Ranking Reserves: Benchmarking Philadelphia's Financial Cushion

The ability of a city to withstand economic downturns is the most significant indicator of a city's fiscal health. In 2021, the City of Philadelphia grappled with revenue losses and new service needs due to the COVID-19 pandemic. At that time, PICA urged the City to think more about the components of the City's reserves – year-end fund balances and rainy-day funds – to reduce volatility and uncertainty in its finances. PICA published a 2021 report outlining the then-current state of Philadelphia's fund balance and rainy day funds (called the Budget Stabilization Reserve) benchmarking comparison cities from fiscal year 2020. The analysis revealed that Philadelphia ranked close to the bottom in reserves, 16th out of 18 cities, with under one percent of its budget set aside for reserves.

In 2025, there are new threats on the horizon that have the potential to affect the City's revenue streams and potentially increase service demands. Inconsistency and uncertainty in state and federal funding that may lead to a reduction or elimination of services and supports provided to Philadelphians could have a major impact on community needs and in turn the City's finances. Reserves serve as an insurance policy for cities in times of uncertainty, economic downturns, and fiscal crises. Strong reserves require a commitment to consistent funding, which strengthens a city's capacity for uncertainty.

To see where the City stands post-COVID, PICA updated the analysis, comparing the City of Philadelphia with nine comparison cities using the most recent Annual Comprehensive Financial Report (ACFR) to measure how robust reserves are relative to revenues. Comparison cities were selected based on one or more similarities to the City of Philadelphia in annual general fund revenues, population size, median income, and/or rates of poverty. When evaluating reserves, it is important to not just look at the year-end fund balance, but the total resources set aside for fiscal stability. This includes the fund balance, a city's designated rainy day fund (if it has one), and any other resources dedicated to addressing fiscal disruptions. Considering reserves holistically provides a clearer picture of a city's capacity to withstand financial shocks.

A city's revenue capacity to withstand a fiscal crisis may be tied to underlying demographics. Socioeconomic factors like population size, poverty rate, and median income can influence the amount a city is able to save and the stability of revenues a city can generate. For example, a larger or growing population may provide a larger tax base, while higher poverty rates and lower than average median incomes may limit capacity for revenue growth and increase the demand for city services.

How Fiscally Resilient is Philadelphia?

Despite being at historical highs, Philadelphia's reserves relative to revenues remain at a lower level than comparison cities. In FY24, the City had $1.1 billion (18 percent of revenues) in reserves, meeting the Government Finance Officers Association (GFOA) recommendation of two months' worth of revenues or spending (17 percent). These were the highest reserves the City achieved since the rainy day fund was established in 2011. There has been a significant improvement since FY20 where reserves were under one percent of obligations, which was the benchmark at the time.

