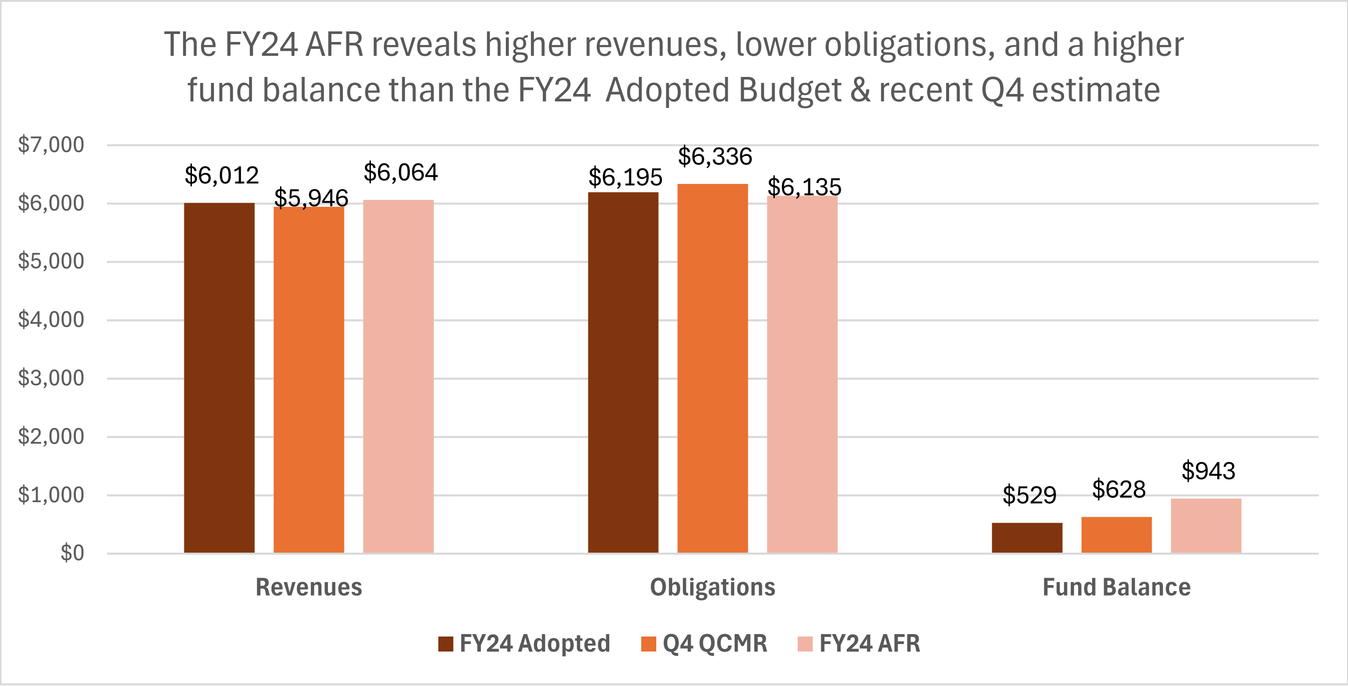
PICA Analysis of Philadelphia's FY24 Annual Financial Report

Key Takeaways

- General Fund Balance = $943M, significantly more than prior estimates.
    - The $400M+ increase compared to the FY24-28 Plan is due to a higher starting fund balance. The $300M+ increase over the most recent estimate stems from lower spending due to vacant positions.
    - The difference compared to the City's most recent estimate, which incorporated the higher FY23 fund balance is lower spending, particularly on salaries and benefits.
    - At 15.6% of revenues, the fund balance is below the GFOA recommendation of 16.7%, but above the City's goal of at least 6-8 percent.
- Actual FY24 results show higher revenues and lower spending than previous estimates.
    - These are overall positive results, but lower spending on salaries and benefits reflects the continued struggle to hire and retain staff.
    - While actual revenues were up compared to estimates, tax collections were below projections in the PICA-Approved FY24-28 Plan, raising concerns.



PICA Pennsylvania Intergovernmental Cooperation Authority

What is the AFR?

