Looking Backwards and Looking Ahead: The City of Philadelphia's Fiscal Performance & Projections

Philadelphia's fiscal position at the close of FY25 looked markedly different from the one projected through FY31. Record General Fund balances, operating surpluses, and reserve growth gave way in the FY27-31 Five-Year Plan to planned operating deficits, declining reserves, and a temporary increase in long-term obligations, which peak in FY29 before declining through FY31, as the City continues to invest in priorities such as full pension funding. This transition also comes as temporary federal relief that supported City services and helped preserve other revenues during the pandemic recovery is no longer available. Comparing the most recent, actual, audited results from FY25 to the City's expectations for the future provides insight into how the City's priorities may have shifted and what those changes mean for Philadelphia's long-term fiscal outlook. However, it is important not to over-emphasize the difference between recent results and fiscal projections, as the City has built a consistent track record of outperforming its benchmarks.

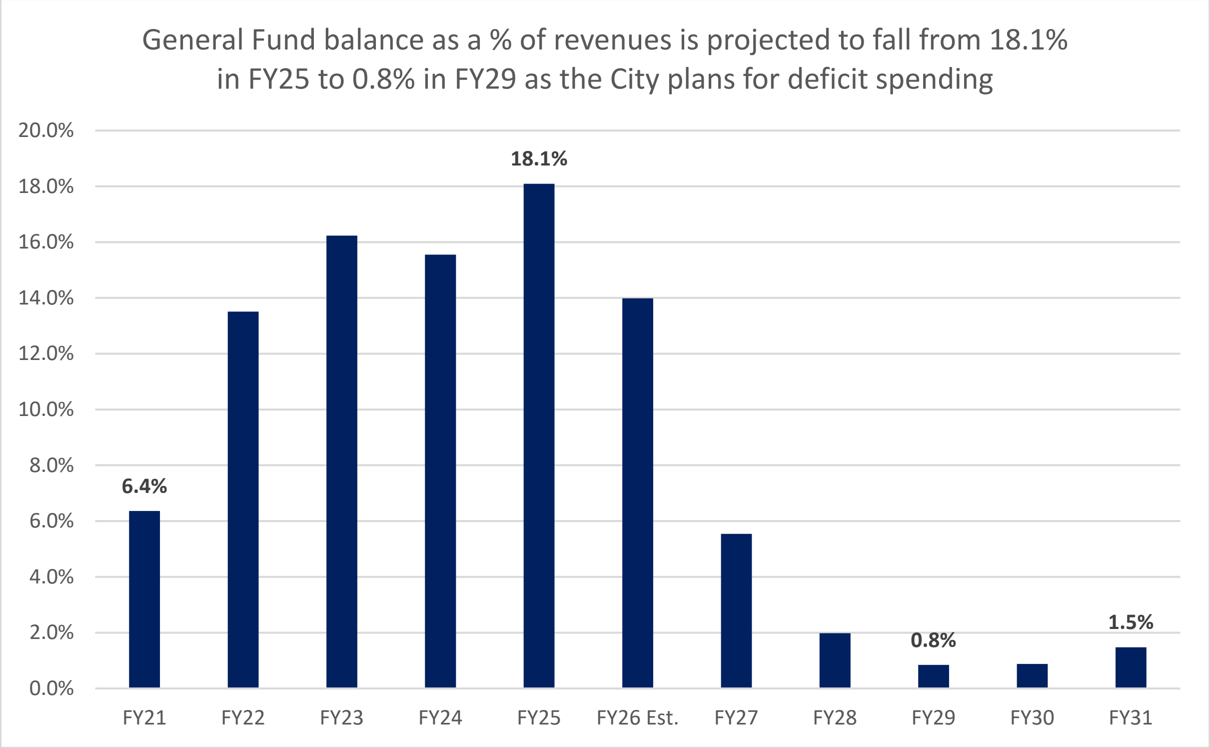
Comparing the fiscal indicators presented in PICA's *Foundations for the Five-Year Plan* with those in the *Staff Report on the City of Philadelphia's FY27-31 Five-Year Plan* demonstrate how Philadelphia's fiscal condition has evolved over the past five years and how it is projected to change over the next five years, providing a broader view of the City's long-term financial trajectory.