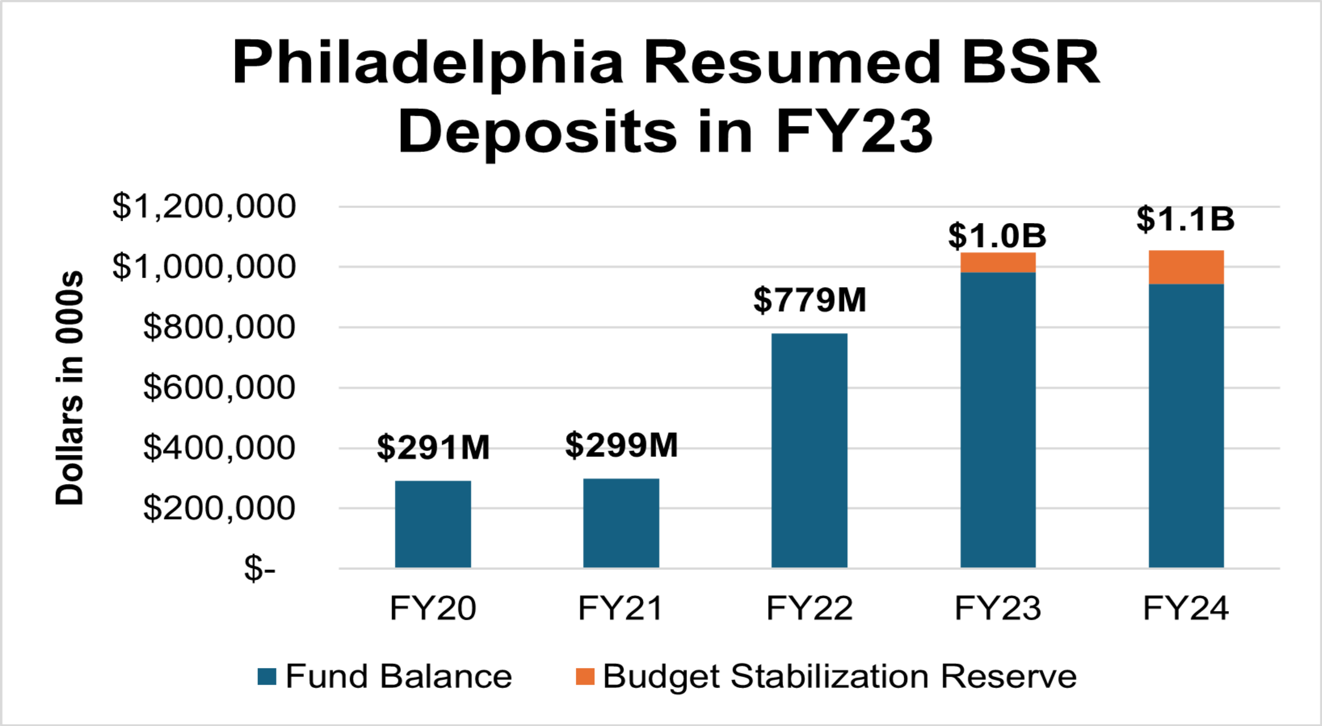
The significant reserves in FY24 were possible due to underspending on personal services because of hiring and retention challenges, one-time COVID-relief funds, a rebound in revenue collections, and a resumption of deposits into the City's rainy day fund. Even with tremendous improvement over its reserve levels in FY21, in FY24 Philadelphia ranked 7th among the 10 cities, including ones with higher poverty rates and lower median incomes. Philadelphia fell below the median reserve level for all 10 cities of 20.9 percent of revenues, and this included Chicago which had a negative fund balance.

Key Terms

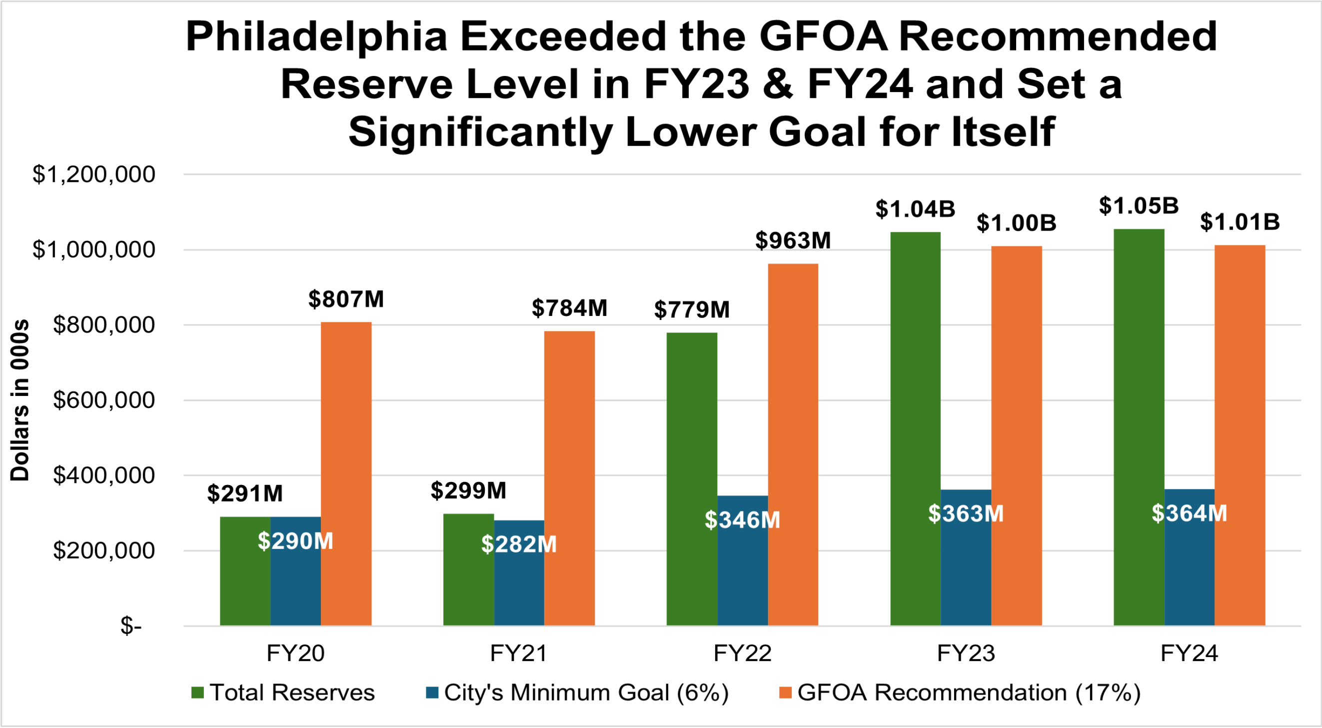
Term	Definition
General Fund Revenues	Income from taxes, fines and fees, certain revenues from the state and federal government, and other sources used to support day-to-day operations.
Fund Balance	Revenue remaining from revenues minus spending. Used like a "savings account" that can be built up over time. Funds can be saved or spent in future years and can be used to fill budget gaps or new policy or program priorities.
Rainy Day Fund	Money is earmarked specifically for fiscal stability, often created through legislation. Use is typically restricted to unexpected emergencies. Not all cities have Rainy Day Funds.
Reserves	The combined resources of a city's fund balance, rainy day fund, and any other funds set aside for unanticipated needs and emergencies.

