over the next 20 years," Accessed July 13, 2022: https://www2.deloitte.com/xe/en/insights/industry/health-care/future-health-care-spending.html.

[20] Healthcare Financial Management Association, "More than 2 years into the pandemic, the issue of deferred care continues to affect the healthcare industry," Accessed July 13, 2022: https://www.hfma.org/topics/news/2022/04/more-than-2-years-into-the-pandemic--the-issue-of-deferred-care-.html.

pays claims and administration costs, rather than a fixed monthly fee per covered employee for self-insured plans.

The risk associated with any growth projection is that actual experience may differ from estimates. Since the City estimates FY2022 Health and Welfare costs at $528.7 million, or nearly 10 percent of General Fund Obligations, inaccurate projections for healthcare spending have the potential to result in considerable unexpected costs.

The City projects total FY2023 Health and Welfare benefits costs at $577.8 million, an increase of $49.1 million, or 9.3 percent, and to further increase by 19.2 percent from FY2023 to FY2027, at an average annual increase of 4.5 percent and a total cost of $3.140 billion over the life of the Plan. Therefore, due to volatility and the difficulty of forecasting, healthcare costs continue to be a financial concern to the Plan.

Speculative Revenues

The Plan includes some projected revenues that are particularly speculative in nature, that if not realized, could possibly jeopardize the Plan. These revenues appear overly optimistic and may serve to bolster the year end fund balances artificially.

The PICA Act requires that estimates for tax revenues collected by the City should be "based on current or proposed tax rates, historical collection patterns, and generally recognized econometric models." It further states that revenues received from federal or state government should be based on "historical patterns," "currently available levels," or levels contained in a budget proposed by the Governor, President, or in a Congressional budget resolution. Locally generated non-tax revenue estimates should be based on "current or proposed rates, charges or fees, historical patterns and generally recognized econometric models." Further, "all projections of revenues and expenditures are to be based upon consistently applied reasonable and appropriate assumptions and methods of estimation."

Locally generated non-tax revenue ("LGNT") is projected at $372.8 million in FY2023. Revenues collected by City agencies that account for a significant portion of this category are shown in Table 2.3. As in the prior year, PICA noted several projections in LGNT that appear speculative.

The Department of Public Property's sale of assets (City buildings) is particularly sensitive. This line item is projected to be $14.3 million in FY2023, $1.3 million in FY2024 through FY2026, and jumps to $28.3 million in FY2027. It should be noted that actual sales proceeds in FY2020 and FY2021 were $405,000, and $29,000, respectively. While in FY2022, it is estimated to reach $11.3 million, illustrating the volatile nature of this line item. In addition, past experience dictates that these property sales are not always realized nor are they within the time frame specified.

The Office of the Sheriff projects an increase in Sheriff Fees and Commission Fees, from less than $150,000 (due to the moratorium) collected in FY2022, to $6.0 million and $5.2 million, respectively, in FY2023, and the same amounts for each of the remaining years of the Plan. These projections reflect the highest pre-Pandemic level of collections attained.

According to the City, these projected increases were due to the expectation that activity will return to pre-Pandemic levels in FY2023. However, we believe that such increased projected revenues could be difficult to achieve as it will take some time before the Sheriff operations are back to full capacity.

Emergency Medical Services fees collected by the Fire Department are projected to increase by $4.0 million in FY2023 and by $9.0 million in FY2024, reaching $41.0 million. The City anticipates EMS revenues to return to pre-Pandemic levels in FY2024 and are projected to stay at this level for the remaining years of the Plan. These increased projected revenues, which reflect pre-Pandemic collection levels, may be difficult to attain during these current economic conditions and low staffing levels. As a result, the year end fund balances could be overstated by $9.0 million in each year of the Plan.

Payments for Patient Care fees collected by the Department of Public Health for individuals visiting the health centers and from residents in the Philadelphia Nursing Home are projected to increase by over $20.3 million in FY2026 and $21.3 million in FY2027, reaching $54.9 million. According to the City, the increases in FY2026 and FY2027 reflect the anticipated opening of a new Health Center. Projecting revenues from an additional health center that has not been built may be somewhat optimistic.

If the above projections are not realized, the total of speculative revenues could reach over $26.5 million in FY2023, $34.5 million in FY2024, $21.5 million in FY2025, $41.9 million in FY2026, and $42.7 million in FY2027, for a total of $167.1 million over the life of the Plan. The year end fund balances will have to absorb such decreases in revenues if projections are not met. Therefore, these projected revenues are considered speculative and present a financial concern to the Plan.

Housing Trust Fund Mandated Appropriation

The Housing Trust Fund accounts for funds that are to be used in accordance with Chapter 1600 of Title 21 of the Philadelphia Code to assist low income homeowners. In November 2021, an ordinance was voted on by the electorate that mandated a required annual operating expenditure to the City's Housing Trust Fund.

The ordinance, which takes effect for the operating budget of FY2023, mandated that: "In every annual operating budget ordinance: An amount equal to at least one half of one percent (0.5%) of the City's total General Fund appropriations in such ordinance shall be appropriated for expenditure out of the Housing Trust Fund."[21]

As a result of this funding formula, the Plan includes a projected contribution to the Housing Trust Fund of over $149.7 million over the Plan period. Specifically, the Plan includes projected contributions of over $29.1 million in FY2023 through FY2025, and over $30.4 million in each of the remaining years, all of which are based on the total General Fund obligations for each year.

Accordingly, if total General Fund obligations exceed projections in any given year, this contribution will also increase. If that would occur, this mandated obligation may stress the already low fund balances in the Plan and may also jeopardize the contributions to the BSR. Therefore, this additional obligation is a financial concern.

[21] City Council Resolution No. 210524, May 27, 2021.

IV. Spending and Personnel Staffing Trends

IV. Spending and Personnel Staffing Trends

General Fund Spending

This section discusses trends in General Fund spending and personnel levels by major obligation category. For purposes of the analysis, General Fund obligations are classified by PICA into three broad categories: Agency Functions, Employee Benefits, and Other Obligations. Table 4.1 organizes General Fund obligations into these three categories, and recent spending trends for each of the categories are shown in Table 4.2 and illustrated in Figure 4.1.

The review of obligations in this section considers actual spending from FY2018 to FY2021, and the City's most recent estimate for unaudited FY2022 spending. Tables and figures also show projected obligations for FY2023 (which are discussed in depth in Section II) for continuity.

As COVID-19-induced budget cuts were instituted in FY2021, lower spending totals for that fiscal year skew the five-year ascending trend. However, spending in FY2022 and FY2023 restores the upward trend, augmented by the City's receipt of American Rescue Plan Act ("ARPA") funds.

Personnel trends from FY2018 to FY2022 are also discussed, along with adopted personnel levels for FY2023. This discussion allows for a cursory analysis of the relationship between City spending and personnel trends in recent fiscal years.

City departments and offices have been classified into eight Agency Functions based on a methodology developed by PICA staff. Table 4.1 organizes these departments into each Agency Function. Over time, the Administration creates new agencies or ceases operations of others, or accommodates changes to the City's charter from new legislation, and/or voter ballot questions. Thus, PICA's Agency Function categories have been updated to reflect the current organization of City agencies in the interest of consistency and comparability.

Estimated spending within each of the three broad obligations categories increased from FY2018 to FY2022; Agency Functions by $493.1 million (20.1 percent), Employee Benefits by $190.8 million (14.5 percent), and Other Obligations by $233.1 million (36.4 percent). It should again be noted that obligations for all three categories decreased in FY2021 due to Pandemic-induced budget cuts; however, spending was restored in FY2022 with the influx of ARPA funds.

Figure 4.1: Obligations by Category with Percent Change ($ in Millions)

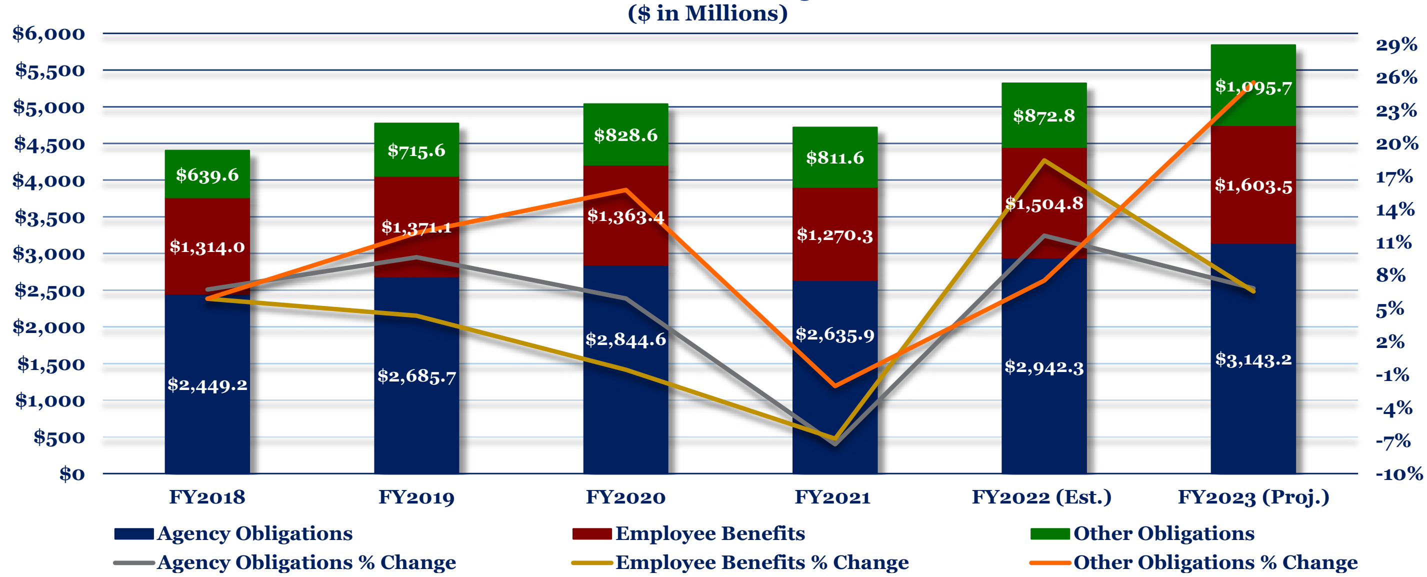


Table 4.1: General Fund Obligation Categories		
Agency Functions	**Agencies Included**	
Public Safety	Police Department	Fire Department
Judicial and Corrections	First Judicial District of PA Prisons Department Office of the District Attorney	Register of Wills Office of the Sheriff
Health and Human Services	Department of Human Services Office of Homeless Services Department of Behavioral Health and Intellectual disAbility Services	Department of Public Health Commission on Human Relations Office of Children and Families (formerly Office of Education)
Regulation and Economic Development	Department of Planning and Development[1] Office of Community Empowerment and Opportunity Department of Commerce Department of Licenses and Inspections	Office of the City Representative Office of Sustainability Board of Building Standards Board of Licenses and Inspections Review
Arts, Culture, and Recreation	Department of Parks and Recreation Office of Arts, Culture, and the Creative Economy Free Library of Philadelphia	Mural Arts Program Atwater Kent Museum[2]
Transportation and Sanitation	Streets Department	
Central Services	Department of Public Property Office of Fleet Management	Office of Innovation and Technology[3]
Governance and Administration	Office of the Mayor City Council Office of the Chief Administrative Officer Office of the City Controller Office of the Managing Director[4] Office of the Director of Finance Board of Ethics Board of Revision of Taxes Office of the Philadelphia City Commissioners Department of Revenue	Office of the City Treasurer Civil Service Commission Office of the Inspector General Office of Labor Relations Law Department Office of Human Resources Procurement Department Office of Property Assessment Department of Records
Employee Benefits		
Pensions[5] Health and Medical Employee Disability (Workers' Compensation) Social Security (FICA) Unemployment Compensation	Group Life Group Legal Tool Allowance Flex Cash Payments	
Other Obligations		
Sinking Fund Commission (Debt Service) Art Museum Subsidy PA Convention Center Subsidy School District Contribution Community College Subsidy SEPTA Subsidy Indemnities Space Rentals Utilities	Legal Services (Defender Association) Budget Stabilization Reserve Fund Provision for Future Labor Negotiations Pandemic Reserve Housing Trust Fund Refunds Witness Fees Hero Awards Mayor's Scholarships	

[1] Formerly Mayor's Office of Planning and Development; as of FY2018, includes City Planning Commission, Historical Commission, Zoning Board of Adjustment, and Division of Housing and Community Development
[2] Ended Operations June 30, 2019
[3] Includes 911 Emergency Call Center
[4] As of FY2021, includes Office of Arts, Culture and the Creative Economy; as of FY2023, includes Citizens Police Oversight Commission
[5] Includes mandated pension fund payments, debt service on pension obligation bonds, pension relief payments from the sales tax, and additional payments for Plan 10 participants

Table 4.2: General Fund Spending by Obligation Category[1] ($ in Millions)

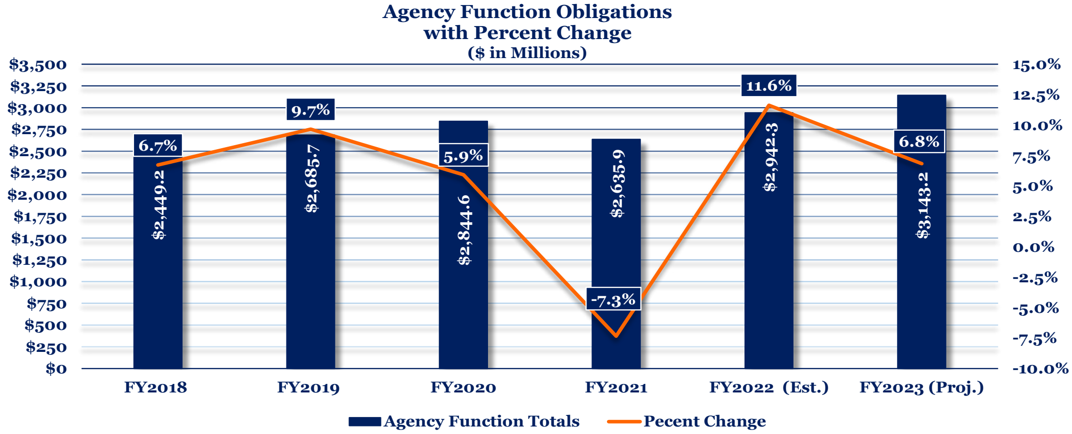
Obligations Category	Actual				Estimate	Projected
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Agency Functions[2]						
Public Safety	958.8	1,015.8	1,088.3	1,080.0	1,131.2	1,168.9
Judicial and Corrections	439.5	422.1	436.7	404.8	447.6	448.2
Health and Human Services	331.7	351.3	402.4	371.0	429.1	449.7
Regulation & Economic Development	56.3	81.4	75.3	59.5	80.9	104.5
Arts, Culture, and Recreation	109.4	114.9	115.5	92.2	113.4	134.9
Transportation and Sanitation	136.6	144.6	151.8	154.6	175.6	217.8
Central Services	203.1	213.8	228.9	210.0	251.3	270.2
Governance and Administration	213.8	341.8	345.6	263.8	313.2	349.0
Function Totals	**$2,449.2**	**$2,685.7**	**$2,844.6**	**$2,635.9**	**$2,942.3**	**$3,143.2**
Employee Benefits						
Pension Payments	742.4	752.5	759.5	664.4	802.8	842.5
Health and Welfare	431.6	470.2	457.7	452.1	528.7	577.8
Disability/Workers' Compensation	56.0	63.6	61.3	70.1	78.5	84.6
Social Security	80.4	81.8	80.1	81.5	89.4	94.1
Unemployment Compensation	3.5	2.9	4.7	2.2	5.5	4.5
Employee Benefits Totals	**$1,314.0**	**$1,371.1**	**$1,363.4**	**$1,270.3**	**$1,504.8**	**$1,603.5**
Other Obligations						
Sinking Fund Commission (Debt Service)	265.5	257.0	266.4	273.8	293.2	308.8
School District Contribution	104.3	180.9	227.1	252.6	256.0	270.0
SEPTA Subsidy	81.9	84.6	86.3	84.6	91.2	100.7
Recession and Reopening Reserve	-	-	-	-	-	32.0
Legal Services (Defender Association)	48.8	51.6	50.9	50.6	52.4	59.8
Indemnities	44.6	45.3	54.9	42.5	49.2	67.2
Community College Subsidy	30.4	32.4	36.1	41.6	48.1	50.1
Budget Stabilization Reserve Fund	-	-	34.3	-	-	40.1
Housing Trust Fund	-	-	-	-	-	29.1
Utilities	24.6	25.1	28.7	23.6	24.9	33.0
Space Rentals	21.6	20.9	26.1	25.0	30.2	33.3
Provision for Future Labor Negotiations	-	-	-	-	9.9	54.0
PA Convention Center Subsidy	15.0	15.0	15.0	15.0	15.0	15.0
Miscellaneous[3]	0.3	0.3	0.3	0.2	0.6	0.6
Other Obligations Totals	**$639.6**	**$715.6**	**$828.6**	**$811.6**	**$872.8**	**$1,095.7**
Spending Totals	**$4,402.9**	**$4,772.4**	**$5,036.5**	**$4,717.8**	**$5,319.9**	**$5,842.5**

[1] Indemnities not included in function costs
[2] See Table 4.1 for definitions of agency functions; agency functions have been updated to reflect the current structure of City agencies for purposes of comparability
[3] Includes refunds, witness fees, Hero Awards, and Mayor's scholarships

Agency Functions

- FY2022 Estimated: **$2.942 Billion**
- Change from FY2018: **$493.1 Million / 20.1%**
- Annual Growth FY2018-FY2022: **4.7%**

% of Total Obligations
FY2022: **55.3%**



- *Public Safety*
- *Judicial & Corrections*
- *Health & Human Services*
- *Regulation & Economic Development*
- *Arts, Culture, & Recreation*
- *Transportation & Sanitation*
- *Central Services*
- *Governance & Administration*

Agency Functions

In FY2022, Agency Functions represented the majority of the City's obligations, totaling $2.942 billion, or 55.3 percent. From FY2018 to FY2022, Agency Functions increased by $493.1 million, or 20.1 percent, at an annual growth rate of 4.7 percent. After increasing steadily since the end of the 2008-2009 recession, Agency Functions obligations decreased from FY2020 to FY2021, but are projected to again increase in FY2023.

The fastest growing Agency Function from FY2018 to FY2022 continues to be Governance and Administration, followed closely by Regulation and Economic Development. These obligations increased by 46.5 percent and 43.8 percent, respectively, at annual growth rates of 10.0 percent for the former and 9.5 percent for the latter. The Public Safety Function increased by the highest dollar amount over this period–$172.4 million, representing an increase of 18.0 percent, at an average annual growth rate of 4.2%.

Within the Governance and Administration Function, the highest obligations growth occurred within the Office of the City Treasurer ("City Treasurer") and the Office of the Managing Director ("MDO"), with these offices' obligations increasing by 295.0 percent ($3.5 million), and 149.8 percent ($64.8 million), respectively.

The obligations increase within City Treasurer can be attributed to a professional services contract for investment fees. The MDO continues to absorb the functions of smaller offices and assume new and expanded anti-violence initiatives, disbursing millions of dollars in community partnership grants and violence intervention funds. The MDO will also fund the Citizens Police Oversight Commission in FY2023; the agency was given an overhaul and funding was mandated via a 2020 ballot measure which took effect in FY2021.

None of the Agency Functions decreased obligations from FY2018 to FY2022; however, the Judicial and Corrections function increased by just $8.2 million over that period, or 1.9 percent, at an annual increase of 0.5 percent. This relatively small increase was driven by a $6.1 million decrease in Department of Prisons ("Prisons") obligations, a decrease of 2.4 percent–the result of a staffing decrease which correlates to a nearly 50 percent reduction in the prisons population over the same period. The Arts, Culture, and Recreation function also increased at a small rate, by just $3.9 million, or 3.6 percent over the five fiscal years in question.

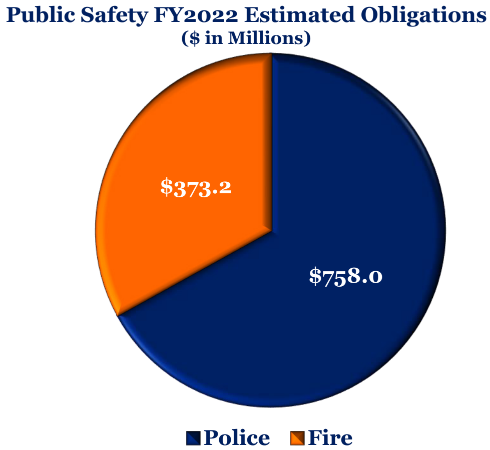
These trends could be taken together to illustrate the City's priorities in recent fiscal years, as the City has sought to strengthen efficient governance, prioritize economic development, and bolster public safety.

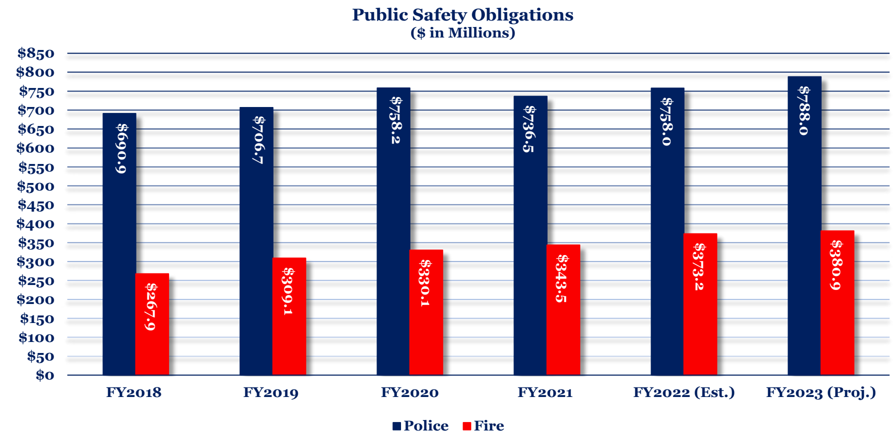
Public Safety

- FY2022 Estimated: **$1.131 Billion**
- Change from FY2018: **$172.4 Million / 18.0%**
- Annual Growth FY2018-FY2022: **4.2%**

Agency Function Costs
FY2022 Rank: **#1**

- *Police Department*
- *Fire Department*





Public Safety obligations consistently rank first among Agency Functions, totaling an estimated $1.131 billion in FY2022, representing 38.4 percent of agency obligations and 21.3 percent of total obligations. This Function experienced significant growth from FY2018 to FY2022, with obligations increasing by $172.4 million over that period, or 18.0 percent, at an average annual rate of 4.2 percent.

Police Department ("Police") obligations increased by an estimated $21.6 million in FY2022 to total $758.0 million, restoring a FY2021 decrease. As a result, Police obligations increased by a total of $67.2 million from FY2018 to FY2022, or 9.7 percent, at an average annual rate of 2.3 percent. Fire Department ("Fire") obligations well outpaced Police over the same period, increasing by $105.2 million to $373.2 million, or by 39.3 percent, at an average annual rate of 8.6 percent. Much of this increase can be attributed to fast-growing overtime costs.

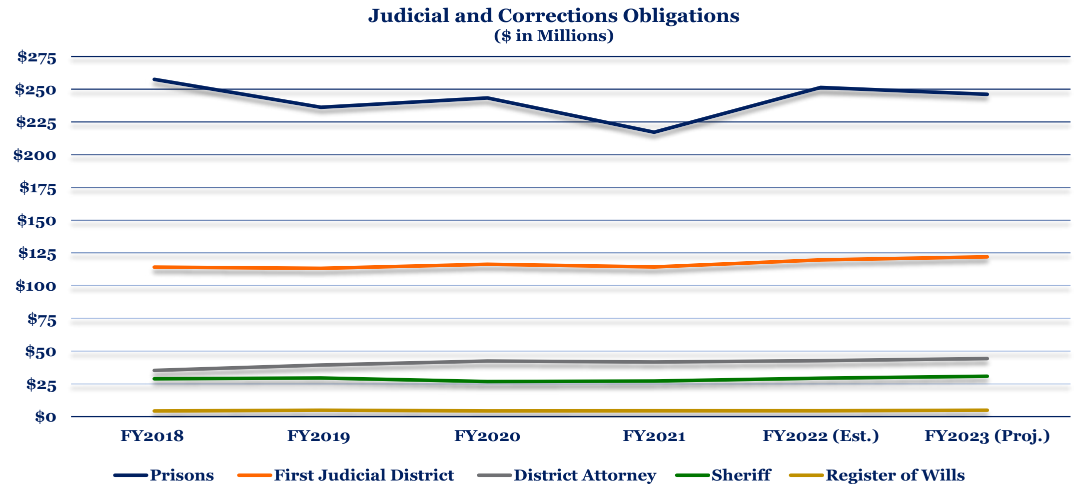
Additionally, some of the increases within Public Safety are the result of arbitration awards granting pay raises in each of the aforementioned fiscal years. Both Fire and Police secured annual pay increases of over three percent from FY2017 to FY2020 and secured one-year extensions at 2.5 percent in FY2021, accounting for some of the annual growth in obligations for each of the two departments. Arbitration panels also awarded new contracts to both departments covering the period of FY2022 to FY2024.

Staffing for Fire increased by 255 full-time employees from FY2018 to FY2022, while decreasing for Police, by 381 full-time employees. In total, Public Safety staffing decreased by 126, or 1.3 percent over this period. The FY2023 Budget approves 580 new Police employees and 665 new Fire employees, for a total of 1,245 full-time Public Safety employees–an increase of 13.2 percent over FY2022. Departments rarely meet their approved staffing levels, but both departments are committed to more robust recruitment strategies.

Judicial and Corrections

- FY2022 Estimated: **$447.6 Million**
- Change from FY2018: **$8.2 Million / 1.9%**
- Annual Growth FY2018-FY2022: **0.5%**

Agency Function Costs
FY2022 Rank: **#2**



- *First Judicial District of PA*
- *Prisons Department*
- *Office of the District Attorney*
- *Register of Wills*
- *Office of the Sheriff*

Judicial and Corrections occupies the second-highest rank among Agency Functions in terms of total obligations, with $447.6 million in estimated spending in FY2022. However, Judicial and Corrections is the slowest-growing Function, having increased obligations at a rate of just 0.5 percent per year from FY2018 to FY2022. As a whole, Judicial and Corrections obligations increased by $8.2 million, or 1.5 percent, from FY2018 to FY2022.