Of the six fiscal indicators the City makes forward looking projections for, two are expected to improve compared to the preceding five years, one is projected to be at roughly the same level by FY31 as it was a decade earlier, and three are anticipated to have lower performance over the coming Plan than in the prior five years:

Getting Better	Returning to Past Levels	Declining Expectations
The funded percentage of the Pension Fund and total General Fund revenues **are projected to increase from FY27 through FY31 as compared to FY21-25.**	**Long-term obligations as a percent of spending** are projected to return in FY31 to similar levels as FY21 following a period of increased debt obligations.	**Operating surplus/deficit, General Fund balance, and total reserves** are projected to decline from FY21–25 levels and reach their lowest points in FY29 before beginning to improve in FY30 and FY31. Despite this improvement in the latter years of the Plan, these indicators remain below FY21–25 levels.

General Fund Balance

Compared with FY21-25, when Philadelphia built record General Fund reserves, the FY27-31 Plan projects a planned drawdown of those reserves to support several years of operating deficits.

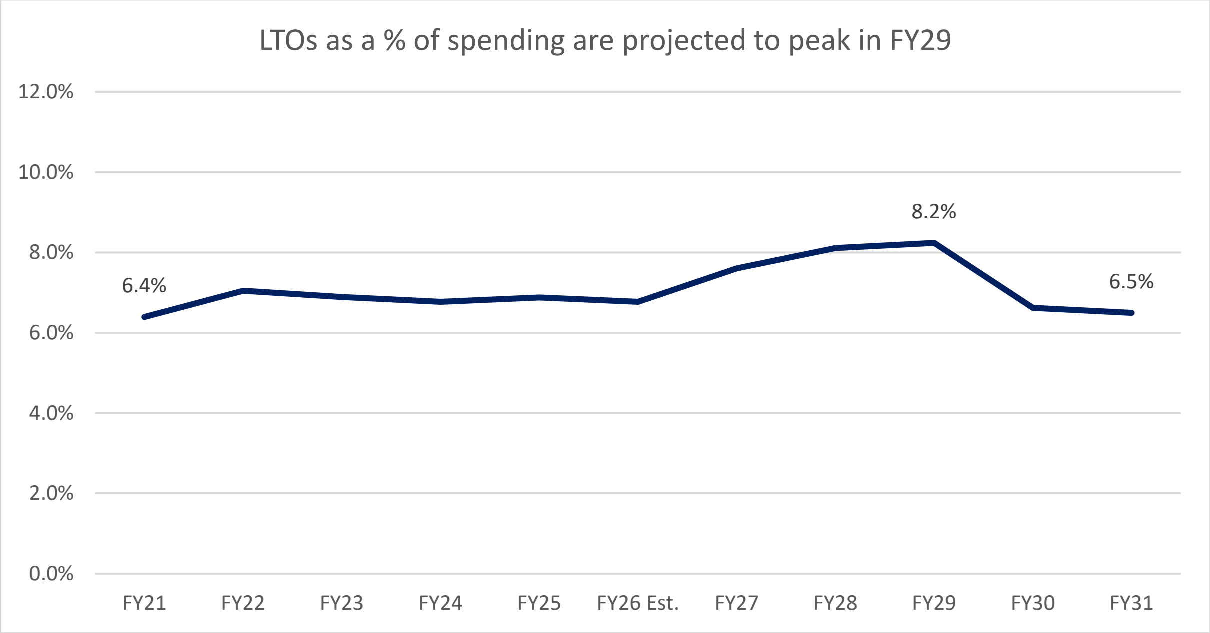


The General Fund Balance increased in four of the five years between FY21 and FY25, reaching a record $1.19 billion in FY25, during which time federal American Rescue Plan (ARP) funds enabled the City to make crucial investments and continue vital services while allowing the City to use its other revenue streams to grow the fund balance. Strong operating results and savings from staff vacancies also contributed to this growth. As a result, the General Fund Balance grew from 6.4 percent of revenues in FY21 to 18.1 percent in FY25.

The FY26 estimate projects a 25 percent decline in the General Fund Balance from FY25, followed by additional declines through FY29 as reserves are used to finance planned operating deficits. Consequently, the General Fund balance is projected to fall to 0.8 percent of revenues before recovering modestly by FY31. General Fund balances include prior-year adjustments to represent the City's actual financial position at year-end.

Long-Term Obligations (LTO) as a Percent of Spending

Viewed alongside the relatively stable LTO ratios of FY21 through FY25, the FY27-31 Plan anticipates a temporary increase in fixed costs as the City works toward full pension funding and makes large payments on legacy debt service.