Philadelphia's Reserves

Philadelphia is required to maintain a positive fund balance and since 2011 the City has had infrastructure in place for dedicated reserves beyond the fund balance through the authorization of a rainy day fund, called the Budget Stabilization Reserve (BSR). The first deposit did not come until years after its creation and was swiftly withdrawn to address COVID-related needs. In May 2023, Philadelphia voters approved changes to the formula to calculate if and how much money should be deposited into the BSR. The BSR deposit schedule is contingent on the amount of the City's fund balance as a percentage of general fund revenues for the fiscal year. For example, if the fund balance is less than three percent of the general fund revenues, then there is no deposit, but if the fund balance is between three and five percent of revenues then the City must deposit three-quarters of a percent of revenues into the BSR.



Philadelphia Resumed BSR Deposits in FY23
Dollars in 000s
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
$291M
$299M
$779M
$1.0B
$1.1B
FY20
FY21
FY22
FY23
FY24
Fund Balance
Budget Stabilization Reserve



Philadelphia Exceeded the GFOA Recommended Reserve Level in FY23 & FY24 and Set a Significantly Lower Goal for Itself
Dollars in 000s
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
$291M
$290M
$807M
$299M
$282M
$784M
$779M
$346M
$963M
$1.04B
$363M
$1.00B
$1.05B
$364M
$1.01B
FY20
FY21
FY22
FY23
FY24
Total Reserves
City's Minimum Goal (6%)
GFOA Recommendation (17%)

While the GFOA recommends that cities hold unrestricted reserves equal to 16.7 percent of annual spending or revenues — $1 billion for Philadelphia as of June 30, 2024, the City's target for its reserves (fund balance, the BSR, and other fiscal reserves) has been more modest: at least six to eight percent of revenues. The lower level reflects a trade-off for building reserves against current service needs and tax burdens.

FY24 Revenue and Reserves (dollars in 000s)

City	GF Revenues	Fund Balance	Rainy Day Fund	Total Reserves	Reserves as % of GF Revenues
Seattle	$2,272,762	$864,599	$235,570	$1,100,169	48.40%
Baltimore	$2,213,604	$663,045	$259,021	$922,066	41.70%
Milwaukee	$860,527	$199,352	$142,108	$341,460	39.70%
Memphis	$727,111	$96,870	$97,379	$194,249	26.70%
Houston	$2,995,646	$28,627	$601,986	$630,613	21.10%
Denver	$1,716,886	$213,748	$142,575	$356,323	20.80%
Philadelphia	***$6,063,575***	***$942,900***	***$112,799***	***$1,055,699***	***17.40%***
San Francisco	$6,736,210	$459,124	$444,549	$903,673	13.40%
Columbus	$1,409,651	$53,321	$102,800	$156,121	11.10%
Chicago	$5,496,650	-$161,619	$0	-$161,619	-2.90%