The Annual Financial Report (AFR) details the City's unaudited actual revenue, expenditures, and fund balances for all funds in the 2024 fiscal year. It also includes information on the City's investments, risk management, pension and benefit funding, and debt. The figures reported are preliminary and could change after an independent audit; however, fund balances on a budgetary basis rarely change after auditing.

PICA focuses on results presented on a budgetary basis rather than modified accrual. Modified accrual treats reserves and encumbrances as available in the fund balance, but so long as the City isn't in distress, PICA anticipates that these funds will be spent as originally intended and should not be thought of as a financial cushion. Should conditions change, PICA's focus could change.

Fund Balance

FY24-28 PICA Approved Plan (July 2023)	FY25-29 PICA Approved Plan (July 2024)	FY24 Actual
$528.6M	$628.1M	$942.9M

The actual FY24 fund balance is 78 percent higher than the FY24 Adopted Budget and 50 percent higher than the most recent projection. The differences from the Adopted Budget can be attributed in large part to both a $69.6 million increase in locally generated non-tax (LGNT) revenue and spending $127.2 million less than anticipated on personal services (payroll and benefits), as well as the higher FY23 fund balance.

Analysis of AFRs over the past decade demonstrates a pattern of ending fund balances much higher than Adopted Budgets and quarterly projections. In the last ten years, the fund balances reported in AFRs were, on average, 66 percent higher than in Q4 QCMRs and over 200 percent higher than Adopted Budgets.

Revenues

	FY24-28 PICA Approved Plan (July 2023)	FY24Q4 Estimate (August 2024)	FY24 Actual
Tax Revenue	$4.14B	$4.01B	$4.09B
Locally-Generated Non-Tax	$388M	$409M	$456M
Other Gov'ts	$1.03B	$1.07B	$1.06B
Other Funds	$459M	$455M	$455M
TOTAL	**$6.01B**	**$5.95B**	**$6.06B**

FY24 actual revenues were 1% higher than projected in the FY24-28 Plan. This net increase reflects lower than expected tax revenues, by $53M, and higher revenues in other areas, notably interest earnings, owing to historically high cash balances and higher than expected interest rates. Tax shortfalls were most dramatic in the Realty Transfer Tax ($123M), with smaller shortfalls in Real Estate, Sales, Beverage, and Net Profits taxes. Better than expected collections from the Wage and Business Income and Receipts taxes offset some of the tax shortfall. PICA Tax collection, included in the Revenues from Other Governments category, was also stronger than originally expected.

Expenditures

	FY24-28 PICA Approved Plan (July 2023)	FY24Q4 Estimate (August 2024)	FY24 Actual
Employee Compensation	$3.8B	$3.8B	$3.7B
Purchase of Services	$1.38B	$1.43B	$1.36B
Materials, Supplies and Equipment	$145M	$211M	$190M
Contributions, Indemnities, and Taxes	$425M	$468M	$453M
Debt Service	$202M	$202M	$189M
Payment to Other Funds	$147M	$241M	$241M
Advances/Misc	$67M	$65M	$0
TOTAL	**$6.2B**	**$6.5B**	**$6.1B**

Expectations for FY24 spending expanded amid a mayoral transition, but the AFR demonstrates that all planned spending did not occur, with the FY24 outlay being 1 percent lower than the original budget estimate, and six percent lower than later projections. Police and Prisons had the largest underspends, each by more than $50 million compared to the most recent estimates. Both are departments with a high percentage of their budget allocated to staff costs and have high vacancy rates.

Areas of Concern

1. Tax revenues in FY24 were less than in FY23 and lower than initially projected in the FY24-28 Plan approved by PICA. PICA will need to carefully monitor collections as compared to estimates during FY25 and as it considers how reasonable projections in the upcoming FY26-30 Plan are.
2. Spending growth from FY23 to FY24 was 10X the rate of revenue growth (3.6% versus 0.3%). While some of this was intentional, for example front-loading one-time costs for Parker Administration priorities, continuing operating deficits pose a risk to maintaining positive fund balances in future years.
3. Lower than planned personnel costs, while having a positive impact on fund balance, reflect the ongoing struggle to achieve desired staffing and service levels. Future projections of wages and benefits will be monitored for consistency and reasonableness based on actual experience. Upcoming labor contracts may also result in future costs that vary from the PICA-approved FY25-29 Plan.