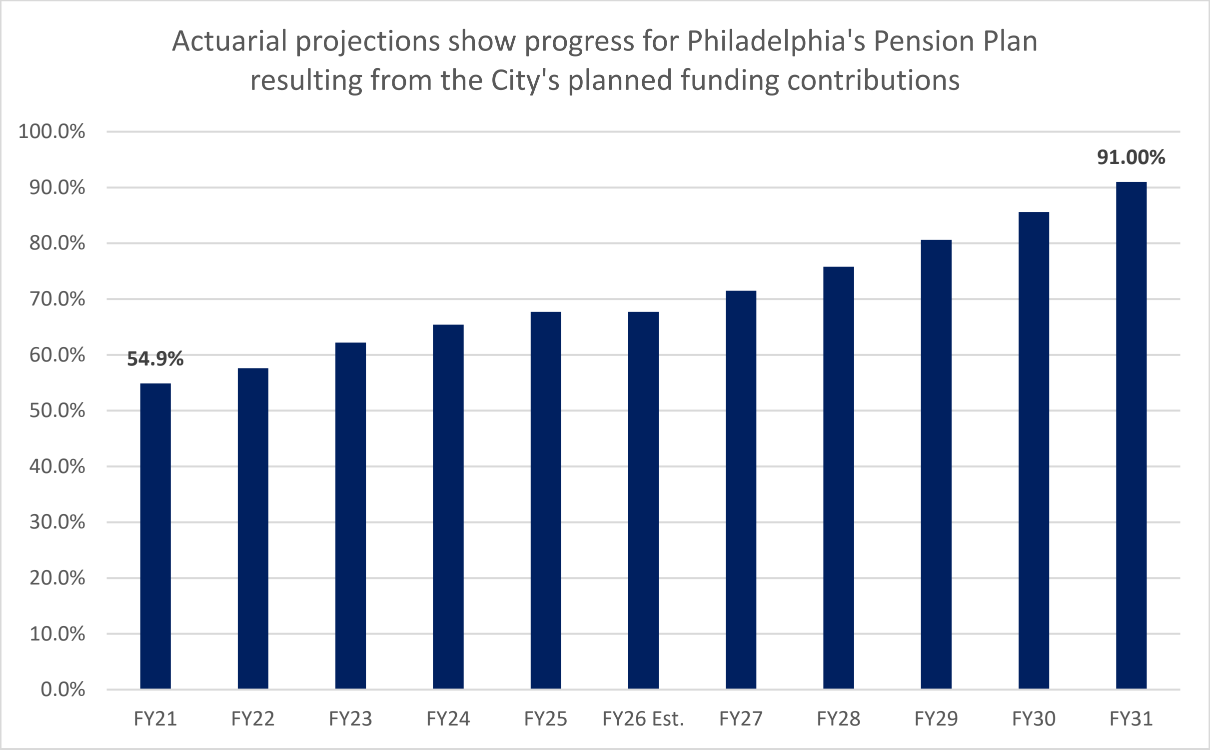


Philadelphia's ratio of Long-Term Obligations (LTOs) as a Percent of General Fund Spending remained relatively flat between FY21 and FY25 but is projected to increase from FY26 through FY29 before declining in the final two years of the plan. LTOs remained just under 7 percent of General Fund spending throughout FY21-25, slightly above PICA's 6 percent threshold for moderate concern. The ratio is estimated at 6.8 percent in FY26 and peaks at 8.2 percent in FY29, largely due to a balloon payment on the City's Pension Obligation Bonds (POBs) in that year. After that payment, annual POB debt service drops from more than $180 million to less than $2 million, reducing the LTO ratio to 6.6 percent in FY30 and 6.5 percent in FY31. Thus, the elevated obligations from FY27-29 are planned to be temporary and largely reflect borrowing decisions made decades ago.

Excluding POB payments, long-term obligations as a share of General Fund spending generally declined from 5.8 percent in FY21 to 5.0 percent in FY25 in FY25 and are projected to generally increase over the Five-Year Plan, reaching 6.5 percent by FY31. By the end of the Plan, total long-term obligations return closer to historical levels, but with a different composition as declining POB payments are offset in part by increases in other long-term obligations.