As previously mentioned, Department of Prisons ("Prisons") obligations have trended downward concurrently with a decrease in both the inmate population and full-time employees, offsetting a $22.1 million FY2022 increase for COVID-19 and other medical services. Several restorative justice initiatives introduced through Mac Arthur Foundation Safety and Justice Challenge grants have helped to decrease the prison inmate population by over 1,500 from 2018 to 2022. As a result, Prisons obligations decreased by $6.1 million over that period, as illustrated above, or 2.4 percent, while full-time employees decreased by 737, or 33.0 percent.

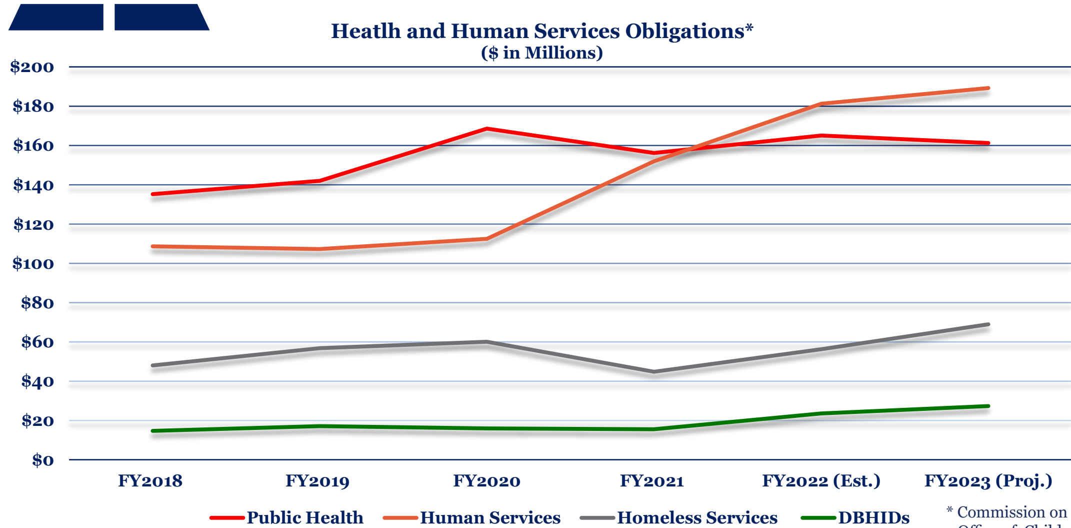
The Office of the District Attorney ("DAO") is the only Judicial and Corrections department to experience a notable increase in obligations over this period. DAO obligations increased by $7.4 million from FY2018 to FY2022, or 21.0 percent, at an average annual rate of 4.9 percent, as staffing increased by 75 full-time employees, or 15.0 percent.

The First Judicial District of Pennsylvania ("FJD"), the Sheriff's Office ("Sheriff"), and the Office of the Register of Wills ("Register of Wills") all experienced modest increases over the same period, with obligations increasing by $5.6 million (4.9 percent), $1.0 million (3.6 percent), and $300,000 (7.3 percent), respectively. As a Function, Judicial and Corrections staffing decreased by 819 full-time employees, or 16.3 percent.

Health and Human Services

- FY2022 Estimated: **$429.1 Million**
- Change from FY2018: **$97.5 Million / 29.4%**
- Annual Growth FY2018-FY2022: **6.7%**

Agency Function Costs
FY2022 Rank: **#3**



* Commission on Human Relations and Office of Children and Families not shown

- *Department of Human Services*
- *Office of Homeless Services*
- *Department of Behavioral Health & disAbility Services*
- *Department of Public Health*
- *Commission on Human Relations*
- *Office of Children and Families*

Health and Human Services obligations have experienced significant growth in recent fiscal years, increasing by $97.5 million from FY2018 to FY2022, to an estimated $429.1 million. This represents an increase of 29.4 percent and an annual growth rate of 6.7 percent.

Every department in the Agency Function increased spending over this period, with Department of Human Services ("DHS") and Department of Public Health ("Public Health") obligations increasing considerably. DHS increased by $72.6 million, or 66.9 percent, at an average annual rate of 13.7 percent, while Public Health increased by $29.9 million, or 22.1 percent, at an average annual rate of 5.1 percent.

DHS obligations continue to be the most rapidly increasing in this Function, having grown from $108.6 million in FY2018 to $181.2 million in FY2022. This investment reflects the absorption of the Administration's Pre-K and Community Schools programs in FY2021. It has also driven notable improvement in the agency; DHS has improved results for several performance metrics in recent years, including the number of children in the City's care, which is steadily decreasing.

Public Health obligations peaked in FY2022 at $165.1 million; the department has received increased federal funding in recent years to implement COVID-19-related programming, and an increased budget for fighting the opioid epidemic and for improvements to the Medical Examiner's Office.

The Department of Behavioral Health and disAbility Services (DBHIDs) and Office of Homeless Services ("OHS") experienced obligations increases of approximately eight and nine million dollars, respectively, from FY2018 to FY2022, increases of 60.6 percent for the former and 17.2 percent for the latter.

Overall, staffing for the Health and Human Services Agency Function has decreased by 57 full-time employees, or 4.1 percent, from FY2018 to FY2022, with only DBHIDs increasing staffing, by 12 full-time employees, or 75 percent, over that period. OHS staffing decreased by 25, or 16.7 percent, and Public Health decreased by 14, or 1.9 percent. However, the Function as a whole added 24 full-time employees from FY2021 to FY2022, bringing total Health and Human Services staffing to 1,333.

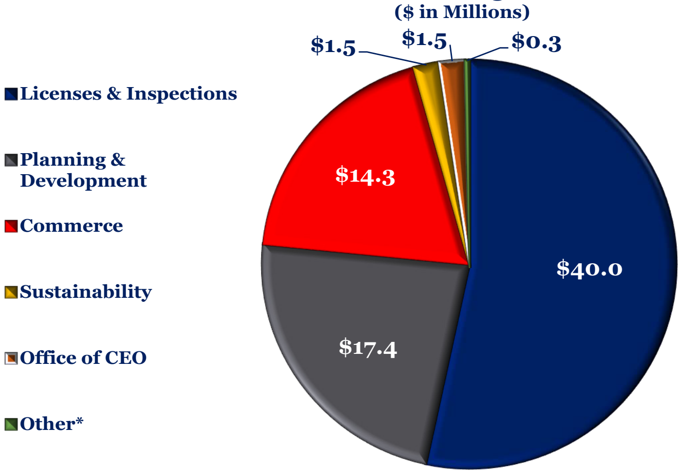
Regulation and Economic Development

- FY2022 Estimated: **$80.9 Million**
- Change from FY2018: **$24.6 Million / 43.8%**
- Annual Growth FY2018-FY2022: **9.5%**

Agency Function Costs
FY2022 Rank: **#8**

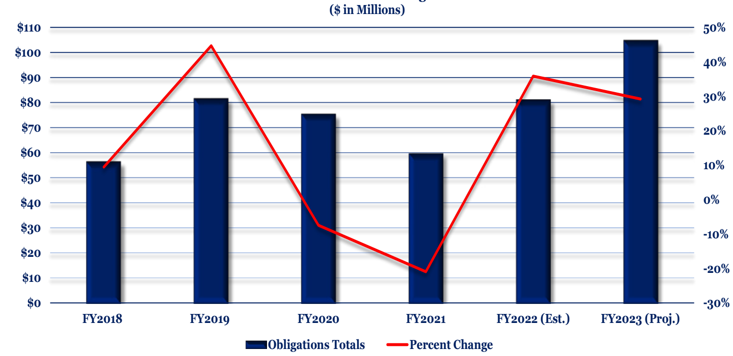
- *Department of Planning & Development*
- *Office of Community Empowerment & Opportunity*
- *Board of L&I Review*
- *Department of Licenses & Inspections*
- *Office of Sustainability*
- *Board of Building Standards*
- *Commerce Department*

Regulation and Economic Development FY2022 Obligations
($ in Millions)



* Other includes Board of L&I Review, and Board of Building Standards.

Regulation & Economic Development Obligations with Percent Change
($ in Millions)



Regulation and Economic Development obligations were the lowest of any Agency Function in FY2022, at $80.9 million, or 2.7 percent of agency obligations. However, Regulation and Economic Development was the second fastest-growing Function from FY2018 to FY2022 as previously stated, with obligations increasing by $24.6 million, or 43.8 percent, at an average annual increase of 9.5 percent. Furthermore, the Function's obligations increased by $21.3 million in FY2022, restoring a $15.8 million reduction resulting from COVID-19-related budget cuts.

The growth in this Function was driven by an $11.7 million increase in the Commerce Department ("Commerce") from FY2018 to FY2022, a 138.3 percent increase at a rate of 24.2 percent annually. This increase represents renewed investments in the Department's commercial corridor improvement, workforce solutions grants, and equitable small business loans programs. At the same time, Commerce has experienced a reduction of 18 full-time employees since FY2020 as a result of a COVID-19 related hiring freeze and budget cuts, but the Department projects a staffing increase in FY2023 to administer the more robust programming.

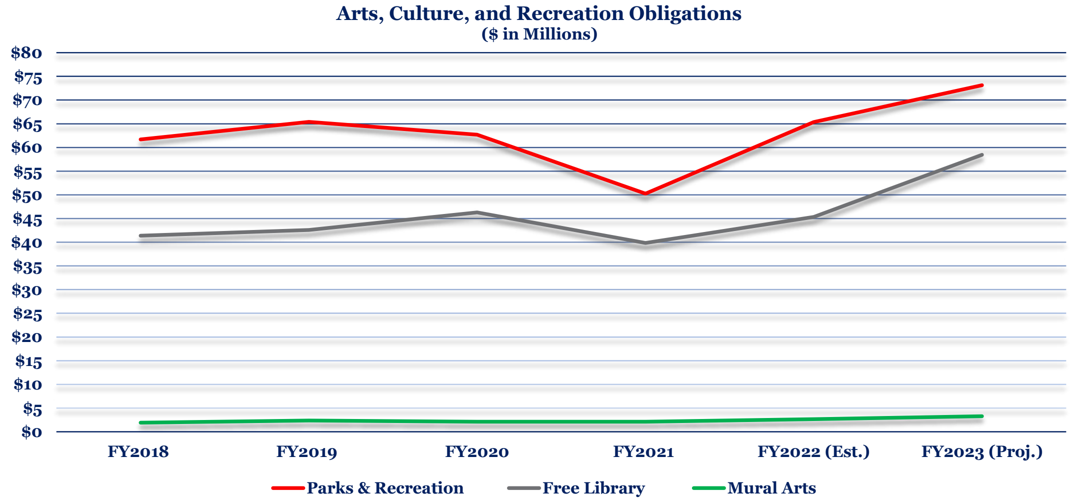
The Departments of Planning and Development ("Planning and Development") and Licenses and Inspections ("L&I") obligations also increased from FY2018 to FY2022, by $9.2 million (112.1 percent) and $4.8 million (13.7 percent), respectively. Finally, the Office of Sustainability ("Sustainability") obligations increased by $629,000, or 69.3 percent. The only agency to decrease obligations over this period was the Office of Community Empowerment and Opportunity, by $637,000, or 29.7 percent.

In total, the departments in the Regulation and Economic Development Agency Function decreased staffing by 29 full-time employees from FY2018 to FY2022, a reduction of 6.1 percent driven entirely by L&I, which decreased staffing by 32 employees over that period. Additionally, the Office of the City Representative ceased operations as of FY2021, resulting in a reduction of seven employees. Planning and Development added eight employees, Sustainability added three employees, and Commerce added two employees over this period.

Arts, Culture, and Recreation

- FY2022 Estimated: **$113.4 Million**
- Change from FY2018: **$3.9 Million / 3.6%**
- Annual Growth FY2018-FY2022: **0.9%**

Agency Function Costs
FY2022 Rank: #7



*The Atwater Kent Museum ceased operations in FY2020 and ACCE ceased operations in FY2021; neither are shown

- *Parks & Recreation*
- *Arts, Culture, & the Creative Economy*
- *Free Library*
- *Mural Arts*
- *Atwater Kent Museum*

Arts, Culture, and Recreation was the second-lowest spending Agency Function at $113.4 million in FY2022, or 3.9 percent of agency obligations. Obligations increased by $3.9 million from FY2018 to FY2022, or 3.6 percent, at an average annual increase of 0.9 percent. The Function experienced a $23.2 million cut in funding in FY2021 as a result of COVID-19-related budget reductions, a cut which fell short of being fully restored in FY2022.

The Arts, Culture, and Recreation Function saw two agencies cease operations in recent years, accounting for some of the relatively modest increases in obligations over this period. The Atwater Kent Museum ceased operations in FY2020, the collection having been acquired by Drexel University. The Office of Arts, Culture, and the Creative Economy followed in FY2021, with some of its functions being absorbed by MDO.

Neither of the Function's major departments, the Department of Parks and Recreation ("Parks and Recreation") and The Free Library of Philadelphia ("Free Library") increased obligations by more than $4 million from FY2018 to FY2022. Parks and Recreation obligations increased by $3.9 million, or 9.5 percent, and Free Library obligations increased by $3.7 million, or 5.9 percent. Both departments were affected by the aforementioned budget cuts in FY2021, however, both are projected to receive more robust investments in FY2023.

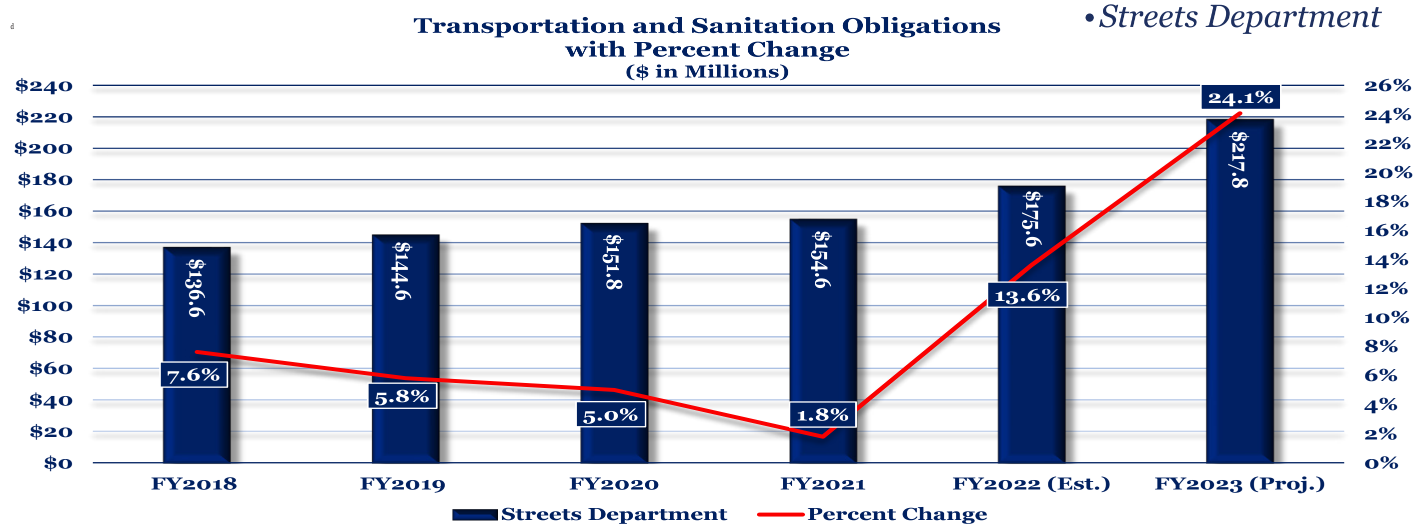
In five year plan review meetings held by PICA, it became evident that both departments are currently understaffed–Parks and Recreation staffing was reduced by 36 full-time employees and Free Library staffing was reduced by 18 from FY2018 to FY2022. The FY2023 Council-approved budget proposes a total of nearly 500 more employees for the departments, and increasing staffing is an ongoing goal for both Parks and Recreation and Free Library.

Transportation and Sanitation

- FY2022 Estimated: **$175.6 Million**
- Change from FY2018: **$38.9 Million / 28.5%**
- Annual Growth FY2018-FY2022: **6.5%**

Agency Function Costs
FY2022 Rank: **#6**

- *Streets Department*



Transportation and Sanitation obligations increased by $38.9 million from FY2018 to FY2022, or by 28.5 percent, at an annual growth rate of 6.5 percent, making it the third fastest-growing Agency Function behind Governance and Administration and Health and Human Services. The Streets Department ("Streets") is the only agency in this Function.

The increase in obligations resulted from both new challenges which arose over this period and new initiatives prioritized by the Administration. Streets was severely affected by COVID-19 as more Philadelphians worked from home; consequently, trash and recycling tonnage increased. In addition, disposal costs increased by $5.6 million in FY2022. Overtime costs also increased, as sanitation workers either contracted, or came in contact with the virus, causing a spike in leave usage. Thus, Streets was one of the few departments to see a budget increase, albeit a small one, in FY2021.

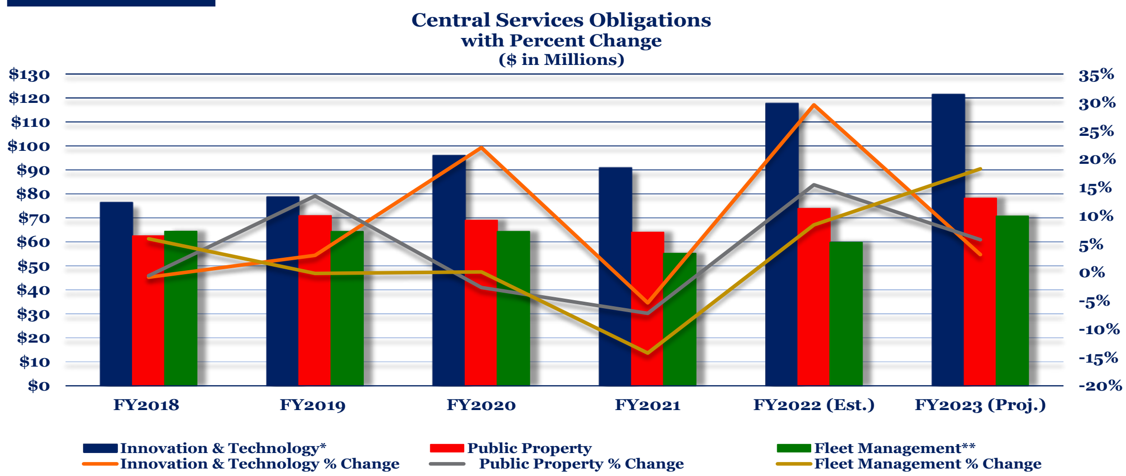
Several of the Administration's priorities that were paused during the Pandemic were resumed in FY2022, part of an estimated $21.0 million increase in total spending. The expansion of a mechanical street cleaning pilot program into more City neighborhoods increased obligations by $10.5 million, and $452,000 supported Commerce's Clean Corridors Program.

The increase in Streets' obligations is partially due to an increase in staffing from FY2018 to FY2022. The Department added 311 full-time employees, an increase of 18.3 percent, making Transportation and Sanitation the only Function to have added employees over that period. Another 367 employees have been approved as part of the FY2023 budget, however, as previously mentioned, departments rarely fill their budgeted positions.

Central Services

- FY2022 Estimated: **$251.3 Million**
- Change from FY2018: **$48.2 Million / 23.7%**
- Annual Growth FY2018-FY2022: **5.5%**

Agency Function Costs
FY2022 Rank: **#5**



*Includes 911 Emergency obligations
**Includes vehicle purchases and leases

- *Department of Public Property*
- *Office of Fleet Management*
- *Office of Innovation & Technology*

Central Services obligations increased by $48.2 million from FY2018 to FY2022, or 23.7 percent, at an annual growth rate of 5.5 percent. This increase ranks fifth-highest among City departments over the same period (only the two Public Safety Departments, DHS, and MDO rank higher). However, the majority of the increase is comprised of a $41.3 million increase within the Office of Innovation and Technology ("OIT").

Increased funding at OIT supported security improvements undertaken as part of City employees' transition to working from home, human resources software replacement, and modernization efforts at the City's 911 Emergency Call Center.[1] OIT also added 26 full-time employees from FY2018 to FY2022, increasing staffing by 9.2 percent.

Obligations within the Department of Public Property ("Public Property") also increased from FY2018 to FY2022, by a total of $11.5 million, or 18.3 percent, at an average annual increase of 4.3 percent. The Department endured budget cuts in FY2020 and FY2021, which were subsequently restored in FY2022. Public Property also added six full-time employees over this period.

The Office of Fleet Management ("Fleet Management") decreased obligations by $4.6 million, or 7.1 percent from FY2018 to FY2022. While the Office's spending increased by $5.0 million, vehicle lease and purchase costs decreased by $9.6 million, or 49.6 percent. Fleet also reduced staffing by 17 full-time employees over that time, a six percent reduction.

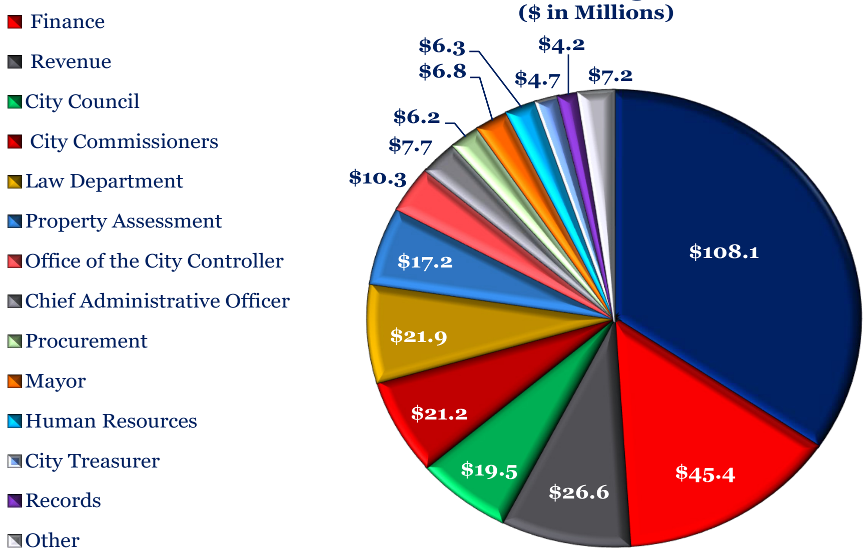
In total, Central Services added 15 employees from FY2018 to FY2022; the aforementioned increases of 26 employees in OIT and six in Public Property offset the decrease of 17 employees in Fleet Management. All three departments are approved for considerable staffing increases in FY2023.

[1] Some 911 Emergency Call Center costs may be reimbursed by revenue generated by the Center.

Governance and Administration

- FY2022 Estimated: **$313.2 Million**
- Change from FY2018: **$99.4 Million / 46.5%**
- Annual Growth FY2018-FY2022: **10.0%**

Governance and Administration
FY2022 Obligations
($ in Millions)



Agency Function Costs
FY2022 Rank: **#4**

- *Office of the Mayor*
- *City Council*
- *Chief Administrative Officer*
- *City Controller*
- *Managing Director*
- *Director of Finance*
- *Board of Ethics*
- *Board of Revision of Taxes*
- *City Commissioners*
- *Department of Revenue*
- *City Treasurer*
- *Civil Service Commission*
- *Human Resources*
- *Inspector General*
- *Labor Relations*
- *Law Department*
- *Procurement Department*
- *Property Assessment*
- *Department of Records*

Governance and Administration is comprised of the most agencies of any Function at 19, and continues to be the fastest growing Agency Function, having increased obligations by 46.5 percent, and at an average annual rate of 10.0 percent from FY2018 to FY2022. Obligations increased by nearly $100 million to $313.2 million over that period, with the largest increase, $49.4 million, estimated in FY2022. This Function trailed only Public Safety in dollar amount increases.

Sixteen of the 19 Governance and Administration agencies increased obligations from FY2018 to FY2022, with MDO's increase of $64.8 million over this period outpacing increases within any other department in the Function by at least $50 million. The 149.8 percent increase comes as a result of MDO managing more outside funding and acquiring several new functions. Over this period, MDO handled much of the City's COVID-19 response funding and managed contributions to arts grants and cultural fund programs. MDO has also disbursed millions of dollars in new anti-violence funds to support community partnerships and jobs programs. Finally, MDO has launched several public health and safety initiatives, including an opioid response unit and a mental health response unit. Despite the increase in funding and associated programming, MDO staffing decreased by three full-time employees over the same period.

Most other departments saw slight obligations increases ranging from $122,000 (Board of Revision of Taxes ("BRT") to $11.3 million (Office of the Philadelphia City Commissioners ("City Commissioners"). The Office of the Director of Finance ("Finance") and the Departments of Revenue ("Revenue") and Records ("Records") all saw decreased obligations, again, by slight amounts.