Philadelphia had more robust reserves in FY24 but was below the 10-city median of 20.9 percent

Cities Population, Poverty Rate, and Median Income

City	Reserves as Share of GF Revenues (%)	Population	Poverty Rate	Median Income
Seattle	48.40%	741,440	9.9%	$121,984
Baltimore	41.70%	577,193	20.2%	$59,623
Milwaukee	39.70%	569,756	23.3%	$51,888
Memphis	26.70%	629,063	22.5%	$51,211
Houston	21.10%	2,300,419	19.7%	$62,894
Denver	20.80%	713,734	11.2%	$91,681
Philadelphia	***17.40%***	***1,582,432***	***22.0%***	***$60,698***
San Francisco	13.40%	836,321	10.6%	$141,446
Columbus	11.10%	906,480	17.8%	$65,327
Chicago	-2.90%	2,707,648	16.8%	$75,134
Source: U.S. Census Bureau American Community Survey 5-Year Estimates, 2023.				

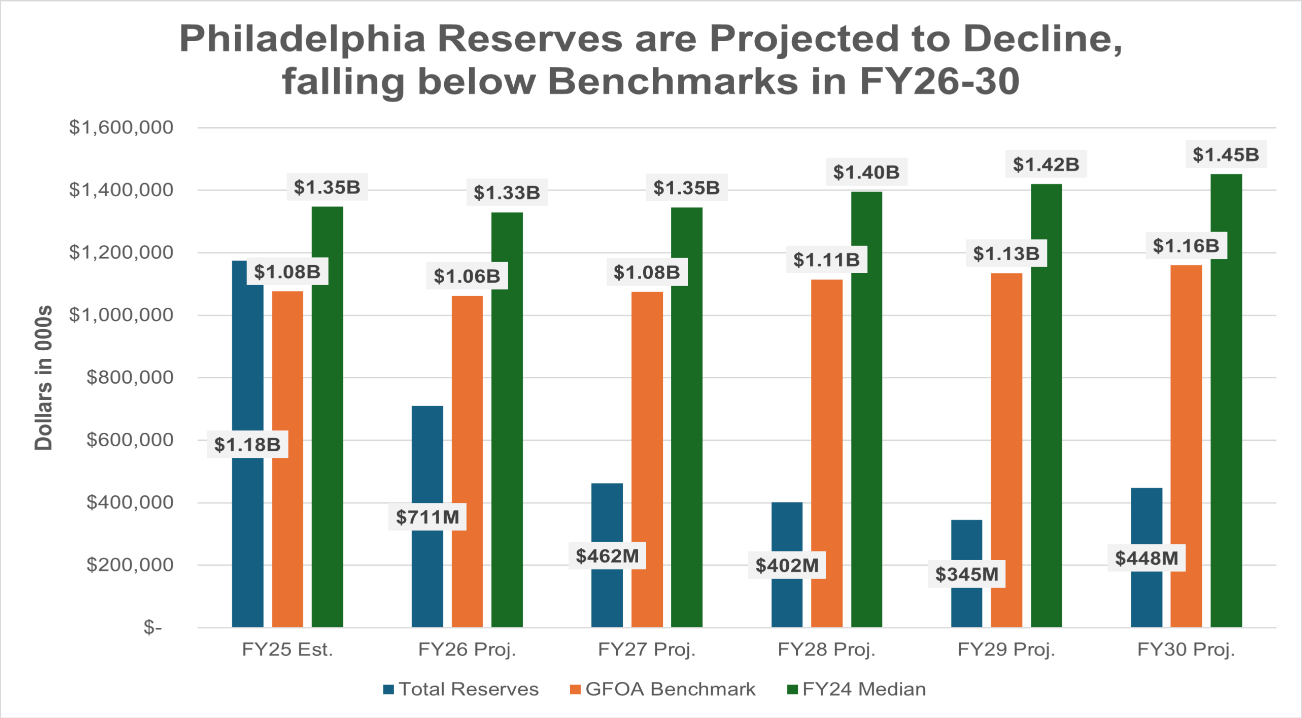
In FY24, the City of Philadelphia slightly exceeded GFOA benchmarks with reserves at 18 percent of General Fund revenues. While an important milestone Philadelphia had the fourth lowest level of reserve among the ten cities, falling below the median reserve level of 20.9 percent of revenues. Philadelphia ranks last among cities that met or exceeded GFOA reserve recommendations, including cities like Memphis and Milwaukee that had higher poverty rates and lower median incomes.