Percent of Pension Funded

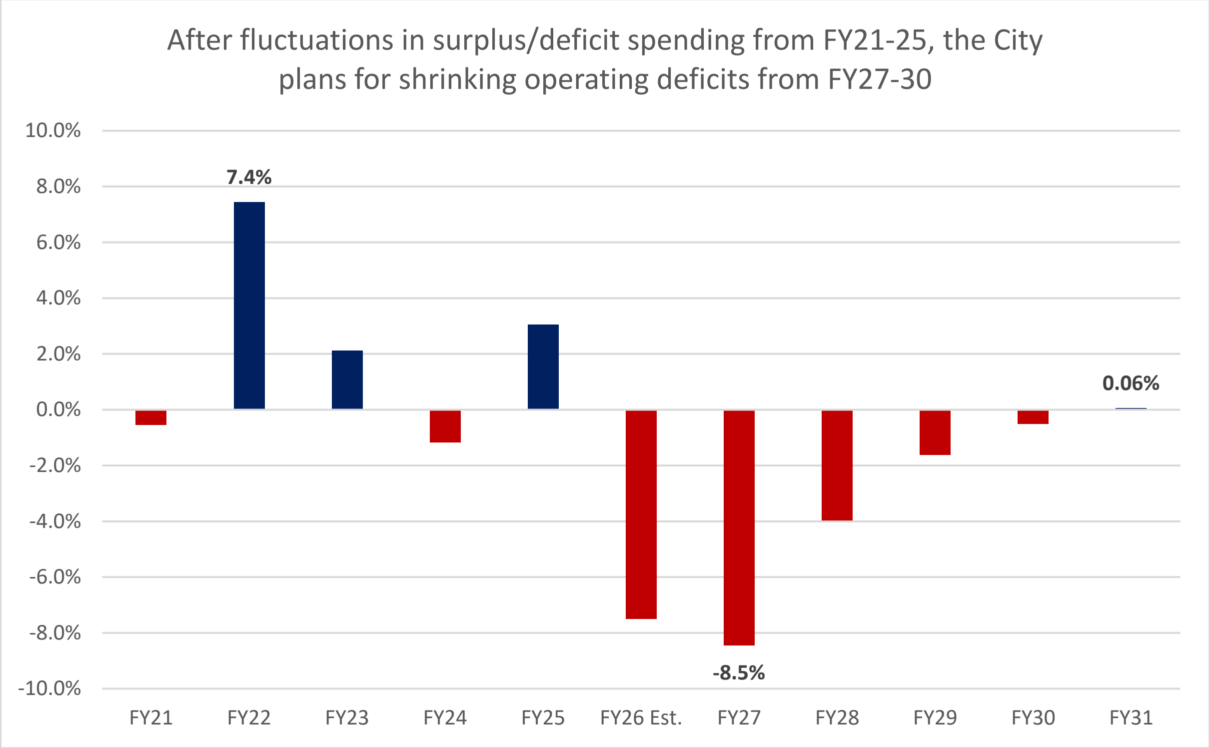
Compared with FY21, the FY27-31 Plan projects substantial progress toward full pension funding, reflecting the City's continued commitment to strengthening its long-term financial position.



Philadelphia's Pension Fund was 54.9 percent funded in FY21 and has continued to improve as the City has maintained its Revenue Recognition Policy (RRP), which requires pension contributions above the legally required minimum. The FY27-31 Plan assumes continued adherence to the RRP, and the City's actuary projects that, given continued adherence to this funding policy, the Pension Fund will reach 91.0 percent funded by FY31 and achieve full funding by 2033. When the fund reaches 100 percent funded, the City's actuarially required pension payment will decrease by hundreds of millions of dollars, providing greater budget flexibility overall.