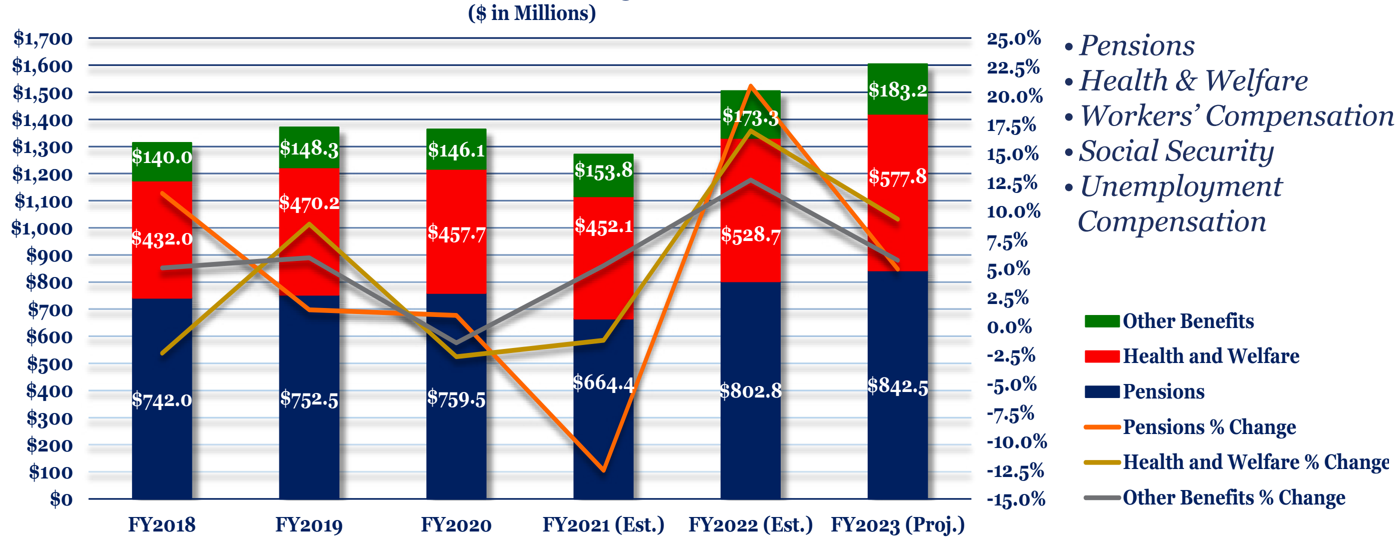
Despite considerable obligations growth in the Function from FY2018 to FY2022, total staffing decreased by 23 full-time employees. Just six of the 19 agencies added staff over the same period, with only the City Commissioners adding a notable amount (23). City Council and the Office of the City Controller ("City Controller") each decreased staffing by 14 employees, the Procurement Department ("Procurement") by 10, and Revenue by 64–a 15.8 percent reduction in Revenue's full-time staffing. As with several of the other Functions, Governance and Administration is approved to add hundreds of employees as part of the FY2023 budget.

Employee Benefits

- FY2022 Estimated: **$1.505 Billion**
- Change from FY2018: **$190.8 Million / 14.5%**
- Annual Growth FY2018-FY2022: **3.4%**

Percent of Obligations FY2022: **28.3%**

Benefits Costs by Category with Percent Change
($ in Millions)



- *Pensions*
- *Health & Welfare*
- *Workers' Compensation*
- *Social Security*
- *Unemployment Compensation*

Employee Benefits

Employee Benefits obligations increased by $190.8 million from FY2018 to FY2022, to $1.505 billion, a 14.5 percent increase at an average annual rate of 3.4 percent. Benefits costs actually decreased in FY2020 and FY2021, before spiking by $234.5 million in FY2022, eliminating the prior year decreases. Costs are projected to increase again in FY2023, by an estimated 98.7 million, or 6.6 percent. Employee Benefits represented 28.3 percent of total General Fund obligations in FY2022.

Pension payments continue to claim an out-sized chunk of the City's budget. At an estimated $802.8 million in FY2022, pensions represented 56.5 percent of Employee Benefits and 15.1 percent of total obligations. Pension payments have increased by $60.4 million since FY2018, or 8.1 percent, and increased by $138.4 million in FY2022 alone due to an increased pension obligation bond payment.

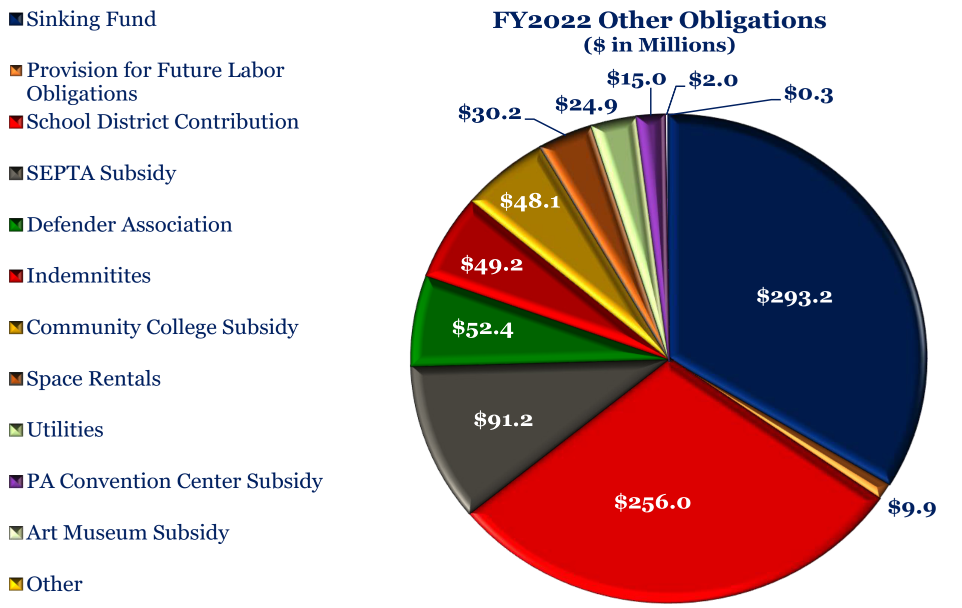
The Health and Welfare[1] category of Employee Benefits increased the most from FY2018 to FY2022, by $97.0 million, or 22.5 percent, at an average annual increase of 5.2 percent. The growth in healthcare costs is about even with the national average over the same period, as the skyrocketing cost of care itself drove up employer and worker contributions as a result. At $528.7 million, Health and Welfare represented 9.9 percent of total General fund obligations in FY2022.

In terms of Other Benefits, Employee Disability (Workers' Compensation) increased by 22.4 million, or 40.1 percent from FY2018 to FY2022. Unemployment Compensation increased by $2.0 million, or 56.5 percent over the same period, and Social Security payments increased by $9.0 million, or 11.1 percent.

[1] Health and Welfare includes employee health and medical plans, group life and legal programs, tool allowance and flex cash payments.

Other Obligations

- FY2022 Estimated: **$872.8 Million**
- Change from FY2018: **$233.1 Million / 36.4%**
- Annual Growth FY2018-FY2022: **8.1%**



- *Sinking Fund Commission*
- *Art Museum Subsidy*
- *Convention Center Subsidy*
- *Community College Subsidy*
- *SEPTA Subsidy*
- *School District Contribution*
- *Indemnities*
- *Space Rentals*
- *Utilities*
- *Defender Association*
- *Budget Stabilization Reserve*
- *Provision for Future Labor Negotiations*
- *Pandemic Reserve*
- *Refunds*
- *Witness Fees*
- *Hero Awards*
- *Mayor's Scholarships*

Other Obligations

Other Obligations include subsidies and payments made to support non-City entities and quasi-government agencies such as the School District of Philadelphia, SEPTA, the (Public) Defender Association, and the Art Museum; operational costs such as workspace rentals and utilities; and the City's reserve funds, such as the Recession and Reopening Reserve and the Budget Stabilization Reserve.

The Sinking Fund, a $293.2 million debt service payment on the City's bonds, is the highest Other Obligation in FY2022. The payment accounted for 5.5 percent of total obligations, increasing by $27.7 million from FY2018 to FY2022, or 10.4 percent.

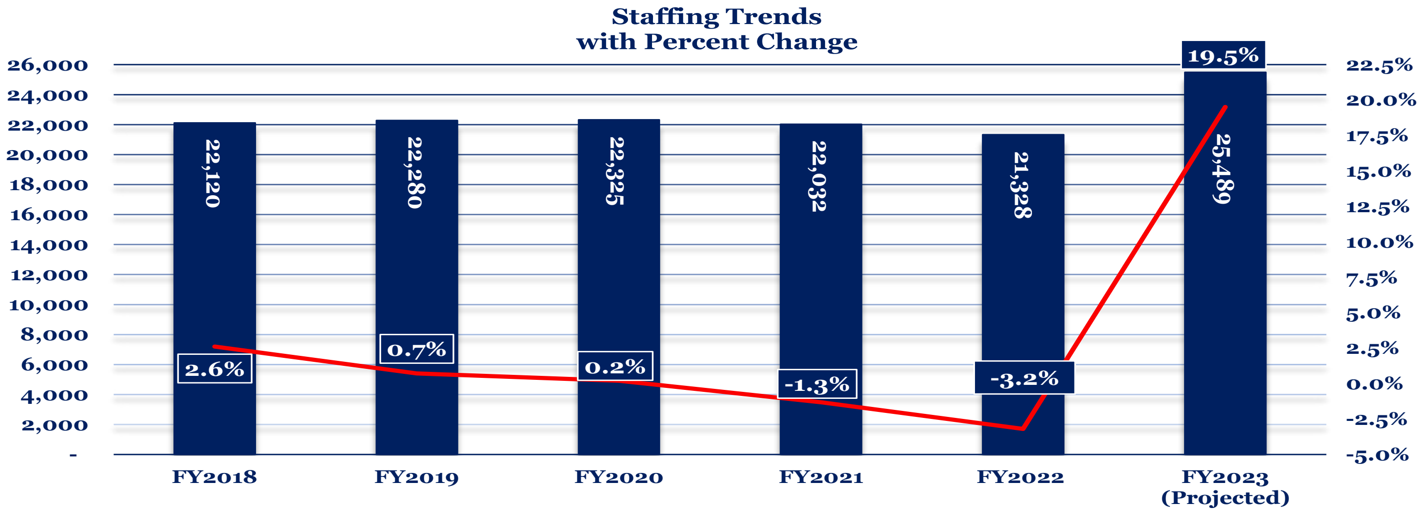
The next highest Other Obligation is the City's contribution to the School District, which totaled $256.0 million in FY2022, increasing by $151.6 million since FY2018, or 145.3 percent. This is, by far, the fastest growing item in the category, increasing by $76.6 million in FY2019 (the fiscal year in which the City regained local control of the School District from the state), and by an additional $71.7 million through FY2021. The City's subsidy to the Community College of Philadelphia also increased over this period, by $17.7 million, or 58.3 percent, in support of the Octavius V. Catto Scholarship and other programs aimed at preparing Philadelphians for family-sustaining jobs. Together with the School District contribution, these increased funds illustrate the Administration's commitment to improving educational opportunities for children and adult learners.

The only Other Obligation to notably increase over this period is the SEPTA subsidy, which increased by $9.3 million, or 11.3 percent. As a whole, Other Obligations increased by $233.1 million, or 36.4 percent, totaling an estimated $872.8 million in FY2022.

Beginning in FY2023, the City must also contribute 0.5 percent of the General Fund appropriations annually to the Housing Trust Fund in support of affordable housing initiatives. While the Fund was created in 2005, and had been funded by a combination of mortgage and deed recording fees and periodic contributions from the City, a City Council ordinance passed in June of 2021 and approved by voters in a ballot measure the following November mandated an annual contribution (see Section III discussion, "Housing Trust Fund Mandated Appropriation").

Personnel Staffing

- FY2022 Estimated: **21,328**
- Change from FY2018: **-792 / -3.6%**
- Annual Growth FY2018-FY2022: **-0.9%**



Personnel Staffing

Total General Fund staffing has decreased from 22,120 full-time employees in FY2018 to 21,328 in FY2022, a decrease of 792 employees or 3.6 percent. Staffing had been steadily increasing in the years following the Great Recession of 2008-09, however, the City instituted layoffs and a hiring freeze at the outset of the COVID-19 Pandemic, causing levels to decrease in FY2021 and FY2022.

Additionally, heightened attrition during the Pandemic caused staffing levels to further decrease. PICA's April 2022 report, *COVID-19 Impact on City of Philadelphia Employee Separations* cited resignations (especially among millenials), retirements (including early retirements), terminations, and layoffs as impacting City staffing levels.

The Judicial and Corrections Agency Function saw the largest staffing decrease, having lost 819 full-time employees over this period–nearly 700 more than the next highest Function. As previously stated, Prisons led this decrease with a loss of 737 employees. According to the City, understaffing at Prisons has led to unsafe conditions for both inmates and employees, resulting in several lawsuits and the potential for increased indemnities. First Judicial District also lost 141 employees and the Sheriff lost 16; only DAO added employees over this period (75).

The Public Safety Function decreased staffing by 126 employees from FY2018 to FY2022, or by 1.3 percent. Fire added 255 employees, but this addition was offset by a loss of 381 employees within Police. Fire overtime spending has continued to increase despite being one of the few departments to add employees over this period.

In five year plan meetings held by PICA and in budget hearings held by City Council, understaffing emerged as a consistent theme among departments due to a competitive job market and difficulty filling the positions vacated during the Pandemic. Whereas the FY2023 Council-approved budget proposes 4,161 additional employees to address short-staffing (a nearly 20 percent increase), as shown in the above figure, City departments rarely reach their approved positions. Several departments noted intensive recruitment plans for the coming fiscal year, as departments must increase staffing to successfully implement proposed new programming and maintain current service levels.

V. Indicators of Financial Health

V. Indicators of Financial Health

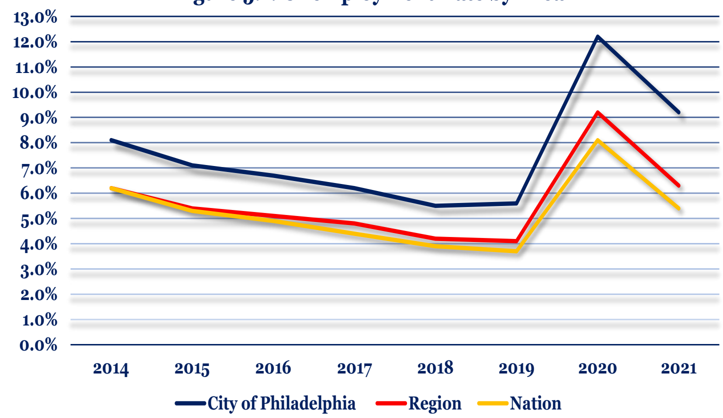
Economic Indicators

One of PICA's core objectives as stated in the PICA Act, is to promote "efficient and accountable fiscal practices." As such, this section presents quantitative measures of the overall economic performance of Philadelphia, the regional economy, and the financial condition of its government.

The quantitative measures discussed include four economic indicators: payroll employment, the unemployment rate, poverty, and median household income. These quantitative measures were improving prior to the onset of the COVID-19 global Pandemic and ensuing economic shut down. In the discussion below, PICA evaluates the economic indicators through December 2021 and then provides a more current preliminary update through May 2022, where data is available.

Financial condition indicators include the General Fund year end fund balance, outstanding debt, and the funding status of the municipal pension system and other post-employment benefits. Multi-year trends are reported to allow an assessment of whether the indicator is improving or declining over time.

Figure 5.1: Unemployment Rate by Area



Payroll Employment. Table 5.1 presents trends in payroll employment for the City, region, and nation from 2014 through 2021. The City's share of regional and national employment is also presented to indicate the extent to which the City's employment basis is growing more or less rapidly than that of the region and nation. This data reflects payroll of Philadelphia-based business establishments. As such, it reflects earnings of Philadelphia workers, rather than just residents.

City employment increased to an annual average of 693,500 in 2021, representing an increase of approximately 15,200 jobs or 2.2 percent from 2020. This increase is a hopeful sign that the adverse effects of the COVID-19 global Pandemic

Table 5.1: Non-Farm Payroll Employment by Area

Employment Area	2014	2015	2016	2017	2018	2019	2020	2021
City of Philadelphia	673,000	683,000	696,900	709,400	725,100	740,600	678,300	693,500
Increase Over Prior Year	1.16%	1.49%	2.04%	1.79%	2.21%	2.14%	-8.41%	2.24%
Region[1]	2,778,000	2,820,500	2,868,700	2,912,700	2,939,200	2,981,300	2,762,300	2,859,800
Increase Over Prior Year	1.16%	1.53%	1.71%	1.53%	0.91%	1.43%	-7.35%	3.53%
Nation	138,937,300	141,813,100	144,348,900	146,624,300	148,890,800	150,900,100	142,252,400	146,102,000
Increase Over Prior Year	1.87%	2.07%	1.79%	1.58%	1.55%	1.35%	-5.73%	2.71%
City as Percent of Region	24.2%	24.2%	24.3%	24.4%	24.7%	24.8%	24.6%	24.2%
City as Percent of Nation	0.484%	0.482%	0.483%	0.484%	0.487%	0.491%	0.477%	0.475%

Source: US Bureau of Labor Statistics and Metro Area Employment Hours and Earnings (City and Region) and Current Employment Statistics (Nation)
Note: Amounts are annual averages of seasonally adjusted monthly data
[1] Region is the Philadelphia-Camden-Wilmington PA-NJ-DE-MD metropolitan statistical area

Table 5.2: Unemployment Rate by Employment Area

Employment Area	2014	2015	2016	2017	2018	2019	2020	2021
City of Philadelphia	8.1%	7.1%	6.7%	6.2%	5.5%	5.6%	12.2%	9.2%
Region[1]	6.2%	5.4%	5.1%	4.8%	4.2%	4.1%	9.2%	6.3%
Nation	6.2%	5.3%	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%
City as Percent of Region	131%	131%	131%	129%	131%	137%	133%	145%
City as Percent of Nation	131%	134%	137%	141%	141%	151%	151%	170%

Source: US Bureau of Labor Statistics Current Population Survey (Nation) and Local Area Unemployment Statistics (City and Region)
Note: Amounts are annual averages of monthly data that are not seasonally adjusted
[1] Region is the Philadelphia-Camden-Wilmington PA-NJ-DE-MD metropolitan statistical area

are slowly waning. However, City employment is still 47,100 positions (or 6.4 percent) below the high of 740,600 reached in 2019. Prior to the global Pandemic, City employment levels were increasing steadily by 1 to 2 percent per year since 2010, and in 2016, began to outpace the growth rate of both the region and the nation.

As Table 5.1 indicates, prior to the Pandemic, the City's payroll employment was broadly consistent with regional and national employment trends, as the City's share of regional and national payroll employment was increasing. In contrast, post-Pandemic, the City is once again lagging behind both regional and national employment trends.

As of May 2022, average City employment increased by 24,300 (or 3.5 percent) to an estimated 717,800; employment figures have not been at this level since 2016. However, this trend has been on the incline since January 2021, which is indicative that the Pandemic's effects on City employment are slowly waning.

Unemployment Rate. Table 5.2 presents unemployment rates in the City, region, and nation from 2014 through 2021. After peaking in the early part of the last decade to almost 11 percent, the City unemployment rate in 2019 declined to 5.6 percent. However, due to the adverse economic conditions brought on by the global Pandemic, the unemployment rate increased considerably. For instance, a few months into the Pandemic, the rate reached a staggering high of 18.2 percent in June 2020, ending the year at an average of 12.2 percent.

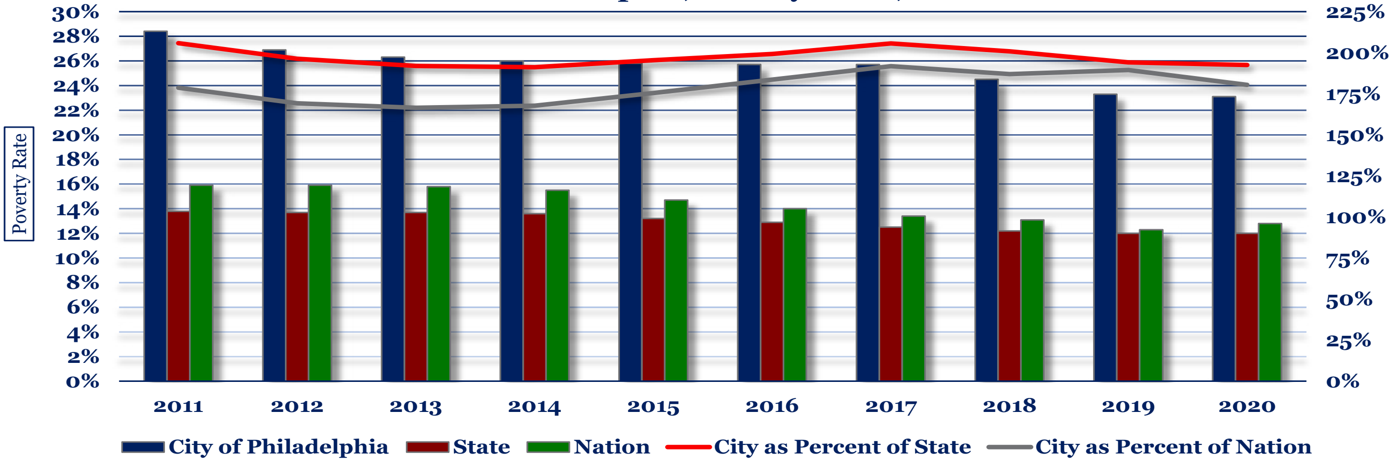
The average unemployment rate for the City decreased to 9.2 percent in 2021. As illustrated in Figure 5.1, the regional rate had declined to 4.1 percent in 2019, climbed to 9.2 in 2020, and fell back to 6.3 percent in 2021. Similarly, the national rate had declined to a historically low 3.7 percent in 2019, climbed to 8.1 percent in 2020, and declined to 5.4 percent in 2021.

Table 5.3: Poverty Rate and Median Household Income: Philadelphia, Pennsylvania, and Nation

Component	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Poverty Rate (Percent)										
City	28.4%	26.9%	26.3%	26.0%	25.8%	25.7%	25.7%	24.5%	23.3%	23.1%
State	13.8%	13.7%	13.7%	13.6%	13.2%	12.9%	12.5%	12.2%	12.0%	12.0%
United States	15.9%	15.9%	15.8%	15.5%	14.7%	14.0%	13.4%	13.1%	12.3%	12.8%
City as Percent of State	205.8%	196.4%	192.0%	191.2%	195.5%	199.2%	205.6%	200.8%	194.2%	192.5%
City as Percent of US	178.6%	169.2%	166.5%	167.7%	175.5%	183.6%	191.8%	187.0%	189.4%	180.5%
Median Household Income ($)										
City	$34,207	$35,386	$36,836	$39,043	$41,233	$41,449	$39,759	$46,116	$47,474	$49,127
State	$50,228	$51,230	$52,007	$53,234	$55,702	$56,907	$59,195	$60,905	$63,463	$63,627
United States	$50,502	$51,371	$52,250	$53,657	$55,775	$57,617	$60,336	$61,937	$65,712	$64,994
City as Percent of State	68.1%	69.1%	70.8%	73.3%	74.0%	72.8%	67.2%	75.7%	74.8%	77.2%
City as Percent of US	67.7%	68.9%	70.5%	72.8%	73.9%	71.9%	65.9%	74.5%	72.2%	75.6%

Source: American Community Survey, one-year estimates

Figure 5.2: Poverty Rate
Philadelphia, Pennsylvania, Nation



As is evident by Table 5.2, the City unemployment rate has been consistently higher than that of both the region and the nation over the past decade.

In 2020, the City rate was approximately 51 percent higher than the national rate and 33 percent higher than the regional rate, a notable decline over 2019 figures. The City fared worse in 2021, as the City's unemployment rate was 70 percent higher than the national rate and 45 percent higher than the regional rate, which is indicative of the City's slower paced jobs recovery from the Pandemic.

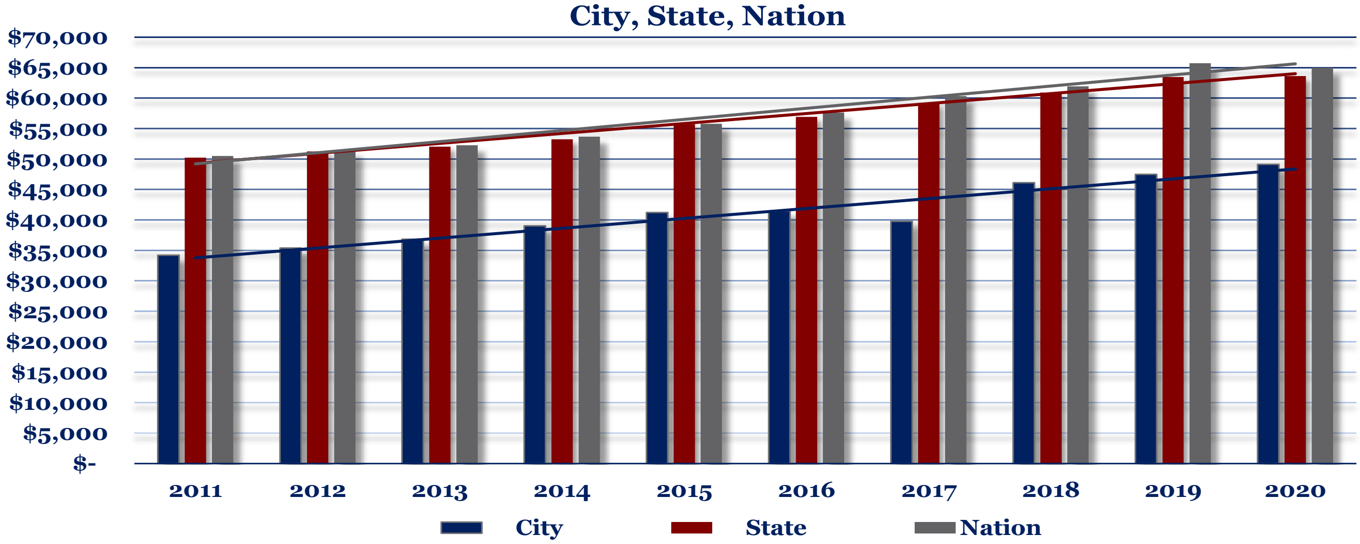
Although calendar year 2020 started with historically low unemployment levels as mentioned above, the impact of COVID-19 had a detrimental effect on this economic indicator. Through May 2022, average annual unemployment rates for the nation, region, and City were estimated at 3.8, 4.6 and 6.7 percent, respectively. Although the nation and region are near pre-Pandemic rates, the City lags behind significantly.

Poverty Rate. Table 5.3 presents trends in the poverty rate in the City, state, and nation. Since the poverty rate peaked in 2011 at a high of 28.4 percent, the rate has been steadily decreasing. Since that high, the rate has declined to approximately 23.3 percent in 2019, and 23.1 percent in 2020, representing an over 18.0 percent decrease. Although the continued decline is a positive step forward, among the ten largest United States cities by population, Philadelphia continues to have the highest poverty, deep poverty, and child poverty rates.[1]

As illustrated in Figure 5.2, the state and national poverty rates have also been steadily declining

[1] City of Philadelphia, "Five Year Financial and Strategic Plan for FY2023-FY2027," March 31, 2022: p. 24.

Figure 5.3: Median Household Income with Trendlines
City, State, Nation



since they reached their peak in 2011. As of 2020, the most recently available data, the City's poverty rate was 92.5 percent higher than the state rate and 80.5 percent higher than the national rate. Overall, the City's poverty rate, relative to the state and nation, is slowly improving.