Seattle leads its comparisons by significantly exceeding GFOA recommendations with reserves roughly 50 percent of general fund revenues. With a poverty rate of just under ten percent in 2024, below the national average, and a median income of $81,604, above the national average, Seattle had comparatively higher revenue capacity than Philadelphia. Baltimore ranked second in reserves as a percentage of revenue, which is notable given its high poverty and low median income.

Cities that fell below GFOA recommendations faced significant fiscal strain in FY24. Chicago, for example, ended the year with a $162 million deficit, as expenditures significantly outpaced revenues sending its fund balance negatively. A primary driver of this shortfall is Chicago's ongoing pension crisis. According to the Center for Tax and Budget Accountability's 2024 report, Chicago faces a $33.9 billion unfunded pension liability. In 2022 alone, Chicago carried $44.7 billion in liabilities but had just $10.8 billion in assets to offset them. In 2025, the fiscal strain led to the layoff of over 1,400 public school employees, including 432 teachers, and Chicago is projecting continued deficits into FY26.

By contrast, San Francisco had reserves below the GFOA recommended level but different challenges than Chicago. Its FY24 Annual Comprehensive Financial Report outlined long-term economic challenges, including persistently high office vacancies (not expected to return to pre-pandemic levels for at least a decade), the continuation of remote work, elevated interest rates, and ongoing weakness in the technology sector that anchors San Francisco's economy.

Philadelphia's Shrinking Reserves: FY26-30 Projections



The City of Philadelphia expects its reserves to decline in the coming years. In the Adopted FY26-30 Five-Year Plan, Philadelphia's General Fund balances are projected to decrease from $471 million in FY26 to $45 million in FY29, before increasing to $148 million in FY30. In FY29, the City is expected to have a large balloon payment for its pension obligation bonds, causing the fund balance to be lower that year. Even with the FY30 uptick in fund balance, total reserves are projected to decrease from $711 million in FY26 to $448 million in FY30, indicating less ability for the City to respond quickly and effectively to an unexpected fiscal crisis over time, although the planned growth in FY30 is heartening.

Recommendations

Philadelphia can and should improve its fiscal resiliency by maintaining and increasing reserves in the coming years. Its experience between FY21 and FY24 demonstrates that progress is possible, and many other cities, including those with similarly challenging socioeconomics, have been able to create larger financial cushions. To get there, Philadelphia should consider:

1. **Developing "stress tests" for reserves** by reviewing and/or working with GFOA risk analysis to develop models to see how the City's reserves fare under state and federal funding cuts and delays, economic downturns, natural disasters, and more.
2. **Creating a long-term vision and pathway to achieve recommended reserve levels.** While the short-term trade-offs required to achieve recommended levels of reserves have been deemed too severe given current service needs and tax burdens, the City should develop an approach to improve its financial cushions over time. The City's award-winning approach to improving the funding level of its Pension Fund can serve as inspiration and could yield similar short-term benefits by providing consistency that increases the confidence of rating agencies and investors even before the reserve level goals are achieved.

About This Report

This publication was authored by Octavia C. Geiger, Research and Policy Analyst, and edited by Marisa Waxman, Executive Director. This publication includes an image generated by ChatGPT. All AI-generated content was reviewed by PICA Staff prior to publication.

Methodology

To benchmark Philadelphia's preparations for a fiscal emergency, PICA compared cities' total reserves (fund balances and rainy day funds) as a percentage of general fund revenues for fiscal year 2024 (the most recent year with available audited financial statements). While there are no perfect comparisons, the nine cities were selected based on demographic, economic, and/or fiscal characteristics. For each city, general operating revenues, fund balances, and rainy day fund information were obtained from each city's Annual Comprehensive Financial Report (ACFR). Information on specific policies of each city was obtained using their ACFR or other official city budget documents. Demographic information was sourced from the U.S Census Bureau American Community Survey 5-Year Estimates, 2023.