Operating Surplus/Deficit as a Percent of Revenues

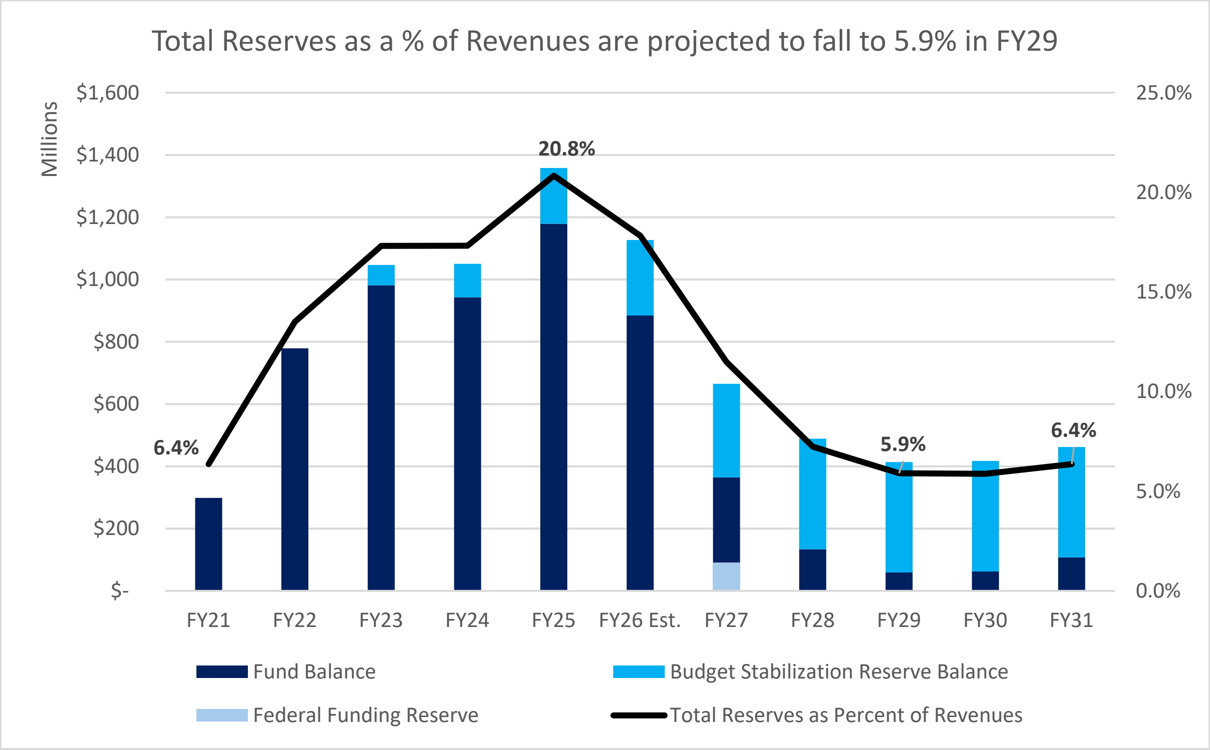
Compared with FY21-25, when operating surpluses helped build historically strong General Fund balances, the FY27-31 Plan anticipates several years of operating deficits supported by those previously accumulated reserves.



Philadelphia achieved operating surpluses in FY22, FY23, and FY25, with the largest surplus reaching 7.4 percent of revenues in FY22. By contrast, the FY27-31 Plan projects operating deficits from FY26 (estimated) through FY30, beginning with an estimated deficit of 7.5 percent of revenues in FY26 and peaking at 8.5 percent in FY27 before gradually narrowing to a 0.06 percent operating surplus in FY31. The planned deficits are supported by reserves accumulated during FY21-25 before returning to a balanced operating position in FY31. Operating surplus/deficit figures presented here exclude prior-year adjustments to isolate the results of each year's fiscal operations.

Total Reserves for Unanticipated Events as a Percent of Revenues

Compared with FY21-25, when growth in the General Fund Balance drove significant increases in the City's overall reserve levels, the FY27-31 Plan draws down General Fund and Federal Funding reserves while preserving the Budget Stabilization Reserve (BSR), which acts as the City's rainy day fund.