The COVID-19 global Pandemic will most likely have a negative impact on this economic indicator, as it is affected by unemployment levels. However, current data for 2021 on the poverty rate is not yet available.

Median Household Income. Table 5.3 also presents median household income for the City, state and nation. The City's median household income in 2020 was $49,127, representing an increase of almost 3.5 percent from the prior year. Alternatively, the state experienced nominal growth while the nation decreased by 1.1 percent in median income from 2019. As such, the City's income level gap between the state and nation decreased to about 23 percent, a hopeful sign that wages in the City are increasing.

The City has the lowest median household income of the ten largest cities in the United States.[2] The COVID-19 global Pandemic will most likely have a negative impact on this economic indicator as it is affected by unemployment levels; however, current data on median household income is not yet available.

Financial Indicators

Fund Balance. The Plan and budget reflect the budgetary basis of accounting. Table 5.4 presents trends in the General Fund year end fund balance on the budgetary basis, dating back to FY2010. The year end fund balance has been positive since FY2012, subsequent to the Great Recession.

In FY2021, the most recent year with audited financial statements, the fund balance was $298.5 million, representing 6.3 percent of General Fund obligations. Although it represented $247.2 million more than the $51.4 million originally estimated in the FY2021 Approved Budget and met the City's internal target for fund balances of

Table 5.4: General Fund Year End Fund Balance and Total Obligations ($ in Millions)

Fiscal Year	General Fund Balance	Total Obligations	Percent of Obligations
2010	($114.0)	$3,653.7	-3.1%
2011	$-	$3,785.3	0.0%
2012	$146.8	$3,484.9	4.2%
2013	$256.9	$3,613.3	7.1%
2014	$202.1	$3,886.6	5.2%
2015	$151.5	$3,831.5	4.0%
2016	$148.3	$4,015.8	3.7%
2017	$189.2	$4,139.8	4.6%
2018	$368.8	$4,402.9	8.4%
2019	$438.7	$4,772.4	9.2%
2020	$290.7	$5,036.5	5.8%
2021	$298.5	$4,717.8	6.3%
2022 (est.)	$492.4	$5,319.8	9.3%

Source: City of Philadelphia's Annual Comprehensive Financial Report, General Fund Budgetary Comparison Schedule for each Fiscal Year Ended June 30

6 to 8 percent of obligations, it did not meet the GFOA's recommended target of 17 percent.

The FY2022 year end fund balance estimate is $492.4 million, or 9.3 percent of projected obligations. This amount includes an infusion of $250 million from the American Rescue Plan Act ("ARPA"). Without these funds, the General Fund year end fund balance would have been $242.4 million, or 4.5 percent of projected obligations.

The projected year end fund balance for FY2023 is estimated at $372.2 million, or 6.3 percent of projected obligations of $5.842 billion. It should also be noted that this projected fund balance includes the infusion of $335 million in ARPA funds, without which the fund balance would only be $37.2 million at the end of FY2023. This estimate should be viewed in context, along with the Recession and Reopening Reserve the City has set aside for FY2023, totaling $32.0 million, and the projected contribution to the Budget Stabilization Reserve (the "BSR") in the amount of $40.1 million.

As mentioned previously, the City has established an internal target fund balance of 6 to 8 percent of obligations. Although this Plan projects positive year end fund balances throughout the Plan period,

[2] Ibid, p. 24.

Table 5.5: Debt Indicators, City and School District of Philadelphia

Debt Category	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
Debt Outstanding ($ in Millions)								
City: Pension-Related	1,421.2	1,363.0	1,297.3	1,227.0	1,152.1	1,072.1	986.8	1,025.8
City: Other	2,872.8	2,716.3	2,744.6	2,572.2	2,965.6	2,897.0	3,032.7	2,835.4
School District	3,305.4	3,223.9	3,102.5	3,218.2	3,350.7	3,182.4	3,547.8	3,337.4
Total Debt Outstanding	**$7,599.4**	**$7,303.2**	**$7,144.4**	**$7,017.4**	**$7,468.4**	**$7,151.5**	**$7,567.3**	**$7,198.6**
Debt Per Capita ($)								
City	2,752.0	2,602.5	2,578.0	2,403.2	2,599.3	2,505.6	2,546.4	N/A
School District	2,118.4	2,056.8	1,978.8	2,035.7	2,115.2	2,009.0	2,247.6	N/A
Total Debt Per Capita	**$4,870.5**	**$4,659.3**	**$4,556.8**	**$4,439.0**	**$4,714.5**	**$4,514.7**	**$4,794.0**	**N/A**
Debt as Percent of Personal Income								
City	6.5%	5.2%	5.0%	4.3%	4.7%	4.4%	4.3%	N/A
School District	5.0%	4.1%	3.8%	3.7%	3.8%	3.5%	3.8%	N/A
Total Debt as Percent of Personal Income	**11.4%**	**9.4%**	**8.8%**	**8.0%**	**8.5%**	**7.9%**	**8.1%**	**N/A**
City Debt Service as Percent of General Fund Obligations								
Pension-Related	5.6%	2.9%	2.8%	2.7%	2.6%	2.4%	2.2%	0.6%
Other	5.7%	6.4%	5.7%	5.9%	6.2%	5.5%	5.4%	6.0%
Total City Debt Service as Percent of General Fund Obligations	**11.3%**	**9.3%**	**8.5%**	**8.6%**	**8.8%**	**7.9%**	**7.6%**	**6.6%**
Population[1]	1,560,297	1,567,442	1,567,872	1,580,863	1,584,138	1,584,064	1,578,487	
Personal Income ($ in Millions)[1]	$66,495	$77,904	$80,973	$88,082	$88,312	$90,712	$93,038	

Notes:
Measures of City indebtedness include only debt related to governmental activities
City pension-related debt includes pension obligation bonds issued by the Philadelphia Authority for Industrial Development ("PAID") in 1999, and two series of PAID bonds issued in 2012 to refund a portion of the 1999 pension obligation bonds, and to finance payment of deferred pension contributions
Debt Service as a percent of General Fund obligations uses a measure of obligations that excludes Department of Human Services ("DHS") obligations to ensure comparability over time
DHS funded obligations were recognized in the Grants Revenue Fund beginning in FY2012
NA: Not Available
[1]City of Philadelphia Annual Comprehensive Financial Report for Fiscal Year 2021

the City's internal goal will only be achieved in FY2023, and FY2025. Excluding the ARPA funds, the City would not achieve its internal target in any year of the Plan.

With higher fund balances, the City would be better able to address many of its greatest financial challenges, including outdated infrastructure, high tax rates, and high poverty level (see Section III discussion, "Fund Balance").

Outstanding Debt. The level of outstanding debt is an important measure of financial flexibility, as well as an indication of the level of investment in capital infrastructure. Table 5.5 presents total debt outstanding from FY2014 to FY2021.

Amounts include City and School District debt (which are separate) related only to governmental activities. Debt related to business type activities, such as the City's water system and airports, is excluded. Total outstanding City and School District debt decreased from a high of $7.599 billion in FY2014, to $7.198 billion in FY2021.

While 46.4 percent of the total outstanding debt is attributed to the School District, a substantial portion of outstanding debt relates to the City pension system. In 1999, the City issued bonds to reduce the unfunded liability of the pension system. In 2012, a portion of these bonds were refunded, and in FY2021, these bonds were again restructured in order to reduce debt payments during the Pandemic. As a result, at the end of FY2021, $1.025 billion in pension-related debt remained outstanding, accounting for 14.2 percent of total City and School District debt.

City and School District debt per capita increased to $4,794 in FY2020 (most recently available

data), representing an increase of 6.2 percent over FY2019. The increase was primarily due to an increase of outstanding debt in FY2020, when both the City and School District took advantage of the interest rate environment and issued additional bonds that increased outstanding debt to $7.567 billion by the end of FY2020.

Debt as a percentage of personal income declined from 11.4 percent in FY2014, to 8.1 percent in FY2020. This decrease is primarily attributed to the increase in personal income, rising from $66.5 billion in FY2014 to $93.0 billion in FY2020, representing an almost 40 percent increase.

General Fund debt service payments have decreased slightly as a percentage of General Fund obligations. Total debt service, including debt service on pension-related debt, decreased from 11.3 percent to 6.6 percent of General Fund obligations from FY2014 to FY2021.

Bond Ratings. Credit ratings are a key factor in determining the interest rate the City pays on borrowings since higher credit ratings indicate less risk to the investor, resulting in lower interest costs. In FY2023, the City is projected to spend $308.8 million in debt service payments from the General Fund, representing 5.3 percent of projected obligations. In addition, the City also pays debt service on Pension Obligation bonds, projected at $121.3 million in FY2023. Together, these two obligations total $430.1 million, or 7.4 percent of total obligations. As such, improving credit ratings is critical to reducing the City's cost of borrowing and maintaining its access to the credit markets. The City has gradually enhanced its access to the credit markets since the inception of PICA.

The City maintains an 'A' category rating for its General Obligation debt from all three major rating agencies as follows: 'A2' from Moody's Investor Service ("Moody's"); 'A' from Standard & Poor's or S&P Global ("S&P"); and 'A' from Fitch Ratings ("Fitch").[3] Ratings in this category from all three credit rating agencies is a major achievement as it permits the City to begin to "access a broader base of institutional investors and to make the City's debt eligible to be sold directly to retail investors."[4] The City has maintained these high ratings over the last nine years which has enabled the City to refinance existing high-cost debt for savings. Despite these positive events, the City's ratings are relatively weak and rank the second lowest among the 20 largest cities (behind Chicago) as of December 2021.[5]

In April 2020, S&P revised the City's bond rating outlook from 'positive' to 'stable' due to the worsening U.S. economic forecast spurred on by the COVID-19 global Pandemic. S&P noted that the lack of "continued pension funding discipline, reserve level growth, and preparation to avoid financial deterioration during a recession,"[6] were factors in their revised outlook. In September 2021, S&P maintained its 'stable' outlook on a City service agreement revenue bond and noted that the American Rescue Plan Act ("ARPA") funding was expected to substantially mitigate the City's revenue losses stemming from the COVID-19 Pandemic.[7]

S&P further noted that ARPA funds would allow the City to regain structural balance and rebuild its general fund balance. However, it cautioned

[3] Ibid, p. 76.
[4] Ibid, p. 77.
[5] Ibid, p. 77.
[6] S&P Global Ratings, "Philadelphia's GO Bond Rating Outlook Revised," April 21, 2020.
[7] S&P Global Ratings, "Philadelphia Redevelopment Authority; General Obligation," September 29, 2021.

that if revenues under-perform or if expenditures outpace management's assumptions requiring the City to draw down the ARPA funds more quickly than projected, the outlook could be revised.

In March 2021, Fitch revised the City's General Obligation outlook from 'stable' to 'negative,' citing a "large decline in General Fund reserves driven by the financial impacts of COVID-19."[8] However, in July 2021, Fitch revised its outlook from 'negative' to 'stable,' due primarily to the receipt of ARPA funds. Specifically, it stated that the "allocation from the ARPA affords the city time to achieve revenue recovery and/or rebalance spending to weaker revenue levels without depleting reserves."[9] In September 2021, Fitch maintained its 'stable' outlook on a City service agreement revenue bond.[10]

On July 6, 2022, Fitch upgraded the City's credit rating to 'A' from 'A-' and maintained its 'stable' outlook. It stated that the bond ratings upgrade reflected the City's "materially improved operating performance due to a robust tax revenue rebound," and its "sound economic base including healthy growth in assessed values, broad legal control over key revenue items and a moderate long-term liability burden."[11]

Moody's has not taken any action on the City's credit rating since November 2019, when it affirmed its 'stable' outlook on City bond indentures, but noted that the City also "continues to face a moderately high debt and pension burden." In its March 2021 update to the City's credit opinion, it stated that the COVID-19 Pandemic "adversely impacted several of the city's revenue sources, particularly its economically-sensitive wage and business income taxes," and was concerned about the City's "precarious reserve position for a city of Philadelphia's size." However, it went on to state that a key positive rating driver is the City's "demonstrated strong governance controls and prudent budget practices." In September 2021, Moody's maintained its stable outlook on a City service agreement revenue bond, citing "demonstrated strong governance controls and prudent budget practices,"[12] in addition to the City outperforming projections over the last several years.

The City continues to face several significant financial challenges that the rating agencies have

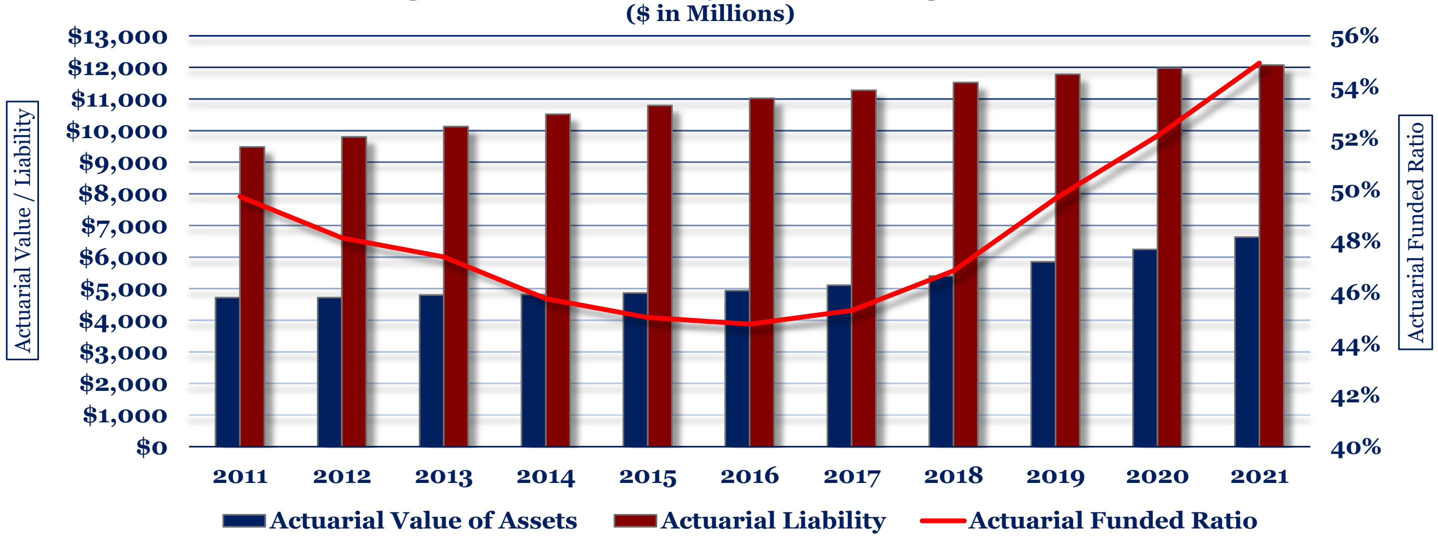
[8] City of Philadelphia, "Five Year Financial and Strategic Plan for FY2022-FY2026," April 15, 2022: p.73.
[9] Fitch Ratings, "Fitch Rates Philadelphia, PA $436MM Gos 'A-'; Outlook Revised to Stable," July 16, 2021.
[10] Fitch Ratings, "Fitch Rates Philadelphia Redev Auth, Pa $100 Million Rev bonds 'A-'; Outlook Stable," September 30, 2021.
[11] Fitch Ratings, "Fitch Upgrades Philadelphia's (PA) IDF to 'A' from 'A-'; Outlook Stable", July 6, 2022.
[12] Moody's Investor Services, "Rating Action," September 20, 2021.

Table 5.6: Pension System Funding Status ($ in Millions)

Component	2014	2015	2016	2017	2018	2019	2020	2021
Actuarial Value of Assets	$4,814.9	$4,863.4	$4,936.0	$5,108.6	$5,397.4	$5,852.5	$6,242.7	$6,633.1
Actuarial Liability	$10,521.8	$10,800.4	$11,024.8	$11,275.7	$11,521.0	$11,783.1	$12,038.1	$12,074.0
Unfunded Actuarial Accrued Liability ("UAAL")	$5,706.9	$5,937.0	$6,088.8	$6,167.1	$6,123.5	$5,930.6	$5,795.4	$5,441.0
Actuarial Funded Ratio	45.8%	45.0%	44.8%	45.3%	46.8%	49.7%	51.9%	54.9%
Covered Payroll	$1,495.4	$1,597.8	$1,676.5	$1,744.7	$1,805.4	$1,816.1	$1,902.2	$1,878.4
UAAL as a Percent of Covered Payroll	381.6%	371.6%	363.2%	353.5%	339.2%	326.6%	304.7%	289.7%
City Funding Policy	$823.9	$798.0	$846.2	$881.4	$871.8	$874.7	$839.7	$856.5
Minimum Municipal Obligation (MMO)	$523.4	$556.0	$598.5	$629.6	$661.3	$668.3	$675.8	$673.9
Revenue Recognition Policy ("RRP")					$662.1	$680.8	$704.6	$713.0
Amount paid	$553.2	$577.2	$660.2	$706.2	$782.0	$797.8	$768.7	$788.5
Percentage of City Funding Policy Paid	67.1%	72.3%	78.0%	80.1%	89.7%	91.2%	91.5%	92.1%
Percentage of MMO Paid	105.7%	103.8%	110.3%	112.2%	118.3%	119.4%	113.8%	117.0%
Percentage of RRP Paid					118.1%	117.2%	109.1%	110.6%

Source: City of Philadelphia Municipal Retirement System Actuarial Valuation Reports; City of Philadelphia Fiscal Year 2021 Annual Comprehensive Financial Report

Figure 5.4: Pension System Funding Status
($ in Millions)



historically flagged, including low fund balances, low pension funding levels, high poverty rate, and School District funding challenges that were exacerbated during an economic downturn. The City's high poverty rate "limits tax revenue available to support general services and weighs on the economic performance of the City due to increased demand for those services."[13]

Ultimately, the City continues to save on the costs of borrowing thanks to its current investment grade credit ratings, as the difference between 'A' and 'BBB' borrowing rates would be approximately 0.296 percent at current rates.[14] It is crucial that the City maintain 'A' ratings so that it can continue to improve its infrastructure by financing capital projects on a sustainable basis.

[13] City of Philadelphia, "Five Year Financial and Strategic Plan for FY2023-FY2027," March 31, 2022: p.77.
[14] City of Philadelphia, City Treasurer's Office, based on a 20 year $100 million borrowing at June 2022 rates.

Pension Funding Status. The funded status of the City's Municipal Retirement System ("MRS"), administered by the Board of Pensions and Retirement, is one of the most critical financial challenges facing the City. The City has committed to funding the MRS fully by fiscal year 2033 (see Section III discussion, "Pension Funding"). Figure 5.4 presents a multi-year trend of the primary indicators of pension funding status. These measures are drawn from the annual actuarial valuation reports and the City's Annual Comprehensive Financial Reports ("ACFR").

The City's funding is determined by state law, which mandates that the City annually contribute a Minimum Municipal Obligation ("MMO") to the pension fund. The MMO includes costs accrued during the year as a result of services provided by current employees, and an amortization payment

Figure 5.5: Pension System
Annual Rates of Return

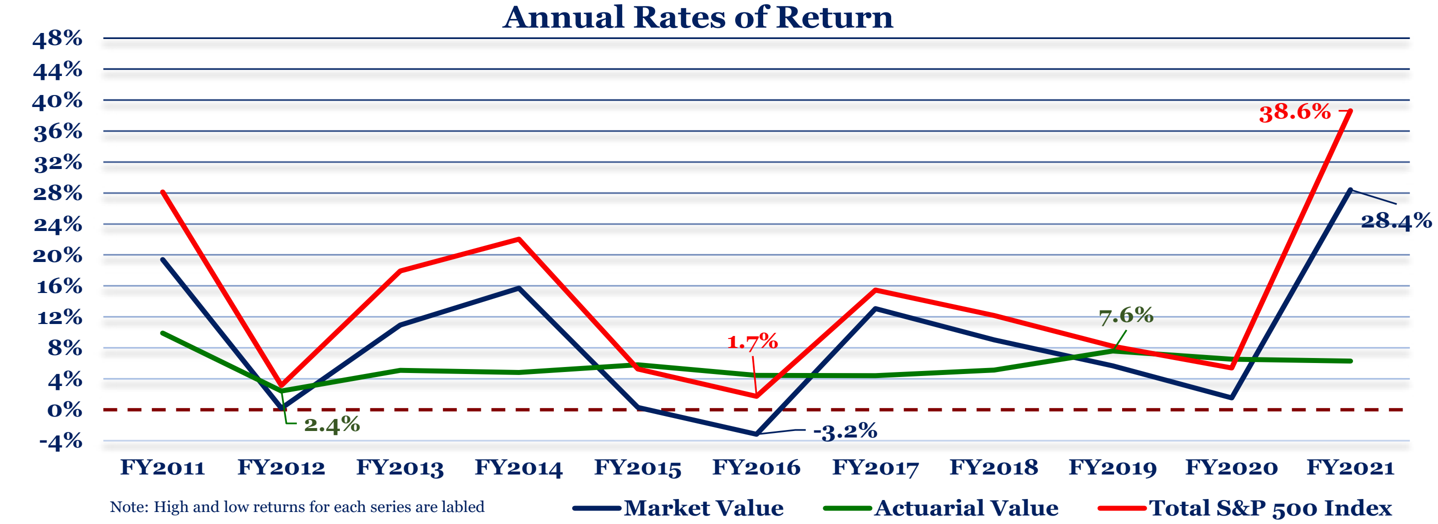
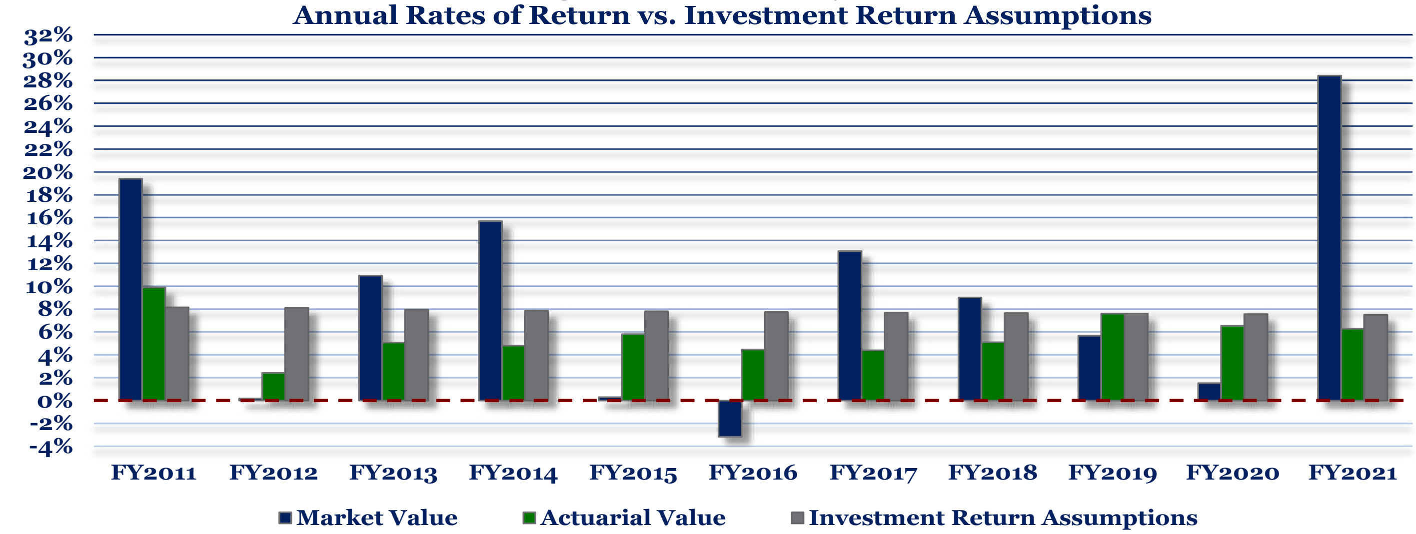


Figure 5.6: Pension System
Annual Rates of Return vs. Investment Return Assumptions



sufficient to amortize the unfunded liability of the MRS over a defined period as determined by an actuarial valuation.

The MMO is calculated by an actuary. The calculation is based on several key demographic and economic assumptions, many of which are based on experience. The assumptions address returns of pension fund investments, timing of retirement, salary growth, mortality and disability rates, among other factors.

Based on these assumptions and standard actuarial methods, the actuary calculates as of June 30 of each year, the value of assets, liabilities, and the funded ratio. In addition, the actuary computes the MMO contribution, as well as the level of the City Funding Policy, and since FY2018, the Revenue Recognition Policy ("RRP") amount.

The City Funding Policy is calculated based on shorter amortization periods than the MMO of 1) the unfunded liability as of FY1986; and 2) the investment losses of 2001 and 2002. The City Funding Policy, therefore, has been higher than the MMO in recent years.

The RRP is calculated to determine dedicated supplemental revenues, above the MMO, which are then allocated with the goal of lowering the pension fund's unfunded liability. Sources of supplemental revenue include a portion of the sales tax, collected above the School District's share of the tax, and additional employee pension contributions. The contributions made under the RRP help increase the fund's assets even if investment returns are lower than the assumed rates of return.

As Table 5.6 shows, the actuarial value of assets of the MRS has increased from \$4.814 billion in FY2014 to \$6.633 billion in FY2021. The actuarial liability has increased from \$10.521 billion in FY2014 to \$12.074 billion in FY2021. The actuarial value of assets increased by over \$390 million, or 6.3 percent from the FY2020 valuation of \$6.242 billion, while the actuarial liability increased by only \$36 million over the FY2020 liability of \$12.038 billion.

As a result, the funded ratio of the system reached 54.9 percent in FY2021. The funded ratio has not been at this level since 2008 when it reached 55.0 percent. It should be noted that the unfunded liability has decreased from 381 to 289 percent of covered payroll, also indicating an improvement.

According to the Actuarial Valuation report issued in April 2022, the return on market value assets was 28.42 percent for the year ending June 30, 2021, which was significantly higher than the expected 7.50 percent assumed rate of return. On an actuarial asset value basis, the return as of June 30, 2021 was 6.28 percent. The actuarial asset value basis reflects the effect of smoothing actuarial investment gains and losses over a ten-year period.

