TRENDS IN THE REGIONS

Philadelphia's five-year plan stays the course on stronger finances

By Christina Baker

Published August 03, 2026, 7:59 a.m. EDT

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Philadelphia City Hall. A state oversight board has signed off on the city's five-year budget plan. *Adobe Stock*

Philadelphia's budget was in dire straits in the 1990s.

Bills weren't being paid, said Marisa Waxman, head of the Pennsylvania Intergovernmental Cooperation Authority. The police force ran out of uniforms to give new officers. Employees were being asked to bring their own toilet paper to work.

Today, the city is on much stronger footing.

The city's five-year plan includes deposits into its reserve funds that were already at a record high, and keeps it on a trajectory to fully fund its pension obligations.

"In a perfect world, we might be looking for a fully-funded pension fund, you'd be looking for reserves at the level recommended" by the Government Finance Officers Association," Waxman said. "We're not there yet, but the city is on track to do that."

PICA was created by Pennsylvania in the 1990s as an alternative to letting Philadelphia go bankrupt. Waxman has been executive director since 2023; her previous experience includes 11 years in Philadelphia city government, including almost four years as budget director.

PICA started out by issuing bonds on behalf of the city, Waxman said; today, Philadelphia must submit five-year plans, with fully balanced budgets in all five years, as a condition of receiving state funds.

Philadelphia has shown "tremendous improvement" since PICA was created, Waxman said. Today it's rated A1 by Moody's Ratings and A-plus by S&P Global Ratings and Fitch Ratings.

PICA's board approved the plan for fiscal 2027 to 2031 on Tuesday.

"The city balances a disciplined approach to budgeting with maintaining key investments in the mayor's priority areas and other services that matter to Philadelphians in the near and long term," PICA Board Chair Alan Kessler said in a statement.

PICA's statement did note some "concerning fiscal characteristics" in the plan, "including low fund balances and reserves, as well as planned operating deficits" through fiscal year 2030.

"These factors leave the City more vulnerable to risks including: Federal funding and policy uncertainty, economic downturns/disruptions, future labor needs/costs, and spending pressures stemming from planned fiscal cliffs and opaque budgeting for large initiatives," PICA's staff wrote in the statement.

The city's total reserves are on track to fall from their current 17.8% of its budget to 6.4% of the budget in 2030, according to PICA's analysis.

"We're taking concerted efforts to both maintain fund balance over the long-term and to build up other reserves," Philadelphia Director of Finance Rob Dubow said. He highlighted contributions to multiple different reserve funds in the plan.

"While our fund balance dips in the last couple years of the plan, it builds back up and it gets above 100 million," Dubow added.

"We like to make sure that our reserves are at least 6 to 8% of our revenues, and they are in each year of our plan," he said.

"We're also counting down to when we have a five-year plan that includes the time at which we'll be [fully funding] our pensions," Budget Director Sabrina Maynard said. "That'll be really transformative for us as well, so we're taking a long-term planning approach there."

The out-year deficits are a maneuver from the city to meet the full funding requirements. Under the plan, the city would use surpluses from earlier years to plug gaps in the later years, Dubow said.

Otter doesn't view the out-year gaps as concerning. The city has regularly outperformed its budget in recent years, he said, so he expects the future years to be stronger than Philadelphia's current projections.

"Within the next seven, eight years, the city is going to have hundreds of millions of dollars less in pension expenses than it does right now," said Marisa Waxman, executive director of a state authority that oversees the city's finances.

"Yes some of those years look pretty negative," Otter said, but "we're anticipating stronger-than-budgeted performance."

S&P is prepared to reevaluate Philadelphia's rating if the city burns through its reserves, but its analysts don't expect the city to do so.

Waxman agreed that the city has been undershooting its expenses recently, but she said that's largely because it had left open positions unfilled. It's made more hires recently, she said, so it's possible the city's expenses will rise to meet its budgeted levels.

The plan includes two deposits to the city's record rainy day fund, which S&P analyst Bobby Otter said inspires confidence.

"It gives them quite a cushion going forward," Otter said.

The plan also includes a fund of nearly $600 million for when the city renegotiates its labor contracts, Waxman noted, and maintains the city's $91 million reserve for funding threats from the federal government.

The city's pension obligations are currently 67% funded, Dubow said. They were less than 55% funded ten years ago, and the city's actuary projects they will be 100% funded in 2033.

In fiscal 2029, the city will make a balloon payment on pension obligation bonds it took out in the 1990s, Waxman said.

"They've been structuring their borrowing around knowing that balloon payment is coming," Waxman said. "After that balloon payment, there's a really dramatic drop in the city's debt service.

"That, combined with the city moving towards a fully-funded pension means that, within the next seven, eight years, the city is going to have hundreds of millions of dollars less in pension expenses than it does right now," Waxman said.

Philadelphia has a number of challenges.

It's both a city and a county, Waxman said, so its government has a lot of obligations. It also has relatively high poverty rates.

Philadelphia's revenue sources are somewhat sensitive to the economy, Otter said, putting it at a higher risk to any national economic challenges.

The city is also at risk from the federal government. It received around $2.2 billion of federal funds in 2025, roughly half of which was related to Medicaid, according to Maynard.

Philadelphia's status as both a city and a county also exposes it to more federal risks, Maynard said.

Many of the threats to the city, though, just look like "a letter pausing something," Maynard said, "and then we work with our lawyers, and then sometimes literally the next day, things get un-paused. So we've been navigating all of that. Those things are ongoing."

The city had to tap its federal reserve in 2025 during the pause in SNAP payments during the federal shutdown, Maynard said. That took about $4 million out of the reserve.

Otter noted that the city's management told him they aren't "seeing as aggressive a push" from the federal government as they saw in 2025.

The city has had "very stable fiscal leadership for a number of years," Waxman said, who have employed "thoughtful budgeting."

Otter also praised the city's "well-versed, prudent management team."

"They're well aware of some of the … needs and demands of the city," he said.

Dubow credited some of the city's financial strength to PICA.

PICA requires Philadelphia to "look out over the medium term," Dubow said. "We're not doing things, gimmicks to get us through the year. We have to look at the long term as we do our planning."

"It has taken an incredible number of stakeholders collaborating over many years, and being consistent, to build up and get to a place where we're seeing those ratings upgrades, where we're seeing more resiliency in the city budget," Waxman said. The budget "is, thankfully, not a roller coaster."

In the 1990s, the city's finances were so dire that it couldn't even access capital markets, Waxman said. But recently, its bonds have performed very well, according to Treasurer Jacqueline Dunn.

In June, the city priced $50 million of bonds through its Redevelopment Authority and $30 million through its Energy Authority. Dunn said those deals were 4.5 times oversubscribed and nearly three times oversubscribed, respectively.

In March, the city priced $400 million of bonds for its affordable housing program. The five-year plan assumes the city will issue a second time for the program, but the timing will be determined later based on cash flow needs, Dunn said.

Philadelphia maintains a conservative investment strategy, Dunn said; it avoids issuing general obligation bonds, relying on pay-as-you-go spending when possible. However, it has two deals coming this fall.

In August, the city's gas utility plans to price a $350 million refunding deal, which Dunn said will likely include a tender component.

Philadelphia also plans to issue $450 million of GO bonds in the fall.

Dunn is "looking forward to strong reception," she said. "The gas works credit doesn't issue that often, so we're hoping there will be strong investor interest there."

The city's water department also plans to issue $400 million in December.

"We think the city's overall positive credit story is attractive to investors," Dunn said.

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Jul 31, 2026