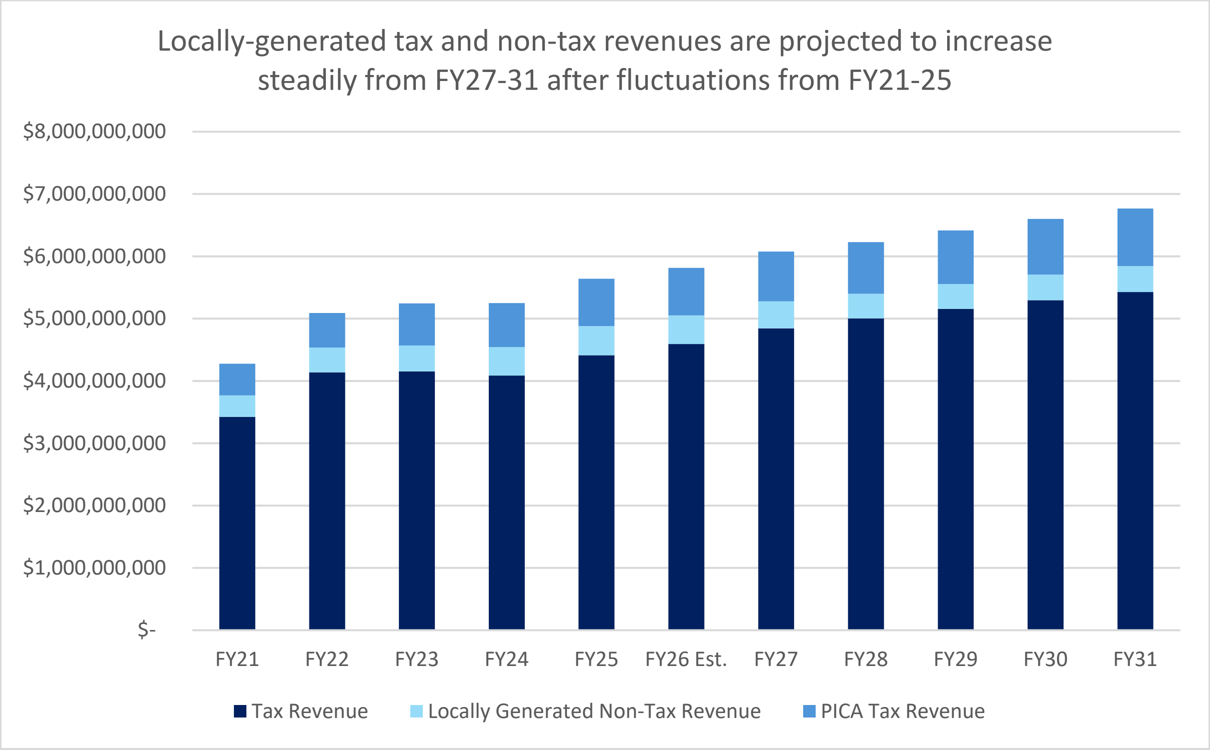
* Reserve Balances assume Federal Funding Reserve is spent in FY27

Total reserves for unanticipated events increased from 6.4 percent of revenues in FY21 to a high of 20.8 percent in FY25. Under the City's Home Rule Charter, deposits into the Budget Stabilization Reserve are required based on the size of the General Fund Balance. Charter changes to the BSR deposit requirements in 2023 have contributed to accelerated deposits in recent years, as increased General Fund balances from FY21-25 have triggered larger required contributions.

The FY27-31 Plan projects total reserves will decline to a low of 5.9 percent of revenues in FY29 before recovering to 6.4 percent in FY31. This includes a $91 million Federal Funding Reserve, which is shown in the City's Five Year Plan to be fully expended in FY27. Total reserves also reflect two deposits of $57.4 million and $54.7 million into the BSR in FY27 and FY28, raising the total BSR balance to just under $355 million that is not planned to be drawn down during the Plan period. Unlike the General Fund Balance, the BSR is not designed to automatically offset planned operating deficits. As a result, the City enters the Plan with an additional reserve cushion created during FY21-25.

Change in General Fund Tax and Locally Generated Non-Tax Revenues

Compared with the volatility experienced during FY21-25, the FY27-31 Plan projects a return to more stable growth in General Fund tax and locally generated non-tax revenues.



Revenue growth during FY21-25 reflected the City's navigation of the COVID-19 pandemic and following recovery, ranging from 19.0 percent growth between FY21 and FY22 to just 0.1 percent between FY23 and FY24. By contrast, the FY27-31 Plan projects positive revenue growth in every year, led by projected growth of 4.5 percent in FY27 before moderating to between 2.5 and 3.0 percent annually through FY31.

Although revenue growth remains dependent on economic and demographic conditions, as well as rate and structural changes, the FY27-31 projections reflect a less volatile revenue environment following the expiration of ARP funding and the unwinding of pandemic-related disruptions. The City's revenue assumptions were reviewed by PICA's independent economic consultant and found to be reasonable, supporting the Plan's projected revenue growth despite several years of planned operating deficits.

Recent Wage and Earnings Tax collections provide additional support for these projections. As Philadelphia's largest General Fund revenue source, Wage and Earnings Tax collections exceeded estimates in each year from FY22 through FY25, with estimates in these years ranging from 100.3 to 111.3 percent of actuals. While past performance does not guarantee future results, the City’s trend of accurate, if not slightly conservative, Wage Tax forecasting lends additional support to the reasonableness of the revenue assumptions underlying the FY27-31 Plan.