Despite recent positive returns (FY2017-13.08%; FY2018-9.01%; FY2019–5.66%; FY2020–1.53%; and, FY2021–28.42%) the inability to meet or

Table 5.7: Other Post-Employment Benefits (OPEB) Funding Status ($ in Millions)

Component	2014	2015	2016	2017	2018	2019	2020
Actuarial Value of Assets	--	--	--	--	--	--	--
Actuarial Accrued Liability	$1,732.1	$1,772.6	$1,936.6	$1,861.6	$1,823.9	$1,935.3	$2,087.2
Net OPEB Liability[1]	$1,732.1	$1,772.6	$1,936.6	$1,861.6	$1,823.9	$1,935.3	$2,087.2
Actuarial Funded Ratio	0%	0%	0%	0%	0%	0%	0%
Covered Payroll	$1,495.1	$1,544.5	$1,676.5	$1,864.8	$1,805.4	$1,842.6	$1,921.2
Net OPEB Liability as a Percent of Covered Payroll	115.9%	114.8%	115.5%	99.8%	101.0%	105.0%	108.6%
Annual OPEB Cost	$129.3	$133.1	$137.4	$141.5	$149.7	$154.3	$163.1
Payments Made	$67.1	$95.3	$107.2	$114.8	$96.4	$96.9	$104.6
Percentage of OPEB Cost Paid	51.9%	71.6%	78.0%	81.1%	64.4%	62.8%	64.1%

Source: City of Philadelphia Fiscal Year 2021 Annual Comprehensive Financial Report
[1] Formerly referred to as the "Unfunded Actuarial Accrued Liability (UAAL). Under GASB Statement No. 75, effective in FY2018, this liability is known as the "Net OPEB Liability"

exceed the returns of the S&P 500 index (FY2017-15.46%; FY2018-12.17%; FY2019-8.22%; FY2020-5.39%; and FY2021-38.62%) as shown in Figure 5.5, supports a continued re-evaluation of the investment portfolio, especially since this market period had been widely viewed as robust in FY2021. It should be noted that as of December 2021, the preliminary estimated market return was 2.64 percent.[15] With the stock market declining significantly in the last half of FY2022, this preliminary return could be revised downward.

The Board of Pensions and Retirement continues to divest from high-cost trading strategies, such as hedge funds, and has increased the use of lower cost passive management, such as index funds. As such, the ratio of management fees to assets under management was reduced from 0.33 percent in FY2020,[16] to 0.30 percent in FY2021. This ratio represents a recurring annual average savings of approximately $16 million, and a reduction from the average ratio of 0.64 percent incurred during FY2011 through FY2015.[17] The Pension Board's target for FY2023 is to maintain this ratio between 0.31 and 0.38 percent.[18]

In addition, the Board of Pensions and Retirement also continues its commitment to reduce the expected return on investments, as shown in Figure 5.6. The expected return on investments has been lowered by 0.05 percent each year, from FY2014, when it was 7.85 percent, reaching 7.45 percent in FY2022, and will be further reduced to 7.40 percent in FY2023. These efforts, which move the assumptions in a more conservative direction, will reduce the risk that contributions will continue their unpredictable growth, and improves the pension fund's risk profile. In addition, it increases the probability that the RRP funding levels will increase the funded ratio of the MRS over time.

Table 5.6 also presents the City Funding Policy as reported in the City's ACFR. The Annual Required Contribution ("ARC") is defined as a payment sufficient to pay system normal costs and amortize any unfunded liabilities over a period not to exceed 30 years. The MMO qualifies as an appropriate measure of the ARC, but the MMO has historically been below the City Funding Policy due to the different amortization methods explained previously. The City's actual contributions since 2003 have been based on the MMO rather than the City Funding Policy, pursuant to state Act 205. Accordingly, the actual contributions have been below the City Funding Policy in most years.

The City's RRP bases payments on the MMO but dedicates supplemental revenues, described earlier in this section, over and above MMO amounts. Basing payments on the lower MMO amount, in lieu of the City Funding Policy, may reflect that the City is unable to make the higher payments. However, the RRP shows the City's ability to contribute higher amounts to the pension fund, which could be viewed by ratings agencies as a positive indicator of the City's financial health.

In the most recent year, actual contributions, although higher than the MMO, were only 92.1

[15] City of Philadelphia, "Five Year Financial and Strategic Plan for FY2023-FY2027, March 31, 2022: p. 363."
[16] Ibid: p 364.
[17] Ibid: p 363.
[18] Ibid: p. 364.

percent of the City Funding Policy. Nonetheless, this is a significant increase over FY2017, where the actual contribution was 80 percent of the City Funding Policy. In fact, for the past four reporting years, as shown in Table 5.6, the actual contributions hovered around or over 90 percent. In addition to lowering the assumed rate of return on investments and increasing contributions through the establishment of the RRP, the City has made other significant reforms to the pension system and employee contributions, which will bolster the health of the pension fund in the long-term.

The City has implemented a stacked hybrid pension plan called Plan 16, which is mandatory for all newly-hired exempt and non-represented employees (except elected officials) and members of DC33, DC47, Deputy Sheriffs, and Register of Wills. Additionally, all current union, exempt employees, non-represented employees, and elected officials are required to make increased contributions. However, no new pensions changes were achieved during the FY2022 labor contract negotiations and arbitration awards.

Based on these reforms and initiatives, the City has set the goal of reaching an 80 percent funded ratio by FY2029 and 100 percent funded ratio by FY2033.

Other Post-Employment Benefits Funding Status. The City has a substantial unfunded liability related to Other Post-Employment Benefits ("OPEB"). These benefits are defined to include all post-employment benefits other than pensions. For City retirees, they include health coverage in the first five years after retirement and life insurance.

Table 5.7 presents trends in the OPEB liability since 2014. The net OPEB liability has increased from $1.732 billion in 2014 to $2.087 billion in 2020, the most recent available data. The net OPEB liability is entirely unfunded from an actuarial standpoint. The net OPEB liability, as a percentage of covered payroll, decreased from 115.9 percent in 2014 to 108.6 percent in 2020.

The City reports an annual OPEB cost, which is the contribution that would be required to fund OPEB liabilities on an actuarially sound basis. However, the City's funding policy for OPEB is to make payments equivalent to the net expected benefits for current retirees, also known as 'pay-as-you-go.' Since the City finances OPEB on a pay-as-you-go basis, actual payments have been below the annual OPEB cost. In FY2020, the City's actual payments were $104.6 million, representing 64.1 percent of the annual OPEB cost, which is the same level of funding for the previous two fiscal years.

The City's OPEB liability is smaller than some other state and local governments, reflecting the limitation of retiree health benefits to five years for City workers. Nonetheless, the net OPEB liability of the City is significant. In addition, the net OPEB liability of $2.087 billion represents a financial concern and an equity issue. The financial concern is that OPEB costs, if not funded, will increase at an unsustainable rate over the long term.

From an equity standpoint, pay-as-you-go financing ensures that current taxpayers are paying for an expense that has been incurred in the past, over the course of the working lifetime of retirees. An actuarial funding method would avoid this problems due to its ability to evenly distribute, or smooth costs. Actuarially based funding would also require policymakers to take full account of the cost of current services and create an additional incentive to manage the cost of retiree health care programs.

Such fixed costs and high liabilities can put an undue burden on City finances especially during economic downturns. As with its pension reform efforts, the City should consider reevaluating the retirement benefits offered to its employees or make a concerted effort to pay down the unfunded portion of this liability.

VI. Capital Program

VI. Capital Program

Capital Budget

In addition to the Plan, the City issues a Recommended Six-Year Capital Program for Fiscal Years 2023-2028 and a Capital Budget for Fiscal Year 2023. The Capital Program is the City's six-year plan for investing in its physical and technological infrastructure, neighborhood and community facilities, and public buildings. The Capital Program supports the overall goals of the City and is updated annually.

In conjunction with PICA's analysis of the Five Year Plan (the "Plan"), PICA also reviews the City's Capital Program and Capital Budget to ensure consistency with the Five Year Plan per Section 208 of the PICA Act, which states: "the proposed operating budget and capital budget are consistent with the proposed financial plan."

The Recommended Six-Year Capital Program for FY2023-FY2028 includes $1.033 billion in new City tax-supported borrowing for a total of $10.974 billion in capital investments over the life of the program. It focuses on improvements rooted in an inclusive economy, safety and justice, and equity in health and education.

The Recommended Capital Budget for FY2023 calls for $180.8 million in new general obligation borrowing, compared to $269.9 million in FY2022 (the largest recommended amount in two decades), and $128.3 in FY2021. The FY2023 Recommended Capital Budget was reduced as structural challenges limit the number of capital projects that can be supported. Many departments also have existing carryforward funds to continue implementing existing capital projects. The City has centered "racial equity" as a guiding principle for FY2023 Capital Budget recommendations.

As shown in Table 6.1, the Recommended Capital Budget for FY2023 is primarily allocated to ten City departments which account for 92.5 percent of capital funding.

Table 6.1: FY2023 Recommended Capital Budget: Top Ten Departments

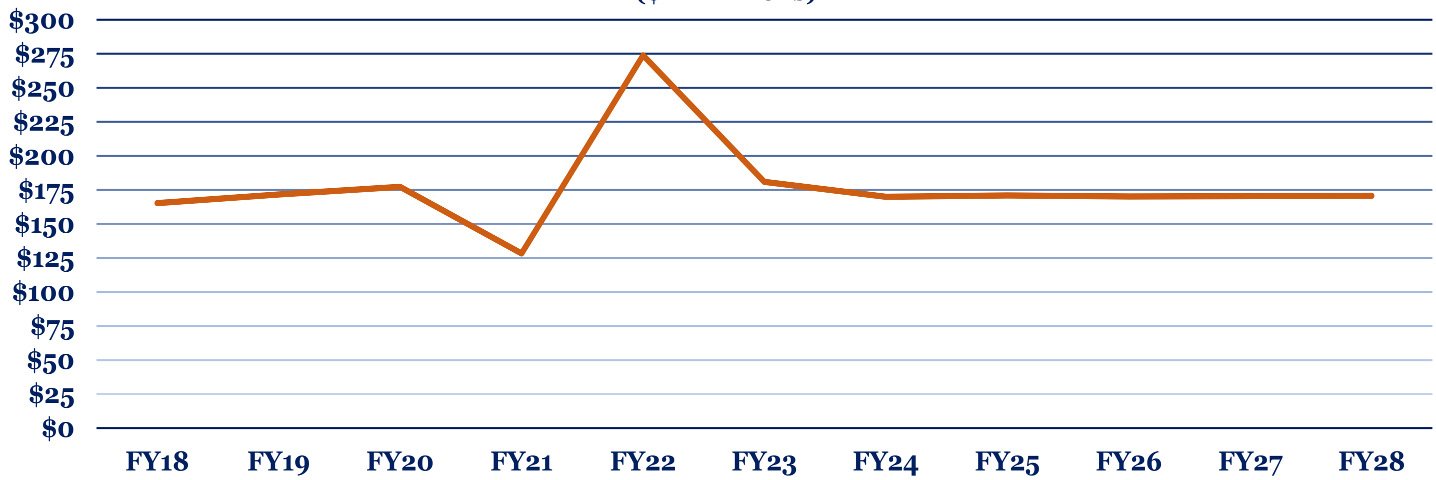
Department	FY2023 Capital Budget
Parks and Recreation	41,930,000
Streets Department	39,900,000
Innovation & Technology	20,177,000
Commerce Department	20,000,000
Fleet Management	15,050,000
Police Department	8,800,000
Prisons Department	7,475,000
Transit (SEPTA)	5,459,000
Fire Department	4,500,000
Public Health	4,000,000
Sub-Total Top Ten Departments	**$167,291,000**
Other Departments	13,494,000
Total FY2023 Capital Budget	**$180,785,000**

Capital Project Funding Eligibility

After the Mayor expresses his capital project priorities to City officials, capital program funding eligibility is determined by the Budget Office and is subsequently certified by the Controller's Office. Eligibility requirements for capital funding, which are based on bond requirements, other legal considerations, and financial policy, play a central role in selecting capital projects. Additionally, a key consideration to qualify for capital funding is that the project must cost at least $15,000 and have a lifespan of at least five years.

While the bond and legal requirements are clear, eligibility based on financial policy priorities seems unclear, and the formulation of such policy is admittedly not a formal process. The City considers its own financial needs when formulating policies related to eligibility but does not analyze best practices or policies of similar jurisdictions related to capital funding eligibility. City capital program eligibility requirements have not been revisited since 2014. Ideally, best practice indicates this should be done annually.

Figure 6.1: Six-Year Capital Program
New City Tax-Supported Funds
($ in Millions)



*FY18-FY22=approved; FY23-FY28=recommended

Prioritization of the projects is primarily based on Mayoral priorities. After that, City officials consider what federal, state, or private funding can be leveraged. For FY2023, federal funding, new and prior, is a source of 18.8 percent of the budget, while state funding is 13.1 percent of the budget.

Capital Program Approval Process

The size of the capital budget is determined largely based on debt service costs and departmental needs. The Treasurer's Office provides input on how much debt service the City can realistically handle, and the Mayor makes the final determination on the amount of new debt to be issued within the parameters set by the Treasurer's Office.

Once the size of the budget is determined, consideration is given to whether proposed projects fit within the existing objectives of the City Planning Commission. There are twenty-one City departments included in the Capital Program, some of which are stand-alone departments, while the majority are client departments of the Department of Public Property.

The Budget Office and the City Planning Commission communicate with the Department of Public Property ("DPP") regarding the needs of its client departments, as DPP assists these departments in preparing capital project requests. The Budget Office consults with the Managing Director's Office on the prioritization of capital projects. The City uses a racial equity lens to prioritize projects.

The City Planning Commission considers and votes on the capital budget. Finally, the Capital Program is presented to the Mayor for review and submission to City Council for final adoption.

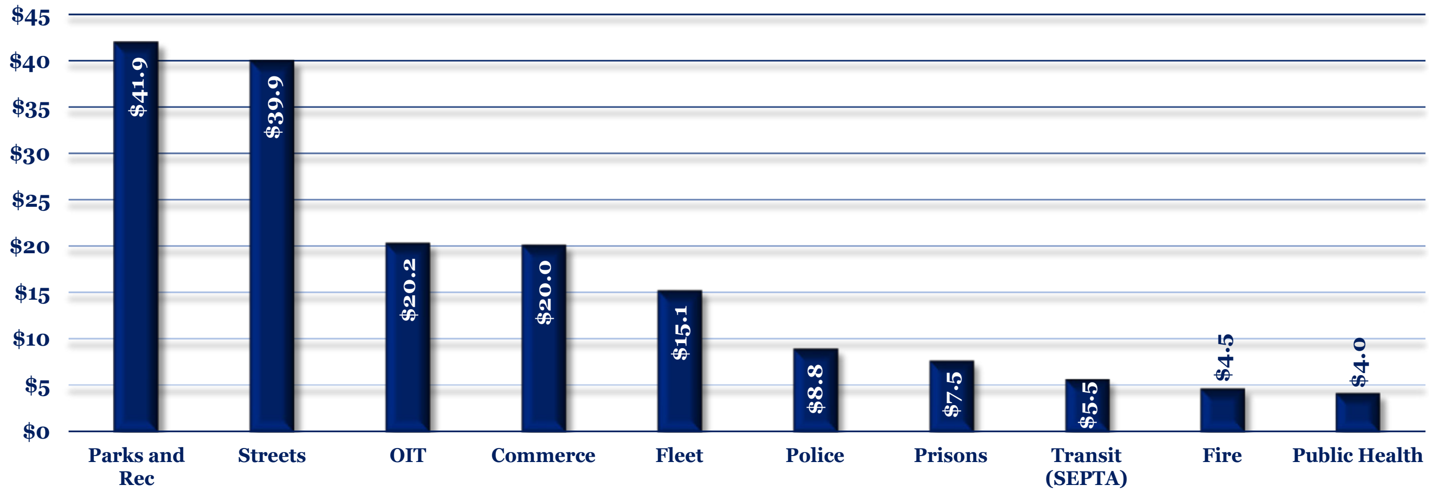
PICA Capital Funding

In a process that is distinct from the Five Year Plan and Capital Program, at inception, PICA also issued $1.13 billion in capital funding bonds to the City for certain capital projects, pursuant to Section 301(e) of the PICA Act.

There are special requirements that projects must meet in order to qualify for this funding. Pursuant to the PICA Act, to qualify for PICA funding, a project must be either (1) "an emergency capital project which must necessarily be undertaken as a direct result of an order by a court of competent jurisdiction or for the repair or replacement of an existing facility that had been placed in service prior to" June 5, 1991 (the effective date of the Act) and was owned or occupied by the City on June 5, 1991 ('Emergency Capital Projects'); or (2) "a capital project necessary to achieve savings and balanced budgets under an approved financial plan."

The Recommended Capital Budget for FY2023 includes $17.2 million in PICA capital funds.

Figure 6.2: FY2023 Recommended Capital Budgets
Top Ten Departments
($ in Millions)



Pay-As-You-Go Financing

The Recommended Capital Budget for FY2023 includes approximately $253.7 million in projects that are financed on a pay-as-you-go basis. Pay-as-you-go is a best practice for financing capital projects and allows the City to fulfill capital needs without incurring debt service payments. However, due to the City's high fixed operating costs, there is a limit to what is feasible to fund in this manner.

FY2023 Capital Projects

The major investments included in the Recommended Capital Budget for FY2023 include:

- $43.5 million for public safety facility and fleet shop improvements
- $32.5 million for street paving and transit projects
- $38.0 million for technology and economic development
- $26.5 million for improving parks and educational institutions
-

Table 6.2 lists the 10 highest-dollar projects included in the Capital Budget.

Risks to the Capital Program

There are inherent risks associated with capital projects, particularly risks that may derail projects or increase costs above projections, including: higher than budgeted construction costs, change orders, delays in projects, and contractor defaults, among others.

Additionally, experts predict a forthcoming economic slowdown resulting from historic levels of inflation, stagnating real wages, and continued economic uncertainty as the COVID-19 global Pandemic wanes. Therefore, additional potential risks exist, such as: a decreased ability to fund projects on a pay-as-you-go basis due to a lack of liquidity in general, in addition to shortfalls, revenue shortages due to decreased tax revenue, and unforeseen emergency expenditures. A lengthy economic downturn could also limit borrowing in the subsequent years of the Capital Program.

However, the status and costs of projects are continuously monitored by the Budget Office during the funding approval process. If there is a change in the prioritization of projects, due to an emergency or some other need during this process, funding is reallocated from other projects accordingly. If projects become more expensive than the original appropriation allows, left-over funds from other, completed projects, are reallocated.

Table 6.2: FY2023 Recommended Capital Budget: Top Ten Capital Projects	
Project	**FY2023 Capital Budget**
Street Paving	27,000,000
Parks & Recreation/FDR Park	20,000,000
OIT Citywide Business Applications	20,000,000
Economic Development/I-95 Cap	18,000,000
Fleet Replacements/Shop Improvements	15,250,000
Police Facilities	8,800,000
Education Institutions Improvements	6,500,000
Prisons Facility Improvements	5,580,000
Transit / SEPTA	5,459,000
Public Health Facilities Renovations & Repair	4,000,000
Sub-Total Top Ten Projects	**$130,589,000**
Other Projects	50,196,000
Total FY2023 Capital Budget	**$180,785,000**
Source: City of Philadelphia Budget Office	

Conclusion

Based on PICA's review of the City's Capital Program, several areas upon which the City could improve are as follows:

- Research best practices to determine the ideal time of year to perform the carry-forward calculation;
- Maximize pay-as-you-go financing opportunities;
- Regularly evaluate projects supported by capital funds;
- Conduct facility and technological infrastructure assessments to prioritize needs more efficiently;
- Maximize returns from forthcoming federal funds from the Bipartisan Infrastructure Bill.

Although the Capital Program planning process could be improved, the Recommended Six-Year Capital Program for FY2023-FY2028 and the Capital Budget for FY2023 is consistent with the Five Year Plan, and as such, is in compliance with the PICA Act's requirements in Section 208.

Glossary of Acronyms

ACCE	Office of Arts, Culture, and the Creative Economy
ACFR	Annual Comprehensive Financial Report
AFSCME	American Federation of State, County, and Municipal Employees
ARPA	American Rescue Plan Act
AVI	Actual Value Initiative
BIRT	Business Income and Receipts Tax
BRT	Board of Revision of Taxes
BSR	Budget Stabilization Reserve
CAO	Office of the Chief Administrative Officer
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
DAO	Office of the District Attorney
DBHIDS	Department of Behavioral Health and Intellectual disAbility Services
DC33	AFSCME District Council 33
DHS	Department of Human Services
DPP	Department of Public Property
DC47	AFSCME District Council 47
FJD	First Judicial District of Pennsylvania
FOP	Fraternal Order of Police
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
GDP	Gross Domestic Product
GFOA	Government Finance Officers Association
IAFF	International Association of Fire Fighters
IHS	IHS Markit
LGNT	Locally Generated Non-Tax revenue
L&I	Department of Licenses & Inspections
LOOP	Longtime Owner Occupants Program
MDO	Managing Director's Office
MMO	Minimum Municipal Obligation
MRS	Municipal Retirement System
OHS	Office of Homeless Services
OIT	Office of Innovation & Technology
OPA	Office of Property Assessments
OPEB	Other Post-Employment Benefits
PICA	Pennsylvania Intergovernmental Cooperation Authority
PNH	Philadelphia Nursing Home
Pre-K	Pre-Kindergarten
RRP	Revenue Recognition Policy
RTT	Real Estate Transfer Tax
SEPTA	Southeastern Pennsylvania Transportation Authority
TIF	Tax Increment Financing
TRANS	Tax Revenue Anticipation Notes
UAAL	Unfunded Actuarial Accrued Liability

Appendices

Appendix A: Spending Trends

Appendix A: Spending by Functional Category: General Fund ($ in Millions)

Function and Agency[1]	Actual				Estimate	Projected
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Public Safety						
Police Department	690.9	706.7	758.2	736.5	758.0	788.0
Fire Department	267.9	309.1	330.1	343.5	373.2	380.9
Public Safety Totals	$958.8	$1,015.8	$1,088.3	$1,080.0	$1,131.2	$1,168.9
Judicial and Corrections						
First Judicial District of Pennsylvania	114.2	113.2	116.6	114.3	119.7	122.0
Prisons Department	257.5	236.2	243.4	217.2	251.4	246.1
Office of the District Attorney	35.3	39.4	42.4	41.7	42.7	44.3
Other[2]	32.5	33.3	34.4	31.6	33.8	35.7
Judicial and Corrections Totals	$439.5	$422.1	$436.7	$404.8	$447.6	$448.2
Health and Human Services						
Department of Human Services	108.6	107.3	112.4	151.9	181.2	189.2
Office of Homeless Services	48.0	56.7	60.1	44.8	56.3	68.9
Department of Public Health	135.2	142.0	168.6	156.2	165.1	161.2
Department of Behavioral Health and Intellectual disAbility Services	14.7	17.1	15.9	15.5	23.6	27.3
Other[3]	2.1	2.1	45.4	2.7	3.0	3.0
Heatlh and Human Services Totals	$331.7	$351.3	$402.4	$371.0	$429.1	$449.7
Regulation and Economic Development						
Deptartment of Licenses & Inspections	35.2	38.0	38.6	37.2	40.0	41.6
Deptartment of Planning & Development	8.2	12.5	18.3	14.7	17.4	30.2
Other[4]	12.8	30.9	18.4	7.6	23.4	32.7
Regulation and Economic Development Totals	$56.3	$81.4	$75.3	$59.5	$80.9	$104.5
Arts, Culture, and Recreation						
Free Library of Philadelphia	41.4	42.6	46.3	39.8	45.3	58.4
Deptartment of Parks and Recreation	61.7	65.4	62.7	50.3	65.4	73.1
Other[5]	6.4	6.9	6.5	2.1	2.7	3.3
Arts, Culture, and Recreation Totals	$109.4	$114.9	$115.5	$92.2	$113.4	$134.9
Trasportation and Sanitation						
Streets Department	136.6	144.6	151.8	154.6	175.6	217.8
Transportation and Sanitation Totals	$136.6	$144.6	$151.8	$154.6	$175.6	$217.8
Central Services						
Deptartment of Public Property	62.5	70.9	68.6	64.0	73.9	78.2
Office of Innovation and Technology	76.3	78.6	95.9	90.7	117.6	121.3
Office of Fleet Management	64.4	64.3	64.3	55.2	59.8	70.7
Central Services Totals	203.1	213.8	228.9	210.0	251.3	270.2
Governance and Administration						
Office of the Mayor	4.1	5.4	6.1	6.4	6.8	7.1
City Council	16.5	16.5	17.4	17.0	19.5	21.9
Office of the City Controller	8.8	9.1	10.0	9.8	10.3	10.8
Office of the Director of Finance	46.8	74.6	100.4	58.5	45.4	30.5
Office of the Managing Director	43.3	45.0	106.8	63.4	108.1	135.0
Other[6]	94.4	104.9	104.9	108.6	123.1	143.6
Governance and Administration Totals	$213.8	$341.8	$345.6	$263.8	$313.2	$349.0
Function and Agency Totals	**$2,449.2**	**$2,685.7**	**$2,844.6**	**$2,635.9**	**$2,942.3**	**$3,143.2**

[1] Indemnity Costs Excluded
[2] Includes Office of the Register of Wills and Office of the Sheriff
[3] Includes Commission on Human Relations and Office of Children and Families
[4] Includes Commerce Department, Office of the City Representative, Office of Sustainability, Office of Community Empowerment and Opportunity, Licenses and Inspections Boards of Review and Building Standards
[5] Includes Office of Arts, Culture and Creative Economy, Mural Arts Program, and Atwater Kent Museum
[6] Includes Board of Ethics, Board of Revision of Taxes, Office of the Philadelphia City Commissioners, Office of the City Treasurer, Office of Human Resources, Civil Service Commission, Office of Labor Relations, Office of the Inspector General, Law Department, Procurement Department, Office of Property Assessment, Department of Records, Department of Revenue, and Office of the Chief Administrative Officer

Appendix B: Personnel Trends

Appendix B: Personnel Trends by Function and Agency (Full-Time General Fund)

Function and Agency[1]	Actual				Estimate	Projected	Increases / (Decreases) FY2022 to FY2023
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	
Public Safety							
Police Department	7,128	7,267	7,247	7,031	6,747	7,327	580
Fire Department	2,456	2,545	2,558	2,717	2,711	3,376	665
Public Safety Totals	9,584	9,812	9,805	9,748	9,458	10,703	1,245
Judicial and Corrections							
First Judicial District of Pennsylvania	1,860	1,850	1,806	1,822	1,719	1,719	-
Prisons Department	2,234	2,160	2,031	1,822	1,497	2,186	689
Office of the District Attorney	501	494	552	549	576	583	7
Other[2]	439	429	439	450	423	610	187
Judicial and Corrections Totals	5,034	4,933	4,828	4,643	4,215	5,098	883
Health and Human Services							
Department of Human Services	437	395	370	404	437	535	98
Office of Homeless Services	150	148	151	126	125	149	24
Department of Public Health	724	738	748	719	710	835	125
Department of Behavioral Health and Intellectual disAbility Services	16	15	24	24	28	53	25
Other[3]	63	59	67	36	33	36	3
Heatlh and Human Services Totals	1,390	1,355	1,360	1,309	1,333	1,608	275
Regulation and Economic Development							
Deptartment of Licenses & Inspections	379	376	382	399	347	425	78
Deptartment of Planning & Development	45	56	58	53	53	74	21
Other[4]	50	71	70	51	45	100	55
Regulation and Economic Development Totals	474	503	510	503	445	599	154
Arts, Culture, and Recreation							
Free Library of Philadelphia	651	637	692	658	633	961	328
Deptartment of Parks and Recreation	652	636	651	632	616	787	171
Other[5]	18	19	20	10	8	10	2
Arts, Culture, and Recreation Totals	1,321	1,292	1,363	1,300	1,257	1,758	501
Trasportation and Sanitation							
Streets Department	1,700	1,772	1,854	1,864	2,011	2,378	367
Transportation and Sanitation Totals	1,700	1,772	1,854	1,864	2,011	2,378	367
Central Services							
Deptartment of Public Property	136	139	128	146	142	156	14
Office of Innovation and Technology	282	271	287	303	308	397	89
Office of Fleet Management	283	286	256	277	266	318	52
Central Services Totals	701	696	671	726	716	871	155
Governance and Administration							
Office of the Mayor	41	50	59	57	56	64	8
City Council	194	191	193	186	180	185	5
Office of the City Controller	130	127	123	118	116	135	19
Office of the Director of Finance	111	114	118	121	116	134	18
Office of the Managing Director	303	302	318	287	300	537	237
Other[6]	1,137	1,133	1,123	1,170	1,125	1,419	294
Governance and Administration Totals	1,916	1,917	1,934	1,939	1,893	2,474	581
Full Time Positions Totals	**22,120**	**22,280**	**22,325**	**22,032**	**21,328**	**25,489**	**4,161**

[1] As of approximate midpoint of each fiscal year
[2] Includes Office of the Register of Wills and Office of the Sheriff
[3] Includes Commission on Human Relations and Office of Children and Families
[4] Includes Commerce Department, Office of the City Representative, Office of Sustainability, Office of Community Empowerment and Opportunity, Licenses and Inspections Boards of Review and Building Standards
[5] Includes Office of Arts, Culture and Creative Economy, Mural Arts Program, and Atwater Kent Museum
[6] Includes Board of Ethics, Board of Revision of Taxes, Office of the Philadelphia City Commissioners, Office of the City Treasurer, Office of Human Resources, Civil Service Commission, Office of Labor Relations, Office of the Inspector General, Law Department, Procurement Department, Office of Property Assessment, Department of Records, Department of Revenue, and Office of the Chief Administrative Officer

Appendix C:
Office of the City Controller Report on the FY2023-FY2027 Plan

City of Philadelphia Forecasted General Fund Statements of Operations Fiscal Years 2023-2027

City Controller Rebecca Rhynhart

Photo by M. Fischetti for VISIT PHILADELPHIA™ / EDITORIAL AND ADVERTISING USE APPROVED

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REBECCA RHYNHART
City Controller

CHRISTY BRADY
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, 2027, 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.

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 between fiscal years 2022 and 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 and 2027, resulting in the total forecasted revenue amount declining in fiscal year 2026. Our opinion is not modified with respect to this matter.

Christy Brady

CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
July 20, 2022

Forecasted General Fund Statements of Operations

Fiscal Years Ending June 30, 2023 through June 30, 2027

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, 2023 through June 30, 2027

(Amounts in thousands)

NO.	ITEM	FY 2023 Adopted	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	OPERATIONS OF FISCAL YEAR					
	REVENUES					
1	Taxes	4,015,653	4,148,503	4,280,417	4,429,614	4,589,440
2	Locally Generated Non-Tax Revenues	372,765	336,501	335,419	355,025	381,943
3	Revenue from Other Governments	913,380	942,871	971,548	999,505	1,027,634
4	Sub-Total (1 thru 3)	**5,301,798**	**5,427,875**	**5,587,384**	**5,784,144**	**5,999,017**
5	Revenue from Other Funds of City	400,959	455,012	512,146	63,228	62,925
6	**Total Revenue and Other Sources (4)+(5)**	**5,702,757**	**5,882,887**	**6,099,530**	**5,847,372**	**6,061,942**
	OBLIGATIONS/APPROPRIATIONS					
7	Personal Services	2,057,006	2,119,876	2,122,789	2,123,047	2,123,055
8	Personal Services-Pensions	842,533	864,732	872,249	883,267	880,996
9	Personal Services-Other Employee Benefits	760,978	786,516	828,024	866,510	900,764
10	**Sub-Total Employee Compensation (7 thru 9)**	**3,660,517**	**3,771,124**	**3,823,062**	**3,872,824**	**3,904,815**
11	Purchase of Services	1,236,034	1,205,360	1,161,087	1,176,252	1,188,224
12	Materials, Supplies and Equipment	143,529	125,559	122,146	121,299	121,008
13	Contributions, Indemnities, and Taxes	408,158	398,450	404,389	404,089	404,089
14	Debt Service	193,710	223,997	236,096	250,118	260,569
15	Payments to Other Funds	74,404	96,987	96,922	84,016	80,885
16	Payment to Budget Stabilization Reserve Fund	40,128	41,604	43,208	41,146	0
17	Advances & Misc. Pmts. / Labor Obligations	54,000	63,000	96,000	133,000	171,000
18	Adv. & Misc. Pmts. / Recession, Inflation & Reopenin	32,000	32,000	32,000	37,000	32,000
19	**Total - Obligations (10 thru 18)**	**5,842,480**	**5,958,081**	**6,014,910**	**6,119,744**	**6,162,590**
20	Oper.Surplus (Deficit) for Fiscal Year (6)-(19)	(139,723)	(75,194)	84,620	(272,372)	(100,648)
21	**Prior Year Adjustments:**					
22	Other Adjustments	19,500	19,500	19,500	19,500	19,500
23	Total Prior Year Adjustments	19,500	19,500	19,500	19,500	19,500
24	**Adjusted Oper. Surplus/ (Deficit) (20)+(23)**	**(120,223)**	**(55,694)**	**104,120**	**(252,872)**	**(81,148)**
	OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS					
25	Fund Balance Available for Appropriation June 30 of Prior Fiscal Year	492,417	372,194	316,500	420,620	167,748
26	Fund Balance Available for Appropriation June 30 (24)+(25)	**372,194**	**316,500**	**420,620**	**167,748**	**86,600**

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

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Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2023 through June 30, 2027

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 FY2023 budget and the FY2023-2027 Five Year Financial Plan (FYP) submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on June 30, 2022. 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 30, 2022, 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 FY23 total $5.703 billion. Approximately 70% of the City's revenue comes from local taxes, and 16% comes from other governments (including the PICA tax). In FY23, $401 million (7% of revenues) will come from other funds of the City, primarily $335 million of American Rescue Plan federal funds being drawn down. The City is expected to receive $1.395 billion by the close of FY22 and has already received 89% of the grant funds. Locally generated non-tax revenues, which include fees, fines and permits, account for 6.5% of revenues.

Budget provides forecasts for the seven major taxes, totaling over $3.97 billion in the adopted FY23 budget, as well as $372.8 million of Locally Generated Non-Tax revenues, and $913.4 million in Revenue from Other Governments. These three sources comprise 92.2% of the revenues anticipated for the FY23 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;

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Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2023 through June 30, 2027

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;
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, IHS Markit, Ltd. (IHS). IHS 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 IHS to forecast tax revenues for the City. IHS focused on the following taxes – Wage and Earnings Tax, Net Profits Tax, Business Income and Receipts Tax, Real Estate Transfer Tax, Parking Tax, Philadelphia Beverage Tax, and Sales Tax. These forecasts were refined by Budget after discussions with economists at a meeting hosted by 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 Philadelphia Beverage Tax estimates are based upon collections of this tax and IHS-projected growth rates. Once the pandemic-related impacts even out at the end of the Plan, the City assumes ongoing annual losses of approximately -0.5% to reflect broad trends in sweetened beverage consumption.

The revenue projections for FY23-27 reflect the ongoing impacts of the COVID-19 global health crisis with both temporary and permanent changes to Philadelphia's tax base. The estimates have been revised since the March 31, 2022 introduction of the Five Year Plan based on updated collections information, macroeconomic conditions, and changes to the tax rates initially proposed.

Prior to the impacts of COVID-19, Philadelphia's medium-term economic outlook was moderately optimistic. Wage Tax revenue was projected to remain stable as IHS Markit, the City's economic consultants, projected payroll growth to continue to grow as a result of very solid gains in number of employees. That outlook changed as a result of the pandemic. In May 2022, Philadelphia payrolls showed gains due to an uptick in both leisure and hospitality sectors. However, total payrolls in the City remain 4.0% below their pre-pandemic peak. Payrolls in local government remain well below the pre-pandemic level, while education and health care services also have more ground to make up.

Fiscal 2022 Sales Tax collections through May are up 17.4% from last year, as collections continue to run ahead of levels from a year ago. However, rising inflation as reflection in increasing prices of fuel, food, rent, and other basis is likely to reduce gains in discretionary income and therefore, slowing down growth in collections moving forward.

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Notes to the Forecasted General Fund Statements of Operations
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Realty transfer tax collections in May continued their upward trajectory with collections of $54.4 million doubling the year-ago level. Overall revenues through the first eleven months of Fiscal 2022 are 70.7% above the year ago level. The residential real estate market continues to be impacted by higher mortgage rates. And, with record lows in inventory, supply remains tight leading to double digit growth rates in housing prices. Commercial real estate, too, continues to be impacted by rising interest rates providing incentives to developers to compete for commercial properties; thus, promoting redevelopment or renovations.

The Business Income and Receipts Tax (BIRT) preliminary collections posted through May total $687 million, although credits typically reduce the year end total so lower ending numbers are expected. Although lower than FY21 BIRT collections through May, comparisons with the year-ago level remain difficult, as year-ago collections were affected by the onset of the pandemic and a change in the timing of Federal business tax-filing deadlines, with significant revenues in FY21 accruing back to FY20. FY22 collections to date significantly outperformed expectations.

Despite improvements over the course of FY22 in leisure and hospitality, Philadelphia's economy continues to remain impacted by the COVID-19 outbreak, especially in the education, professional and business services, and health services. Historically, the three largest drivers of Philadelphia's economy are educational institutions, medical institutions, and hospitality. Average office occupancy in the Philadelphia metro area (not just the city) is around 38% but remains behind the national pace of 44%. Philadelphia's City Council passed major tax legislation to lower BIRT and Wage Tax rates and offer relief to renters and homeowners to offset increases in property assessments. The rate for the Business Income and Receipts Tax (BIRT) on net income will decrease to 5.99% from the current 6.2%. The Wage Tax rate for city residents will drop from 3.83% to 3.79%, while the rate for non-residents will be lowered from 3.448% to 3.44%.[1] The budget also features an increase in the Homestead Exemption on property taxes from $45,000 to $80,000; the boost in the exemption will help offset the effects of the recent property reassessment, which raised property values by 21% in aggregate.

The Administration anticipates that the City's main revenue source, Wage, Earnings, and Net Profits collections, will grow by 5.62% in FY23. 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. For the first time following pandemic-related contractions, Wage Tax collections will achieve an all-time high. Projections show growth for all major tax types in FY23, except for a less than 1% decline in BIRT and a significant reduction in Realty Transfer Tax, which had a tremendously strong FY22 given the general economic

[1] Errors in separate legislation for the net income portion of the BIRT and the resident net profits reductions have been identified. For the resident net profits tax, a period in which no tax rate applies was mistakenly created. The legislation for the BIRT net income reduction does not reflect a reduction applicable to the FY23 budget. The Law Department is reviewing options to correct the mistake for the net profits rate and to implement the Administration and Council's intentions to lower the net income portion of BIRT for taxpayers in FY23.

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Notes to the Forecasted General Fund Statements of Operations
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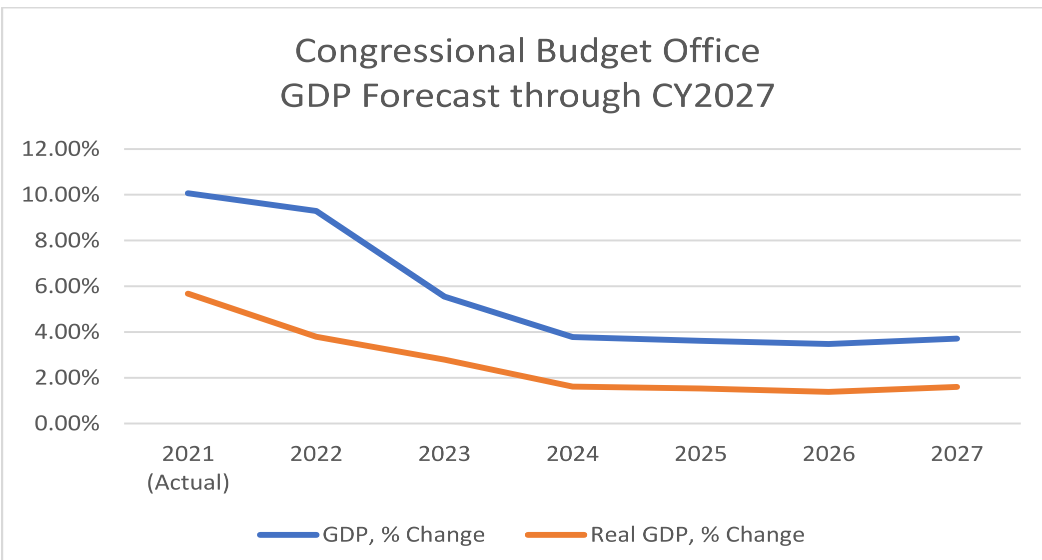
conditions and local policy changes, including changes to the ten year tax abatement and introduction of the Development Impact Tax, that are believed to have accelerated transactions.

2. The National and Local Economic Context

The strength of the economy is a key determinant of the fiscal health of the City since tax revenues, which are directly tied to the economy's strength, account for nearly 70% of the City's General Fund revenue in FY23. On May 25, 2022, the Congressional Budget Office (CBO) forecast for U.S. Real Gross Domestic Product anticipates growth in 2022 of 3.8% driven by strong gains in consumer spending on services. However, after 2022, the CBO anticipates the annual growth of Real GDP averaging 1.6% from 2023 to 2027 and estimates growth between 1.7 and 1.8 percent for 2028-2032. Employment continues to grow but at less than 1% per year from 2023 onward, with unemployment declining through 2023 reaching 3.5%, and then rising again to reach 4 percent by 2026 and average 4.5 percent for 2027-2032.



[2]

On June 29, 2022, IHS provided updated projections for the national, state, and city domestic product, indicating comparable outlooks in 2023 for the City of Philadelphia, Pennsylvania, and the country.

[2] https://www.cbo.gov/publication/57950

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Economic Indicators: National, State, and City

	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2021	2022	2023
United States								
Employment (millions)	148.6	150.4	151.7	152.5	153.0	146.1	151.9	153.4
Real Per Capita Income (Thousand $)	46.5	45.7	45.5	45.6	45.7	48.3	45.6	46.8
GDP Growth Rate (%)	6.9	-1.5	2.4	2.2	2.5	5.7	2.5	1.8
Pennsylvania								
Employment (millions)	5.83	5.88	5.94	5.98	6.00	5.75	5.95	6.02
Real Per Capita Income (Thousand $)	54.8	54.6	54.6	54.8	55.0	56.9	54.7	55.7
GSP Growth Rate (%)	6.4	-1.4	2.4	2.8	2.5	4.4	2.4	2.1
Philadelphia City								
Employment (thousands)	711.1	715.3	721.7	726.7	729.0	693.5	723.2	732.6
Real Per Capita Income (Thousand $)	51.0	50.5	50.4	50.5	50.7	53.0	50.5	51.4
GMP Growth Rate (%)	9.4	-2.0	1.3	2.5	2.0	3.5	2.8	1.9

[3]

3. *The City's Major Taxes*

The City receives revenue to fund its services and programs from seven major taxes which are budgeted to contribute 70% of the expected General Fund revenue in FY23. These include:

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

The remaining taxes, including the Amusement tax, are budgeted to provide less than 1% of General Fund revenue. Philadelphia's reliance on the Wage Tax (39.0% of the General Fund, including the PICA portion), the BIRT (11.1%) and the Sales Tax (4.9%) places the City at risk from economic trends and employment fluctuations of the local economy. Other cities and counties that rely more heavily on property tax revenues are more susceptible to dramatic shifts in the housing market.

a) Wage Tax

The largest tax revenue source (comprising 41.4% of 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 FY23, the Wage Tax rate for residents will decline to 3.79% and to 3.44% for non-residents. The resident rate includes 1.5% that is reserved for the PICA. PICA has overseen the City's finances since 1992 and based on recent legislation will continue to do so through at least 2047. This FYP maintains the assumption that the 1.5% will continue in FY24 and beyond.

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. Excluding the PICA portion,

[3] IHS Markit projections from June 29, 2022.

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Notes to the Forecasted General Fund Statements of Operations
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the Wage Tax and Net Profits Tax is projected to bring in $1.662 billion in FY23. This projection includes a 6.95% base growth rate for the Wage and Earnings component and 6.48% growth rate for the Net Profit component of the tax.[4] The overall growth rate, when incorporating rate changes, for the current and prior portions of the Wage and Earnings Tax, is 5.6%.

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. While this treatment will lessen the negative impact on collections of continued work from home initially necessitated by stay-at-home orders and business closures, revenue projections reflect a permanent 25% contraction of the non-resident tax base.

b) Real Property Tax

The Real Property Tax (Property) is the City General Fund's second largest source of tax revenue (20.3%), estimated to contribute $813.4 million of the FY23 tax revenues. This tax is levied on the assessed value of residential and commercial property in the City. The Adopted FY23 Budget has a combined City/School District property tax rate for FY23 of 1.3998%, unchanged from FY22. The City portion of the tax is 0.6317% and the School District portion is 0.7681%. The property tax projection includes the increase of the homestead exemption to $80,000 as well as increased homeowner relief through the LOOP and Senior Tax Freeze programs. The FYP assumes taxable assessed values grow each year of the plan starting in FY23, based upon regular reassessments provided by the City's Office of Property Assessment. Significant market value growth of 21.65% is projected for FY23, as a citywide reassessment has been completed following the transition to a new computer system. The projection adjusts the FY23-27 collection rate to 95.0%. The FY22 projected collection rate had been lowered from FY21 with the expectation that the COVID-19 pandemic and related economic impact would have a negative impact. Actual results in FY22 have been consistent in this regard.

c) Business Income and Receipts Tax

The Business Income and Receipts Tax (BIRT) is projected to produce $631.5 million in FY23, 15.7% of total tax revenue. Most the BIRT is derived from corporate profits which are volatile and dependent on economic conditions within the City. Starting in FY20, the BIRT was collected on a quarterly basis for new businesses in the second year of operations, easing the impact on new businesses. In FY21, planned rate decreases to the net income portion of the BIRT were suspended; however, the net income portion of the BIRT rate will be decreased to 5.99% in FY23.

d) Real Estate Transfer Tax

The Real Estate Transfer Tax (RTT) is projected to provide $418.3 million in FY23. After an usually strong year, the base growth of the RTT is projected to contract by -22.2% in FY23, followed by marginal growth through the end of the Five Year Plan. The City currently imposes a 3.278% tax on real property sales and an additional 1% is charged by the Commonwealth for a 4.278% total RTT.

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

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e) Sales Tax

Sales Tax revenues are projected to generate $277.6 million for the City's General Fund in FY23, based on a growth rate of 3.4%, and comprising 6.9% 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. The tax 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 District and for additional contributions to the Pension Fund. In FY20, 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% is going to the City's Pension Fund (projected to be $74.2 million in FY22). From FY23 through FY27, the City's pension fund is projected to receive $456.9 million from the proceeds of the Sales Tax.

f) Parking Tax

The Parking Tax is levied on the gross receipts from all parking transactions. In FY21 only, the Parking Tax rate was increased from 22.5% to 25.0%. For FY22 and through the remainder of the FYP, the Parking Tax rate reverted to 22.5%. Parking Tax revenue is projected to generate $93.1 million in FY23, exhibiting 5.4% growth, following a 65.9% increase in FY22 as activity suppressed by the COVID-19 pandemic resumed.

g) Philadelphia Beverage Tax

The Philadelphia Beverage Tax is a relatively new revenue source, applied to non-retail distributions of both sugar-sweetened and diet beverages, at a rate of one and one-half cents per fluid ounce of sweetened beverages. Original tax estimates were developed by the City's Department of Revenue and utilized local consumption data provided by the University of Connecticut's Rudd Center for Food Policy and Obesity, along with a -1-elasticity rate at the time of implementation. The projections in the proposed FYP were based on IHS Markit input, but closely align with national trends on consumption. The tax was effective January 1, 2017 and is projected to impact revenues and expenditures in the following ways:

- An estimated $389.6 million will be collected in gross revenue from FY23-FY27, before additional costs for collection, advertising and auditing.
- Revenues from the Philadelphia Beverage Tax are funding expenditures for three major initiatives: expanded Pre-K, community schools, and debt service for the Rebuilding Community Infrastructure program.

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City of Philadelphia
General Fund
FY 2023 - 2027 Five Year Financial Plan
Major Taxes ($ in Millions) with Percentage Change from Previous Year

Tax	Actual FY21	Projected FY22	Projected FY23	Projected FY24	Projected FY25	Projected FY26	Projected FY27
Wage & Net Profits - Current & Prior	1,495.1	1,573.3	1,661.6	1,733.8	1,810.8	1,886.2	1,963.1
% change from prior year	n.a.	5.2%	5.6%	4.3%	4.4%	4.2%	4.1%
Real Property - Current & Prior	723.3	718.7	813.4	841.4	869.5	899.5	934.7
% change from prior year	n.a.	-0.6%	13.2%	3.4%	3.3%	3.5%	3.9%
Business Income & Receipts - Current & Prior	541.6	633.2	631.5	648.0	655.7	677.4	701.3
% change from prior year	n.a.	16.9%	-0.3%	2.6%	1.2%	3.3%	3.5%
Sales	230.4	268.4	277.6	289.2	302.1	315.7	329.1
% change from prior year	n.a.	16.5%	3.4%	4.2%	4.5%	4.5%	4.2%
Real Property Transfer	304.0	537.7	418.3	418.6	421.8	427.1	434.1
% change from prior year	n.a.	76.9%	-22.2%	0.1%	0.8%	1.3%	1.6%
Parking	53.2	88.3	93.1	95.8	98.7	101.6	104.4
% change from prior year	n.a.	66.0%	5.4%	2.9%	3.0%	2.9%	2.8%
Philadelphia Beverage	70.2	76.9	77.9	78.8	78.0	77.6	77.3
% change from prior year	n.a.	9.5%	1.3%	1.2%	-1.0%	-0.5%	-0.4%
Other Taxes	6.1	26.1	42.3	42.9	43.8	44.5	45.4
% change from prior year	n.a.	327.9%	62.1%	1.4%	2.1%	1.6%	2.0%
Total Taxes	**3,423.9**	**3,922.6**	**4,015.7**	**4,148.5**	**4,280.4**	**4,429.6**	**4,589.4**
% Change from prior year		**14.6%**	**2.4%**	**3.3%**	**3.2%**	**3.5%**	**3.6%**

Note: Wage & Net Profits Taxes includes a rate decreases beginning in FY23 to 2.29%/3.44% for the resident and non-resident component respectively. Wage tax does not include the PICA portion of 1.5%. The Business Income & Receipts Tax includes a rate decrease beginning in FY23 to 5.99% for the Net Income component of the tax. Parking Tax includes a one-year rate increase from 22.5% to 25% effective July 1, 2020; the rate was returned to 22.5% in FY22. Development Impact Tax became effective on January 1, 2022, where a $1 levy will be collected for each $100 improvement of residential space.

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. Additionally, in FY22 the City began budgeting for investment manager costs rather than showing discounted interest earnings to improve transparency. This results in a boost in interest earnings expectations.

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 61.4% of Revenue from Other Governments, is forecasted using Wage Tax variables.

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. In FY22 and through FY25, there is

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Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2023 through June 30, 2027

significant growth in Revenue from Other Funds as American Rescue Plan funds deposited into the Grants Fund are drawn down to replace lost revenues to enable ongoing General Fund operations. The City received the first half of the $1.395 billion grant in FY21 and the City portion of the second tranche in FY22. The remaining county portion is expected in early FY23. An initial draw down of $250 million was made in FY22 and $335 million will be utilized by the General Fund in FY23. The entire amount granted, plus interest earnings on those funds, are scheduled to be drawn down by FY25 in accordance with the federal deadline of December 2024 to obligate all funds. In FY26, the Revenue from Other Funds is projected at a traditional level.

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 FY23 budget and FY23-27 FYP submitted by the Mayor to PICA on June 30, 2022. The Budget Office provides forecasts of all major expenditure categories. FY23 obligations are budgeted at $5.842 billion, an increase of $522.6 million over the FY22 estimate. The largest driver of the increase is pensions costs, with growth of $40 million beyond the FY22 level. This growth stems from restructuring pension obligation bonds in FY21 to save $75 million that year with the tradeoff that future year costs would increase. Additionally, an update on the cost allocation for pensions among the City's funds resulted in an increased contribution from the General Fund, with lower contributions from the Aviation and Water Funds. The increase in budgeted obligations also incorporates a $32 million Recession and Reopening Reserve and a $54 million Labor Reserve to absorb costs associated with new collective bargaining following the expiration of all four labor contracts by early FY22. The balance of the increases, about $140 million, represent increases in programs to address core needs of Philadelphians and restore services cut for financial reasons in FY21. This includes new anti-violence funding and additional educational support for PHLpreK, Community Schools, the School District of Philadelphia, and the Community College of Philadelphia.

a) Labor Agreements

The forecasted statements include a set aside of $517 million from FY23 to FY27 in a labor reserve, to cover the costs associated with upcoming labor agreements and other labor cost increases. The forecasts also include funding for all existing labor agreements.

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. DC47, the IAFF, and the 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, 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 are based on current year expenditures.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2023 through June 30, 2027

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 past few 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 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), debt service on a four-year borrowing for the District (next $15 million through which was satisfied in FY18), and any remaining funds are dedicated to the pension fund. From FY23 through FY27, the City's pension fund is projected to receive $456.9 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 will pay more than what is legally required each year to improve the funding status of the plan more quickly.
- Over the past twelve years, reduced the pension fund's earnings assumption from 8.75% to 7.40%. 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, which 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 five years, the pension system's funding percent has increased from 44 to 55. The specific changes to the pension fund assumptions have been tested by the City's actuary and have been

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2023 through June 30, 2027

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 $74.9M 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.

Appendix D:
City's FY2023-FY2027 Five Year Financial Plan

CITY OF PHILADELPHIA

FY2023 - FY2027 FIVE YEAR FINANCIAL PLAN

AS APPROVED BY THE COUNCIL - JUNE 2022

JAMES F. KENNEY

MAYOR

City of Philadelphia
As Adopted
Five Year Financial Plan FY2023-2027

SUMMARY OF OPERATIONS
FISCAL YEARS 2021 TO 2027
(Amounts in Thousands)

FUND
General

NO.	ITEM	FY 2021 Actual	FY 2022 Estimate	FY 2023 Budget	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	OPERATIONS OF FISCAL YEAR							
	REVENUES							
1	Taxes	3,423,857	3,922,637	4,015,653	4,148,503	4,280,417	4,429,614	4,589,440
2	Locally Generated Non-Tax Revenues	344,246	373,199	372,765	336,501	335,419	355,025	381,943
3	Revenue from Other Governments	327,572	362,772	352,458	333,692	334,948	336,226	337,277
4	Other Govts. - PICA City Account (1)	509,026	509,849	560,922	609,179	636,600	663,279	690,357
5	Sub-Total Other Governments	836,598	872,621	913,380	942,871	971,548	999,505	1,027,634
6	Revenue from Other Funds of City	87,789	322,250	400,959	455,012	512,146	63,228	62,925
7	Total - Revenue	**4,692,490**	**5,490,707**	**5,702,757**	**5,882,887**	**6,099,530**	**5,847,372**	**6,061,942**
8	Other	0	0	0	0	0	0	0
9	**Total Revenue and Other Sources**	**4,692,490**	**5,490,707**	**5,702,757**	**5,882,887**	**6,099,530**	**5,847,372**	**6,061,942**
	OBLIGATIONS/APPROPRIATIONS							
10	Personal Services	1,811,423	1,952,143	2,057,006	2,119,876	2,122,789	2,123,047	2,123,055
11	Personal Services-Pensions	609,215	728,628	763,712	780,148	781,201	785,404	776,455
12	Personal Services-Pensions - Sales Tax	55,204	74,219	78,821	84,585	91,048	97,863	104,541
13	Personal Services-Other Employee Benefits	605,881	701,990	760,978	786,516	828,024	866,510	900,764
14	**Sub-Total Employee Compensation**	**3,081,723**	**3,456,980**	**3,660,517**	**3,771,125**	**3,823,062**	**3,872,824**	**3,904,815**
15	Purchase of Services	946,218	1,080,850	1,236,034	1,205,360	1,161,087	1,176,252	1,188,224
16	Materials, Supplies and Equipment	90,940	143,619	143,529	125,559	122,146	121,299	121,008
17	Contributions, Indemnities, and Taxes	367,987	390,907	408,158	398,450	404,389	404,089	404,089
18	Debt Service	178,543	192,667	193,710	223,997	236,096	250,118	260,569
19	Payments to Other Funds	52,342	44,952	74,404	96,986	96,922	84,016	80,885
20	Advances & Misc. Pmts. Incl. Labor Reserve	0	9,889	54,000	63,000	96,000	133,000	171,000
21	Adv & Misc. Pmts.- Recession, Inflation & Reopening Res.	0	0	32,000	32,000	32,000	37,000	32,000
22	Sub-Total	4,717,753	5,319,864	5,802,352	5,916,477	5,971,702	6,078,598	6,162,590
23	Payment to Budget Stabilization Reserve Fund	0	0	40,128	41,604	43,208	41,146	0
24	**Total - Obligations**	**4,717,753**	**5,319,864**	**5,842,480**	**5,958,081**	**6,014,910**	**6,119,744**	**6,162,590**
25	Oper. Surplus (Deficit) for Fiscal Year	(25,263)	170,843	(139,723)	(75,194)	84,620	(272,372)	(100,648)
	Prior Year Adjustments:							
26	Caucus Change Adjustments	0						
27	Other Adjustments	33,133	23,032	19,500	19,500	19,500	19,500	19,500
28	Total Prior Year Adjustments	33,133	23,032	19,500	19,500	19,500	19,500	19,500
29	**Adjusted Oper. Surplus/ (Deficit)**	**7,870**	**193,875**	**(120,223)**	**(55,694)**	**104,120**	**(252,872)**	**(81,148)**
	OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS							
30	Fund Balance Available for Appropriation June 30 of Prior Fiscal Year	290,672	298,542	492,417	372,194	316,500	420,620	167,748
31	Fund Balance Available for Appropriation June 30	**298,542**	**492,417**	**372,194**	**316,500**	**420,620**	**167,748**	**86,600**

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City of Philadelphia Five Year Financial Plan FY2023-2027	SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2021 TO 2027 (Amounts in Thousands)

FUND
General

REVENUE
Taxes

NO.	AGENCY AND REVENUE SOURCE	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	A. Real Property							
1	1. Current	693,933	689,941	785,242	813,828	842,417	872,990	908,708
2	2. Prior	29,388	28,739	28,164	27,601	27,049	26,508	25,978
3	**Subtotal**	**723,321**	**718,680**	**813,406**	**841,429**	**869,466**	**899,498**	**934,686**
	B. Wage and Earnings							
4	1. Current	1,448,008	1,533,313	1,619,811	1,690,273	1,764,814	1,837,877	1,912,863
5	2. Prior	2,738	5,400	5,400	5,400	5,400	5,400	5,400
6	**Subtotal**	**1,450,746**	**1,538,713**	**1,625,211**	**1,695,673**	**1,770,214**	**1,843,277**	**1,918,263**
	C. Business Taxes							
7	**1. Business Income & Receipts**	**541,599**	**633,242**	**631,530**	**647,974**	**655,712**	**677,384**	**701,331**
	2. Net Profits							
8	a. Current	42,514	29,871	31,726	33,379	35,916	38,171	40,133
9	b. Prior	1,860	4,700	4,700	4,700	4,700	4,700	4,700
10	**Subtotal**	**44,374**	**34,571**	**36,426**	**38,079**	**40,616**	**42,871**	**44,833**
11	**Total, Business Taxes**	**585,973**	**667,813**	**667,956**	**686,053**	**696,328**	**720,255**	**746,164**
	D. Other Taxes							
12	1. Sales	175,205	194,219	198,821	204,585	211,048	217,863	224,541
13	2. Sales (Pension)	55,204	74,220	78,821	84,585	91,048	97,864	104,540
14	Subtotal	230,409	268,439	277,642	289,170	302,095	315,727	329,081
15	3. Amusement	2,918	21,828	22,701	23,448	24,255	25,026	25,782
16	4. Real Property Transfer	303,989	537,670	418,307	418,642	421,782	427,054	434,143
17	5. Parking	53,212	88,284	93,140	95,804	98,716	101,579	104,403
18	6. Smokeless Tobacco	522	783	1,175	1,181	1,187	1,193	1,199
19	7. Philadelphia Beverage	70,155	76,932	77,894	78,813	78,025	77,604	77,270
20	8. Construction Impact	0	450	15,000	15,000	15,000	15,000	15,000
21	9. Other	2,612	3,045	3,221	3,290	3,349	3,401	3,449
22	**Subtotal**	**663,817**	**997,431**	**909,080**	**925,348**	**944,409**	**966,584**	**990,327**
23	**Total Taxes**	**3,423,857**	**3,922,637**	**4,015,653**	**4,148,503**	**4,280,417**	**4,429,614**	**4,589,440**

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City of Philadelphia

Five Year Financial Plan FY2023-2027

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2021 TO 2027
(Amounts in Thousands)

FUND
General

REVENUE
Locally Generated Non - Tax

No.	Agency and Revenue Source	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Office of Innovation & Technology							
1	Cable Franchise Fees	16,737	22,214	18,027	17,126	16,270	15,457	14,684
2	Other	67	235	235	235	235	235	235
3	Subtotal	16,804	22,449	18,262	17,361	16,505	15,692	14,919
	Mayor							
4	Other	0	15	15	15	15	15	15
	Managing Director							
5	Other	1,153	988	1,592	1,617	1,642	1,667	1,667
	Police							
6	Prior Year Reimb.- Special Services	4,247	6,183	5,000	5,000	5,000	5,000	5,000
7	Carry Arms Fees	805	800	800	800	800	800	800
8	Witness & Jury Fees	40	40	40	40	40	40	40
9	Other	436	525	1,050	1,050	1,050	1,050	1,050
10	Subtotal	5,528	7,548	6,890	6,890	6,890	6,890	6,890
	Streets							
11	Survey Charges	810	875	875	875	875	875	875
12	Streets Issued Permits	5,633	6,750	5,250	5,250	5,250	5,250	5,250
13	Prior Year Reimbursements	7	25	25	25	25	25	25
14	Collection Fee - Housing Authority	1,034	1,100	1,100	1,100	1,100	1,100	1,100
15	Disposal of Salvage (Recyclables)	0	0	10	10	10	10	10
16	Right of Way Fees	3,321	3,330	2,310	2,490	2,670	2,850	2,850
17	Commercial Property Collection Fee	19,610	19,050	19,050	19,050	19,050	19,050	19,050
18	Other	135	200	800	800	800	800	800
19	Subtotal	30,550	31,330	29,420	29,600	29,780	29,960	29,960
	Fire							
20	Emergency Medical Services	31,764	32,000	36,000	41,000	41,000	41,000	41,000
21	Other	1,794	450	950	950	950	950	950
22	Subtotal	33,558	32,450	36,950	41,950	41,950	41,950	41,950
	Public Health							
23	Payments for Patient Care (HC's/PNH)	52,932	54,000	54,000	33,600	33,700	54,072	54,952
24	Pharmacy Fees	5,148	4,350	4,350	4,350	4,350	4,350	4,350
25	Environment User Fees	5,334	5,260	5,205	5,105	5,005	4,905	4,805
26	Other	1,782	1,800	1,800	1,800	1,800	1,800	1,800
27	Subtotal	65,196	65,410	65,355	44,855	44,855	65,127	65,907

City of Philadelphia Five Year Financial Plan FY2023-2027	SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2021 TO 2027 (Amounts in Thousands)

FUND
General

REVENUE
Locally Generated Non - Tax

No.	Agency and Revenue Source	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 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	51	80	80	80	80	80	80
30	Permits	205	700	1,250	1,250	1,250	1,250	1,250
31	Other	82	250	575	575	575	575	575
32	Subtotal	339	1,031	1,906	1,906	1,906	1,906	1,906
	Public Property							
33	Rent from Real Estate	445	400	400	400	400	400	400
34	Sale/Lease of Capital Assets	29	11,250	14,250	1,250	1,250	1,250	28,250
35	Commission from Other Leases	1,696	1,800	3,000	3,000	3,000	3,000	3,000
36	Prior Year Refunds & Reimbursements	1,050	775	1,200	1,200	1,200	1,200	1,200
37	Other	5	50	50	50	50	50	50
38	Subtotal	3,225	14,275	18,900	5,900	5,900	5,900	32,900
	Human Services							
39	Payments for Child Care - S.S.I.	1,678	1,544	1,420	1,307	1,202	1,106	1,017
40	Other	247	200	200	200	200	200	200
41	Subtotal	1,925	1,744	1,620	1,507	1,402	1,306	1,217
	Philadelphia Prisons							
42	Telephone Commissions	203	0	0	0	0	0	0
43	Inmate Account Fees	172	43	0	0	0	0	0
44	Other	13	1	0	0	0	0	0
45	Subtotal	388	44	0	0	0	0	0
	Office of Homeless Services							
46	Payments for Patient Care	887	189	0	0	0	0	0
47	Other	0	5	5	5	5	5	5
48	Subtotal	887	194	5	5	5	5	5
	Fleet Management							
49	Sale of Vehicles	792	1,200	1,200	1,200	1,200	1,200	1,200
50	Fuel and Warranty Reimbursements	1,662	1,700	2,250	2,250	2,250	2,250	2,250
51	Other	349	300	300	300	300	300	300
52	Subtotal	2,803	3,200	3,750	3,750	3,750	3,750	3,750

City of Philadelphia

Five Year Financial Plan FY2023-2027

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2021 TO 2027
(Amounts in Thousands)

FUND
General

REVENUE
Locally Generated Non - Tax

No.	Agency and Revenue Source	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Licenses and Inspections							
53	Amusement	34	25	25	25	25	25	25
54	Health and Sanitation	18,069	17,950	18,950	19,950	19,950	19,950	19,950
55	Police and Fire Protection	533	575	575	575	575	575	575
56	Street Use	2,981	2,900	2,900	2,900	2,900	2,900	2,900
57	Professional & Occupational	1,425	1,200	1,200	1,200	1,200	1,200	1,200
58	Building Structure & Equipment	41,834	42,600	39,600	43,560	43,560	43,560	43,560
59	Business	630	200	200	200	200	200	200
60	Other Licenses & Permits	48	175	175	175	175	175	175
61	Code Violation Fines	3,570	3,600	2,900	2,700	2,700	2,700	2,700
62	Other	7,613	6,725	5,725	5,725	5,725	5,725	5,725
63	Subtotal	76,737	75,950	72,250	77,010	77,010	77,010	77,010
	Records							
64	Recording of Legal Instrument Fees	13,824	15,950	13,395	13,395	13,395	13,395	13,395
65	Preparation of Records	180	300	300	300	300	300	300
66	Commission on Tax Stamps	1,079	1,000	1,000	1,000	1,000	1,000	1,000
67	Accident Investigation Reports	1,168	1,300	1,300	1,300	1,300	1,300	1,300
68	Document Technology Fee	2,661	2,450	2,450	2,450	2,450	2,450	2,450
69	Other	810	750	750	750	750	750	750
70	Subtotal	19,722	21,750	19,195	19,195	19,195	19,195	19,195
	Director of Finance							
71	Prior Year Refunds	8,245	200	200	200	200	200	200
72	Reimbursements - Other	3,149	5,100	5,900	5,900	5,900	5,900	5,900
73	Reimbursement - Prescription Program	8,203	7,250	7,250	7,250	7,250	7,250	7,250
74	Health Benefit Charges	1,157	1,160	1,160	1,160	1,160	1,160	1,160
75	Other	976	8,600	10	10	10	10	10
76	Subtotal	21,730	22,310	14,520	14,520	14,520	14,520	14,520
	Revenue							
77	Miscellaneous Fines	676	875	675	675	675	675	675
78	Non-Profit Org. Voluntary Payments	2,955	3,554	3,567	3,510	3,488	2,877	2,877
79	Casino Settlement Payments	1,909	0	11,427	0	0	0	0
80	Other	148	210	210	210	210	210	210
81	Subtotal	5,688	4,639	15,879	4,395	4,373	3,762	3,762

City of Philadelphia

Five Year Financial Plan FY2023-2027

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2021 TO 2027
(Amounts in Thousands)

FUND
General

REVENUE
Locally Generated Non - Tax

No.	Agency and Revenue Source	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Procurement							
82	Performance Bonds	0	1	1	1	1	1	1
83	Master Performance Bonds	1	10	10	10	10	10	10
84	Bid Application Fees etc.	159	200	200	200	200	200	200
85	Other	82	135	135	135	135	135	135
86	Subtotal	242	346	346	346	346	346	346
	City Treasurer							
87	Interest Earnings	10,627	4,834	4,855	4,624	4,320	4,969	4,969
88	Other	49	1,525	25	25	25	25	25
89	Subtotal	10,676	6,359	4,880	4,649	4,345	4,994	4,994
	Law							
90	Legal Fees & Charges	196	250	250	250	250	250	250
91	Court Awarded Damages	4,323	2,300	500	500	500	500	500
92	Other	41	50	50	50	50	50	50
93	Subtotal	4,560	2,600	800	800	800	800	800
	Board of Ethics							
94	Other	79	160	160	160	160	160	160
	Inspector General							
95	Other	15	385	20	20	20	20	20
	Free Library							
96	Other	783	875	775	775	775	775	775
	Personnel							
97	Other	0	1	1	1	1	1	1
	Office of Property Assessment							
98	Other	9	2	2	2	2	2	2
	Chief Administrator's Office							
99	SWEEP Fines	3,397	3,875	5,375	5,375	5,375	5,375	5,375
100	Burglar Alarm Licenses	2,781	2,465	2,965	2,965	2,965	2,965	2,965
101	False Alarm Fines	1,682	1,910	1,910	1,910	1,910	1,910	1,910
102	Reimbursements - Other	35	150	70	70	70	70	70
103	Subtotal	7,895	8,400	10,320	10,320	10,320	10,320	10,320

City of Philadelphia

Five Year Financial Plan FY2023-2027

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2021 TO 2027
(Amounts in Thousands)

FUND
General

REVENUE
Locally Generated Non - Tax

No.	Agency and Revenue Source	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Register of Wills							
104	Court Costs, Fees & Charges	823	800	800	800	800	800	800
105	Recording Fees	2,643	2,700	2,700	2,700	2,700	2,700	2,700
106	Other	982	885	885	885	885	885	885
107	Subtotal	4,448	4,385	4,385	4,385	4,385	4,385	4,385
	District Attorney							
108	Other	8	0	0	0	0	0	0
	Sheriff							
109	Sheriff Fees	0	148	6,000	6,000	6,000	6,000	6,000
110	Commission Fees	0	0	5,246	5,246	5,246	5,246	5,246
111	Other	195	0	50	50	50	50	50
112	Subtotal	195	148	11,296	11,296	11,296	11,296	11,296
	Planning & Development							
113	Zoning Permits	6,895	16,150	3,450	3,450	3,450	3,450	3,450
114	Accelerated Review Fees	418	260	260	260	260	260	260
115	Other	5	1	1	1	1	1	1
116	Subtotal	7,318	16,411	3,711	3,711	3,711	3,711	3,711
	City Commissioners							
117	Other	9	10	10	10	10	10	10
	1st Judicial District - Clerk of Courts							
118	Other Fines	169	150	150	150	150	150	150
119	Court Costs, Fees & Charges	932	1,175	1,750	1,750	1,750	1,750	1,750
120	Bail Forefeited	111	657	0	0	0	0	0
121	Cash Bail Fees	37	158	0	0	0	0	0
122	Subtotal	1,249	2,140	1,900	1,900	1,900	1,900	1,900
	1st Judicial District - Traffic Court							
123	Traffic Court Fines	3,649	3,800	3,800	3,800	3,800	3,800	3,800
	1st Judicial District - CP & Mun. Court							
124	Court Costs, Fees & Charges	15,444	18,000	20,000	20,000	20,000	20,000	20,000
125	Other Fines	908	1,500	1,500	1,500	1,500	1,500	1,500
126	Other	456	2,350	2,350	2,350	2,350	2,350	2,350
127	Subtotal	16,808	21,850	23,850	23,850	23,850	23,850	23,850

City of Philadelphia

Five Year Financial Plan FY2023-2027

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2021 TO 2027
(Amounts in Thousands)

FUND
General

REVENUE
Locally Generated Non - Tax

No.	Agency and Revenue Source	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
128	Other Adjustments	70	0	0	0	0	0	0
129	**Total Locally Generated Non-Tax**	**344,246**	**373,199**	**372,765**	**336,501**	**335,419**	**355,025**	**381,943**

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City of Philadelphia Five Year Financial Plan FY2023-2027	SUPPORTING REVENUE SCHEDULES FISCAL YEARS 2021 TO 2027 (Amounts in Thousands)

FUND
General

REVENUE
Revenue from Other Governments

No.	Agency and Revenue Source	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Managing Director							
	Federal:							
1	Emergency Management	26,000	31,230	20,115	115	115	115	115
	Police							
	State:							
2	Police Training - Reimbursement	2,224	1,100	2,200	2,200	2,200	2,200	2,200
	Streets							
	Federal:							
3	Highways	96	350	350	350	350	350	350
4	Bridge Design	102	215	215	215	215	215	215
5	Delaware Valley Reg. Planning Comm.	0	185	185	185	185	185	185
	State:							
6	Snow Removal	2,500	2,500	2,500	2,500	2,500	2,500	2,500
7	PennDot Bridge Design	107	50	50	50	50	50	50
8	PennDot Highways	0	25	25	25	25	25	25
9	Subtotal	2,805	3,325	3,325	3,325	3,325	3,325	3,325
	Public Health							
	Federal:							
10	Medicare - Outpatient / HC's	2,170	2,791	2,791	2,791	2,791	2,791	2,791
11	Medicare - PNH	1,290	1,476	0	0	0	0	0
12	Medical Assistance - Outpatient / HC's	31,745	31,646	31,646	31,646	31,646	31,646	31,646
13	Medical Assistance - PNH	628	0	0	0	0	0	0
14	Summer Food Inspection	0	60	60	60	60	60	60
	State:							
15	County Health	12,824	8,395	8,395	8,395	8,395	8,395	8,395
16	Medical Assistance - Outpatient / HC's	24,901	24,847	24,812	24,812	24,812	24,812	24,812
17	Medical Assistance - PNH	198	0	0	0	0	0	0
18	Subtotal	73,756	69,215	67,704	67,704	67,704	67,704	67,704
	Public Property							
	Other Governments:							
19	PGW Rental	18,000	18,000	18,000	18,000	18,000	18,000	18,000
	Philadelphia Prisons							
	Federal:							
20	SSA Prisoner Incentive Payments	97	150	150	150	150	150	150

City of Philadelphia

Five Year Financial Plan FY2023-2027

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2021 TO 2027
(Amounts in Thousands)

FUND
General

REVENUE
Revenue from Other Governments

No.	Agency and Revenue Source	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Director of Finance							
	Federal:							
21	Medicare Part D-Retirees	54	50	50	50	50	50	50
	State:							
22	Pension Aid - State Act 205	82,038	79,906	79,906	79,906	79,906	79,906	79,906
23	Juror Fee Reimbursement	0	200	200	200	200	200	200
24	State Police Fines (Phila. County)	488	500	500	500	500	500	500
25	Wage Tax Relief Funding	86,285	86,280	86,280	86,280	86,280	86,280	86,280
26	Gaming - Local Share Assessment	5,807	6,000	6,250	6,500	6,750	7,000	7,000
	Other Governments:							
27	PATCO Community Impact Fund	75	75	75	75	75	75	75
28	PAID - Parametric Garage	54	250	250	250	250	250	250
29	Subtotal	174,801	173,261	173,511	173,761	174,011	174,261	174,261
	Revenue							
	Federal:							
30	Reimb. - PILOT	0	3	3	3	3	3	3
31	Tinicum Wildlife Preserve	4	4	4	4	4	4	4
	Other Governments:							
32	PPA - Parking/Violations/Fines (on St.)	25,546	43,770	44,733	45,717	46,723	47,751	48,802
33	Burlington County Bridge Comm.	7	7	7	7	7	7	7
34	Subtotal	25,557	43,784	44,747	45,731	46,737	47,765	48,816
	City Treasurer							
	State:							
35	Retail Liquor License	978	125	1,100	1,100	1,100	1,100	1,100
36	Public Utility Tax Refund	4,124	4,124	4,124	4,124	4,124	4,124	4,124
37	Subtotal	5,102	4,249	5,224	5,224	5,224	5,224	5,224
	Commission on Human Relations							
	Federal:							
38	Deferred EEOC Cases	188	125	125	125	125	125	125
	District Attorney							
	State:							
39	Reimbursement - DA Salary	0	239	118	118	118	118	118

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2021 TO 2027
(Amounts in Thousands)

FUND
General

REVENUE
Revenue from Other Governments

No.	Agency and Revenue Source	FY 2021 Actual	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	1st Judicial District							
	Federal:							
40	Title IV-E	0	200	200	200	200	200	200
	State:							
41	Intensive Probation - Adult	0	8,037	3,650	3,650	3,650	3,650	3,650
42	Intensive Probation - Juvenile	438	1,232	1,232	1,232	1,232	1,232	1,232
43	Reimbursement - Court Costs	6,794	6,543	10,075	10,075	10,075	10,075	10,075
44	Reimbursement - Attorney Fees	78	82	82	82	82	82	82
45	Subtotal	7,310	16,094	15,239	15,239	15,239	15,239	15,239
46	PICA City Account	509,026	509,849	560,922	609,179	636,600	663,279	690,357
	Totals							
47	Federal	62,374	68,485	55,894	35,894	35,894	35,894	35,894
48	State	229,784	230,185	231,499	231,749	231,999	232,249	232,249
49	Other Governments	43,682	62,102	63,065	64,049	65,055	66,083	67,134
50	PICA Funding	509,026	509,849	560,922	609,179	636,600	663,279	690,357
51	Other Authorized Adjustments	(8,268)	2,000	2,000	2,000	2,000	2,000	2,000
52	**Total, Revenue From Other Govts.**	**836,598**	**872,621**	**913,380**	**942,871**	**971,548**	**999,505**	**1,027,634**

City of Philadelphia

Five Year Financial Plan FY2023-2027

SUPPORTING REVENUE SCHEDULES
FISCAL YEARS 2021 TO 2027
(Amounts in Thousands)

FUND
General

REVENUE
Revenue from Other Funds

No.	Agency and Revenue Source	FY 2021 Estimate	FY 2022 Estimate	FY 2023 Estimate	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Water Fund							
1	Services performed & costs borne by General Fund	7,839	7,201	7,614	8,048	8,504	8,986	9,493
2	Excess interest on Sinking Fund reserve	2,586	1,500	1,500	1,500	1,500	1,500	1,500
3	Sub-total	10,425	8,701	9,114	9,548	10,004	10,486	10,993
	Aviation Fund							
4	Services performed & costs borne by General Fund	3,474	3,500	3,500	3,500	3,500	3,500	3,500
	Grants Revenue Fund							
5	American Rescue Plan	0	250,000	335,000	390,820	449,400	0	0
6	Services performed & costs borne by General Fund	1,617	5,750	750	750	750	750	750
7	911 Surcharge	32,987	49,299	47,595	45,394	43,492	43,492	42,682
8	Sub-total	34,604	305,049	383,345	436,964	493,642	44,242	43,432
	Other Funds							
9	Services performed & costs borne by General Fund	5,010	5,000	5,000	5,000	5,000	5,000	5,000
10	Contribution from Budget Stabilization	34,276	0	0	0	0	0	0
11	Sub-total	39,286	5,000	5,000	5,000	5,000	5,000	5,000
12	**Total Revenue from Other Funds**	**87,789**	**322,250**	**400,959**	**455,012**	**512,146**	**63,228**	**62,925**

City of Philadelphia
General Fund
FY 2023- 2027 Five Year Financial Plan
Summary by Class

Expenditure Class	FY 21 Actuals	FY 22 Budgeted	FY 22 Projected	FY 23 Projected	FY 24 Projected	FY 25 Projected	FY 26 Projected	FY 27 Projected
Class 100 - Wages	1,811,423,186	1,888,766,172	1,952,143,466	2,057,006,412	2,119,876,097	2,122,789,403	2,123,047,231	2,123,055,231
Class 100 - Benefits	1,270,300,692	1,438,592,740	1,504,836,775	1,603,509,081	1,651,248,845	1,700,271,513	1,749,776,524	1,781,759,950
Class 200 - Contracts / Leases	946,217,646	1,094,526,045	1,080,849,951	1,236,034,327	1,205,359,500	1,161,087,111	1,176,252,142	1,188,223,970
Class 300/400 - Supplies, Equipment	90,939,960	118,809,048	143,618,886	143,529,338	125,558,518	122,146,310	121,298,871	121,007,893
Class 500 - Indemnities / Contributions	367,986,598	386,793,063	390,907,063	408,158,303	398,450,035	404,389,266	404,089,266	404,089,266
Class 700 - Debt Service	178,543,269	192,666,858	192,666,858	193,710,223	223,997,422	236,096,071	250,117,554	260,568,820
Class 800 - Payments to Other Funds	52,342,197	48,791,974	44,951,974	114,532,216	138,590,393	140,129,810	125,161,933	80,884,675
Class 900 - Advances / Misc. Payments	0	100,000,100	9,889,379	86,000,100	95,000,100	128,000,100	170,000,100	203,000,100
Total	4,717,753,548	5,268,946,000	5,319,864,352	5,842,480,000	5,958,080,910	6,014,909,584	6,119,743,621	6,162,589,905

City of Philadelphia
FY 2023 - 2027 Five Year Financial Plan
General Fund
Summary by Department

Department	FY 21 Actuals	FY 22 Budgeted	FY 22 Projected	FY 23 Projected	FY 24 Projected	FY 25 Projected	FY 26 Projected	FY 27 Projected
Art Museum	2,040,000	2,040,000	2,040,000	2,040,000	2,040,000	2,040,000	2,040,000	2,040,000
Auditing	9,824,760	9,853,289	10,308,438	10,808,319	11,064,836	11,064,836	11,064,836	11,064,836
Board of Ethics	817,525	975,196	998,750	1,181,902	1,188,700	1,188,700	1,188,700	1,188,700
Board of Revision of Taxes	1,049,649	1,053,462	1,074,975	1,113,237	1,117,400	1,117,400	1,117,400	1,117,400
City Commissioners	20,871,241	18,046,852	21,169,560	29,061,492	28,220,035	31,966,865	28,220,035	28,220,035
City Council	17,009,546	18,677,973	19,496,893	21,876,395	19,376,395	19,376,395	19,376,395	19,376,395
City Treasurer	1,714,804	4,740,997	4,651,040	4,718,290	4,740,108	4,740,108	4,740,108	4,740,108
Civil Service Commission	170,033	207,742	210,538	211,582	213,651	213,651	213,651	213,651
Civil Service Comm - Provision for Future Labor	0	25,000,000	9,889,279	54,000,000	63,000,000	96,000,000	133,000,000	171,000,000
Commerce	3,322,013	14,640,094	14,268,497	15,508,816	14,688,348	11,691,512	11,691,512	11,691,512
Commerce - Convention Center Subsidy	15,010,679	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Commerce - Economic Stimulus	2,957,678	6,015,000	5,834,550	13,334,550	13,334,550	13,334,550	13,334,550	13,334,550
District Attorney	42,026,933	40,431,659	42,689,582	44,344,210	44,558,269	44,558,269	44,558,269	44,558,269
Finance	56,342,371	41,126,320	43,068,283	27,724,771	29,248,056	27,596,259	28,262,316	28,959,641
Finance-Reg #32	2,167,137	2,293,165	2,293,165	2,800,000	2,800,000	2,800,000	2,800,000	2,800,000
Finance-Budget Stabilization	0	0	0	40,128,000	41,604,000	43,208,000	41,146,000	0
Finance - Recession and Reopening Reserve	0	75,000,000	0	32,000,000	32,000,000	32,000,000	37,000,000	32,000,000
Finance - Community College Subsidy	41,628,751	48,128,075	48,128,075	50,106,653	50,860,996	50,860,996	50,860,996	50,860,996
Finance - Employee Benefits	1,270,300,692	1,438,592,740	1,504,836,775	1,603,509,081	1,651,248,845	1,700,271,513	1,749,776,524	1,781,759,950
Finance - Hero Awards	0	25,000	54,000	50,000	50,000	50,000	50,000	50,000
Finance - Payment to Housing Trust Fund	0	0	0	29,066,068	29,641,432	29,924,591	30,447,336	30,661,492
Finance - Indemnities	-5,535,036	49,246,000	49,246,000	67,246,000	49,246,000	49,246,000	49,246,000	49,246,000
Finance - Refunds	14,153	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Finance - School District Contribution	252,578,558	255,953,201	255,953,201	269,953,201	282,052,590	288,191,821	288,191,821	288,191,821
Finance - Witness Fees	31,007	171,518	171,518	171,518	171,518	171,518	171,518	171,518
Fire	344,502,428	361,066,229	373,167,463	380,890,162	393,466,948	393,566,102	393,800,054	393,961,780
First Judicial District	114,312,315	116,199,029	119,749,157	122,019,892	122,867,340	122,867,340	122,867,340	122,867,340
Fleet Services	42,406,631	45,346,718	50,074,107	58,241,470	50,937,592	50,937,592	50,937,592	50,937,592
Fleet Services - Vehicle Lease/Purchases	12,862,660	9,745,852	9,745,852	12,507,852	9,627,852	9,627,852	9,627,852	9,627,852
Free Library	40,116,664	42,786,864	45,326,677	58,449,945	59,924,640	60,039,138	60,131,114	60,131,114
Human Relations Commission	2,285,473	2,387,728	2,526,595	2,573,736	2,645,339	2,645,339	2,645,339	2,645,339
Human Services	154,211,458	178,273,808	181,234,022	189,224,595	188,798,467	189,548,467	190,298,467	190,298,467
Labor	2,377,751	3,313,659	3,361,494	4,004,336	3,959,718	3,969,159	3,964,534	3,964,534
Law	16,219,764	18,947,270	21,872,000	21,876,309	21,988,376	21,988,376	21,988,376	21,988,376
Licenses & Inspections	37,334,864	38,934,445	40,049,086	41,626,239	42,416,406	41,466,406	41,466,406	41,466,406
L&I: Board of Building Standards	85,061	82,018	82,151	84,116	86,609	86,609	86,609	86,609
L&I: Board of L+I Review	129,012	176,071	181,598	180,813	182,543	182,543	182,543	182,543
Managing Director	62,972,576	123,434,391	105,921,630	132,637,002	119,786,037	93,321,794	93,478,627	93,535,163
Managing Director - Legal Services	50,635,963	52,404,449	52,404,449	59,844,449	59,844,449	58,804,449	58,804,449	58,804,449
Managing Director - Citizens Police Oversight Commission	475,563	2,150,070	2,150,070	2,402,570	2,902,570	2,902,570	2,902,570	2,902,570
Mayor	6,480,074	6,714,201	6,832,234	7,148,978	7,098,978	7,098,978	7,098,978	7,098,978
Mayor - Scholarships	196,500	100,000	135,000	100,000	100,000	100,000	100,000	100,000
Mayor - Office of Chief Administrative Officer	5,822,476	10,944,536	7,736,085	14,877,756	6,925,402	6,825,402	6,825,402	6,825,402

City of Philadelphia
FY 2023 - 2027 Five Year Financial Plan
General Fund
Summary by Department

Department	FY 21 Actuals	FY 22 Budgeted	FY 22 Projected	FY 23 Projected	FY 24 Projected	FY 25 Projected	FY 26 Projected	FY 27 Projected
Office of Children and Families	418,820	442,000	447,742	463,413	463,413	463,413	463,413	463,413
Mayor's Office of Community Empowerment and Opportunity	45,000	1,509,000	1,509,000	1,895,000	1,895,000	1,895,000	1,895,000	1,895,000
Mural Arts Program	2,122,763	2,652,179	2,659,013	3,281,460	3,281,460	2,531,460	2,531,460	2,531,460
Office of Behavioral Health and Intellectual disAbilities	15,477,402	23,546,932	23,579,056	27,314,238	24,931,590	24,905,845	24,867,818	24,867,818
Office of Homeless Services	44,781,994	55,321,342	56,258,172	68,946,658	72,834,599	63,461,052	63,461,052	63,461,052
Office of Human Resources	5,717,867	6,470,804	6,283,583	7,418,259	7,556,798	7,242,798	7,588,798	7,266,798
Office of Innovation and Technology	76,511,518	78,787,583	86,229,051	91,632,802	88,895,213	94,361,014	94,908,833	95,593,606
Office of Innovation and Technology - 911	14,246,497	31,334,577	31,334,577	29,631,412	27,430,422	25,527,829	25,527,829	24,718,267
Office of Inspector General	1,369,200	1,607,423	1,581,202	2,296,063	2,296,063	2,296,063	2,296,063	2,296,063
Office of Property Assessment	15,213,643	16,783,833	17,223,695	17,858,376	18,275,779	18,275,779	18,275,779	18,275,779
Office of Sustainability	1,081,900	1,574,587	1,537,959	1,664,001	1,589,001	1,346,501	1,296,501	1,296,501
Parks and Recreation	52,622,772	62,564,553	65,369,958	73,136,403	76,354,629	76,237,531	76,299,237	76,299,237
Planning & Development	14,706,453	17,073,828	17,428,742	30,213,137	30,361,114	12,611,114	12,611,114	12,611,114
Police	759,140,543	729,347,734	758,034,454	788,044,264	830,785,890	832,188,342	817,188,342	812,188,342
Prisons	219,172,828	237,651,313	251,402,740	246,110,502	246,428,059	246,443,823	245,902,606	245,902,606
Procurement	5,856,103	6,056,338	6,185,836	6,874,776	7,034,035	7,034,035	7,034,035	7,034,035
Public Health	156,193,405	163,004,196	165,091,188	161,209,808	138,616,471	139,082,125	147,734,143	147,620,015
Public Property	64,650,999	73,425,346	73,915,244	78,182,271	80,409,288	82,463,066	84,186,203	85,760,041
Public Property - SEPTA Subsidy	84,608,000	91,214,000	91,214,000	100,699,000	104,827,000	108,421,000	112,150,000	115,971,000
Public Property - Space Rentals	25,007,711	30,631,626	30,176,234	33,293,144	32,021,595	32,810,890	33,551,437	34,523,007
Public Property - Utilities	23,599,406	24,875,748	24,875,748	32,986,853	33,986,853	34,986,853	35,986,853	36,986,853
Records	3,671,829	3,912,713	4,162,493	4,277,078	4,367,985	4,267,985	4,267,985	4,267,985
Register of Wills	4,479,180	4,281,429	4,426,264	4,856,966	4,926,293	4,926,293	4,926,293	4,926,293
Revenue	27,834,085	26,943,273	26,614,882	27,808,577	28,410,438	27,910,438	27,910,438	27,910,438
Sheriff	27,636,660	26,795,874	29,342,664	30,853,801	32,658,361	32,658,361	32,658,361	32,658,361
Sinking Fund Commission (Debt Service)	273,785,517	297,227,515	293,227,515	308,797,721	348,383,959	365,954,985	379,119,520	392,694,151
Streets	170,031,726	173,434,633	175,570,551	217,839,712	227,784,607	221,764,889	224,150,289	226,649,282
Total	4,717,753,548	5,268,946,000	5,319,864,352	5,842,480,000	5,958,080,910	6,014,909,584	6,119,743,621	6,162,589,905

City of Philadelphia

General Fund

FY 2023 - 2027 Five Year Financial Plan

Estimated Fringe Benefit Allocation

Expenditure Category	FY 21 Actuals	FY 22 Budgeted	FY 22 Projected	FY 23 Projected	FY 24 Projected	FY 25 Projected	FY 26 Projected	FY 27 Projected
Unemployment Comp.	2,208,454	5,465,975	5,465,975	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Employee Disability	70,087,502	78,457,582	78,457,582	84,625,294	90,194,462	96,130,136	102,456,436	102,456,436
Pension	664,419,633	774,599,953	802,847,344	842,531,537	864,732,753	872,247,935	883,266,984	880,996,335
FICA	81,513,022	87,771,546	89,391,455	94,092,949	100,041,212	101,687,118	103,394,645	105,136,551
Health / Medical	440,010,762	476,762,684	510,516,124	559,501,006	573,522,123	607,448,029	637,900,164	670,412,333
Group Life	6,501,573	8,850,000	8,850,000	8,850,000	8,850,000	8,850,000	8,850,000	8,850,000
Group Legal	4,812,435	5,535,000	5,535,000	5,535,000	5,535,000	5,535,000	5,535,000	5,535,000
Tool Allowance	179,550	150,000	150,000	250,000	250,000	250,000	250,000	250,000
Flex Cash Payments	567,761	1,000,000	3,623,295	3,623,295	3,623,295	3,623,295	3,623,295	3,623,295
Total	1,270,300,692	1,438,592,740	1,504,836,775	1,603,509,081	1,651,248,845	1,700,271,513	1,749,776,524	1,781,759,950

CASH FLOW PROJECTIONS OFFICE OF THE DIRECTOR OF FINANCE
GENERAL FUND - FY2023

Projection

Amounts in Millions

	July 31	Aug 31	Sept 30	Oct 31	Nov 30	Dec 31	Jan 31	Feb 28	March 31	April 30	May 31	June 30	Total	Accrued	Not Accrued	Estimated Revenues
REVENUES																
Real Estate Tax	10.4	11.5	8.3	8.3	7.1	30.6	33.2	81.4	470.9	125.0	16.5	10.2	813.4			813.4
Total Wage, Earnings, Net Profits	145.3	131.7	127.1	143.1	129.0	120.5	175.5	126.1	144.1	167.7	131.9	119.6	1661.6			1661.6
Realty Transfer Tax	46.1	35.7	28.6	40.2	33.1	35.7	35.5	25.1	36.3	33.5	35.3	33.2	418.3			418.3
Sales Tax	29.2	32.0	16.9	15.8	17.7	16.3	15.7	19.0	15.8	29.4	35.4	33.7	276.8	0.8		277.6
Business Income & Receipts Tax	4.9	12.0	23.1	26.5	4.8	25.5	28.2	6.4	63.9	342.0	70.7	23.6	631.5			631.5
Beverage Tax	7.0	6.8	6.8	7.6	6.2	6.2	6.4	5.8	5.8	6.6	6.3	6.5	77.9			77.9
Other Taxes	11.4	13.5	12.3	11.2	11.6	11.1	11.7	11.2	10.8	12.1	9.6	8.6	135.2			135.2
Locally Generated Non-tax	30.4	33.6	28.6	29.2	33.3	29.4	33.3	28.0	32.7	27.6	37.5	29.3	372.8			372.8
Total Other Governments	14.4	45.2	82.7	13.2	19.0	12.6	49.4	15.9	9.8	12.1	11.3	67.0	352.5			352.5
Total PICA Other Governments	37.9	48.1	38.6	37.9	45.6	44.6	49.0	49.8	47.7	68.0	62.2	31.6	560.9			560.9
Interfund Transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	335.0	0.0	0.0	25.9	360.9		40.1	401.0
Total Current Revenue	337.1	370.1	373.0	332.9	307.4	332.5	438.0	368.6	1172.6	823.9	416.5	389.1	5661.8	0.8	40.1	5702.8
Collection of prior year(s) revenue	31.0	5.0	5.2	5.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	46.8			
Other fund balance adjustments		.														
TOTAL CASH RECEIPTS	368.0	375.1	378.2	338.6	307.4	332.5	438.0	368.6	1172.6	823.9	416.5	389.1	5708.7			

	July 31	Aug 31	Sept 30	Oct 31	Nov 30	Dec 31	Jan 31	Feb 28	March 31	April 30	May 31	June 30	Total	Vouchers Payable	Encum-brances	Estimated Obligations
EXPENSES AND OBLIGATIONS																
Payroll	102.6	223.6	160.4	155.4	170.3	155.4	223.6	154.6	155.4	155.4	170.3	160.4	1987.5	65.1	4.4	2057.0
Employee Benefits	38.4	83.7	60.1	58.2	63.8	58.2	83.7	57.9	58.2	58.2	63.8	60.1	744.4	16.1	0.5	761.0
Pension	3.6	(0.5)	16.8	81.0	(0.3)	3.2	(0.3)	(0.3)	666.3	(0.6)	(0.5)	(4.6)	763.7	78.8		842.5
Purchase of Services	42.3	56.4	73.3	127.7	63.1	78.2	60.4	56.0	240.2	83.1	87.5	66.1	1034.3	33.6	168.1	1236.0
Materials, Equipment	5.5	6.1	11.9	12.2	8.9	9.7	10.1	8.9	11.0	11.9	11.1	11.5	119.0	3.0	21.5	143.5
Contributions, Indemnities	21.8	7.7	83.1	13.4	17.6	75.1	8.4	16.2	71.8	7.0	3.7	82.4	408.2			408.2
Debt Service-Short Term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.5	2.5			2.5
Debt Service-Long Term	20.1	90.8	10.5	0.2	0.2	0.2	5.1	42.1	0.2	0.2	0.2	21.6	191.2			191.2
Interfund Charges	79.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.1	80.3	34.2		114.5
Advances & Misc. Pmts. / Labor Obligations	0.0	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	8.0	86.0			86.0
Current Year Appropriation	313.5	475.6	423.9	455.9	331.5	387.8	398.8	343.2	1211.0	323.0	343.9	409.1	5417.0	230.9	194.6	5842.5
Prior Yr. Expenditures against Encumbrances	96.2	65.0	40.1	24.7	12.6	10.0	12.6	14.5	11.7	6.3	4.3	4.8	302.9			
Prior Yr. Salaries & Vouchers Payable	149.0	31.1	0.0	130.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	310.5			
TOTAL DISBURSEMENTS	558.7	571.7	463.9	611.0	344.1	397.9	411.4	357.7	1222.7	329.3	348.2	413.8	6030.4			
Excess (Def) of Receipts over Disbursements	(190.7)	(196.6)	(85.7)	(272.5)	(36.7)	(65.3)	26.7	10.9	(50.0)	494.6	68.4	(24.7)				
Opening Balance	1403.1	1212.4	1015.9	930.1	657.7	621.0	555.6	582.3	593.2	543.2	1037.8	1106.2				
TRAN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0				
CLOSING BALANCE	1212.4	1015.9	930.1	657.7	621.0	555.6	582.3	593.2	543.2	1037.8	1106.2	1081.4				

CASH FLOW PROJECTIONS OFFICE OF THE DIRECTOR OF FINANCE
CONSOLIDATED CASH - ALL FUNDS - FY2022

Projection

Amounts in Millions

	July 31	Aug 31	Sept 30	Oct 31	Nov 30	Dec 31	Jan 31	Feb 28	March 31	April 30	May 31	June 30
General	1212.4	1015.9	930.1	657.7	621.0	555.6	582.3	593.2	543.2	1037.8	1106.2	1081.4
Grants Revenue	1133.1	1205.6	1176.8	1186.1	1115.1	1062.7	1127.3	1234.7	859.7	984.7	931.3	864.2
Community Development	(7.4)	(9.0)	(7.2)	(5.9)	(4.2)	(6.1)	(5.2)	(3.0)	(2.0)	3.0	2.5	0.0
Vehicle Rental Tax	6.7	7.3	2.7	3.2	3.7	4.2	4.6	5.0	5.4	5.7	6.1	6.6
Hospital Assessment Fund	17.1	19.9	39.6	18.3	18.1	43.3	18.8	18.4	25.1	19.8	47.2	22.7
Housing Trust Fund	102.2	100.1	98.0	95.9	93.8	91.7	89.6	87.5	85.4	83.3	81.2	79.1
Budget Stabilization Fund	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1	40.1
Other Funds	12.3	12.2	12.0	11.9	11.7	11.6	11.4	11.3	11.1	11.0	10.8	10.7
TOTAL OPERATING FUNDS	2516.6	2392.0	2292.1	2007.3	1899.3	1803.1	1868.9	1987.1	1567.9	2185.4	2225.3	2104.8
Capital Improvement	365.0	350.0	335.0	320.0	305.0	290.0	275.0	260.0	245.0	230.0	215.0	200.0
Industrial & Commercial Dev.	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3	10.3
TOTAL CAPITAL FUNDS	375.3	360.3	345.3	330.3	315.3	300.3	285.3	270.3	255.3	240.3	225.3	210.3
TOTAL FUND EQUITY	2891.9	2752.3	2637.4	2337.6	2214.6	2103.4	2154.2	2257.4	1823.2	2425.7	2450.6	2315.1

City of Philadelphia
Fiscal Year 2023 Operating Budget
FY 2023-2027 Five Year Plan
General Fund Full-Time Positions

Department	Filled Positions 6/30/21	FY 2022 Adopted Budget	December 2021 Increment	FY 2023 Adopted Budget	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
Auditing	118	135	116	135	135	135	135	135
Board of Ethics	9	10	8	12	12	12	12	12
Board of Revision of Taxes	15	16	14	16	16	16	16	16
City Commissioners	137	106	124	187	187	187	187	187
City Council	182	186	180	185	185	185	185	185
City Treasurer	16	18	17	19	19	19	19	19
Civil Service Commission	1	2	2	2	2	2	2	2
Commerce	37	51	32	82	82	82	82	82
District Attorney Civilian	*520*	*540*	*541*	*547*	*547*	*547*	*547*	*547*
District Attorney Uniform	*35*	*35*	*35*	*36*	*36*	*36*	*36*	*36*
District Attorney - Total	555	575	576	583	583	583	583	583
Finance	119	132	116	134	134	134	134	134
Fire Civilian	*114*	*177*	*109*	*177*	*169*	*169*	*169*	*169*
Fire Uniform	*2,564*	*3,191*	*2,602*	*3,199*	*3,223*	*3,223*	*3,223*	*3,223*
Fire - Total	2,678	3,368	2,711	3,376	3,392	3,392	3,392	3,392
First Judicial District	1,773	1,822	1,719	1,719	1,822	1,822	1,822	1,822
Fleet Services	268	315	266	318	321	321	321	321
Free Library	634	715	633	961	961	961	961	961
Human Relations Commission	32	33	30	33	33	33	33	33
Human Services	425	532	437	535	535	535	535	535
Labor	26	39	25	44	44	44	44	44
Law **	127	179	171	198	198	198	198	198
Licenses & Inspections	373	425	347	425	425	425	425	425
L&I-Board of Building Standards	1	1	0	1	1	1	1	1
L&I-Board of L & I Review	2	2	2	2	2	2	2	2
Managing Director	284	443	293	522	507	507	507	507
MDO - Citizens Police Oversight Commission	6	14	7	15	15	15	15	15
Mayor	61	62	56	64	64	64	64	64
Mayor - Office of the Chief Administrative Officer	59	77	60	92	64	64	64	64
Office of Children and Families	3	3	3	3	3	3	3	3
Mayor's Office of Community Empowerment and Opportunity	0	0	0	0	0	0	0	0
Mural Arts Program	8	10	8	10	10	10	10	10
Office of Behavioral Health and Intellectual Disability	23	47	28	53	53	53	53	53
Office of Human Resources	75	78	73	88	88	88	88	88
Office of Innovation & Technology	313	364	308	397	397	397	397	397
Office of Inspector General	18	19	17	26	26	26	26	26
Office of Property Assessment	183	222	186	225	225	225	225	225
Office of Homeless Services	127	166	125	149	149	149	149	149
Office of Sustainability	8	12	11	15	15	15	15	15
Parks & Recreation	644	763	616	787	787	787	787	787
Planning & Development	55	62	53	74	74	74	74	74
Police Civilian	*816*	*924*	*809*	*947*	*947*	*947*	*947*	*947*
Police Uniform	*6,053*	*6,380*	*5,938*	*6,380*	*6,380*	*6,380*	*6,380*	*6,380*
Police - Total	6,869	7,304	6,747	7,327	7,327	7,327	7,327	7,327
Prisons	1,620	2,186	1,497	2,186	2,186	2,186	2,186	2,186
Procurement	35	42	35	51	51	51	51	51
Public Health	716	822	710	835	835	835	835	835
Public Property	142	156	142	156	156	156	156	156
Records	51	54	51	60	60	60	60	60
Register of Wills	70	71	69	73	73	73	73	73
Revenue	386	399	342	399	399	399	399	399
Sheriff	367	428	354	537	537	537	537	537
Streets	1,941	2,045	2,011	2,378	2,378	2,378	2,378	2,378
TOTAL GENERAL FUND	**21,592**	**24,511**	**21,328**	**25,489**	**25,568**	**25,568**	**25,568**	**25,568**

Note: The Adopted Budget position counts represent the maximum level of positions during the year. Attrition lowers the position count throughout the year. **Departmental position adjustments from various departments to Law.**

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