Fact Sheet: Philadelphia's FY26 Annual Financial Report

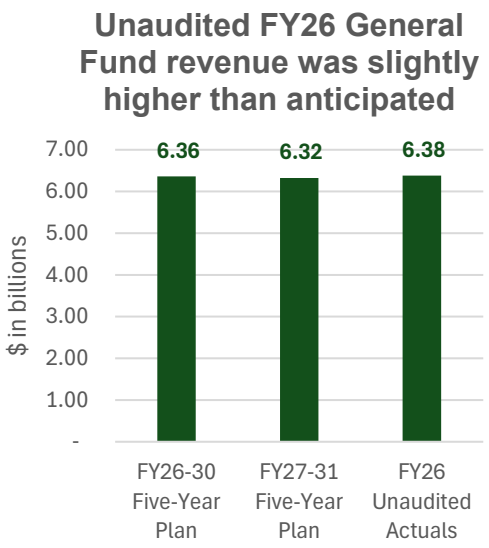
Key Takeaways

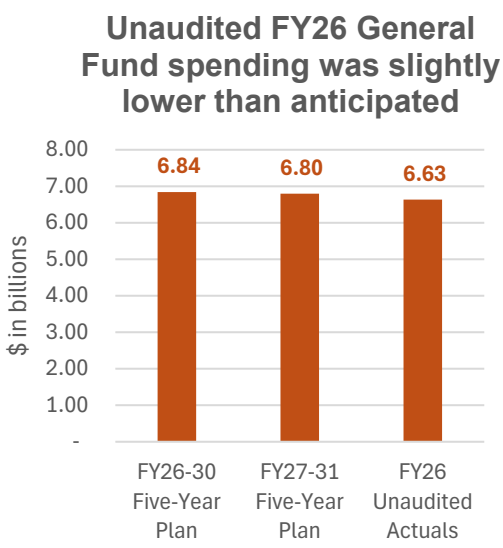
Preliminary unaudited figures show that the City of Philadelphia ended FY26 with an operating deficit of $251.6M, bringing in $6.38B in revenue against $6.63B in spending. The operating deficit, combined with a starting fund balance of $1.18B, resulted in a year end fund balance of $982.3M. The FY26 year end fund balance was equal to 15.4% of revenues, above the City's goal of 6-8% of revenues but below the GFOA's recommended level of 17%.

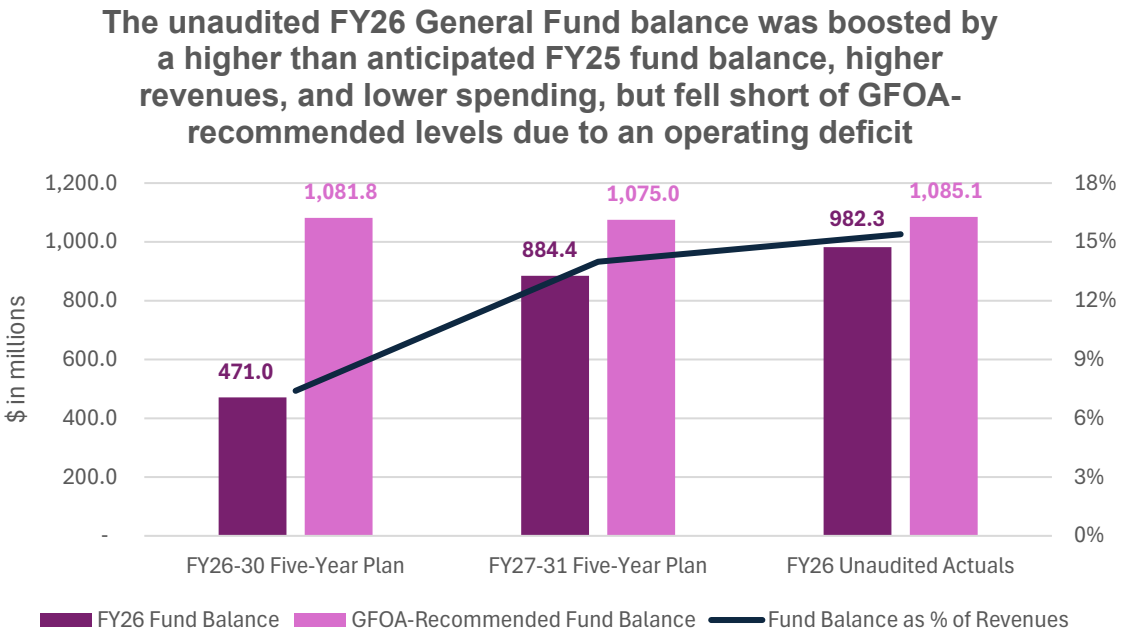
- FY26 revenues were $59.0M (0.9 percent) higher than anticipated in the FY27-31 Plan, driven by higher than anticipated BIRT, Sales, and Real Estate Tax collections, partially offset by lower than anticipated Wage and Earnings Tax collections.
- FY26 spending was $163.8M (2.4 percent) lower than anticipated in the FY27-31 Plan, driven primarily by less expenditures for salaries, wages, and benefits, as well as reduced spending on contracted services.

Areas of Concern

- Lower than expected Wage and Earnings Tax collections.
- An operating deficit that drove the General Fund balance from above the GFOA-recommended 17% in FY25 to below the GFOA-recommended level in FY26.







FY26 General Fund Results

Figures in the PICA-approved Plan detail revenue and spending expectations at the start of the fiscal year. Throughout the fiscal year, the City updates its revenue and spending estimates in its Quarterly City Managers Reports. In the final month of the fiscal year, the City includes any updated figures in the Plan it submits to PICA. These figures incorporate known shifts in revenue collection and spending appropriations throughout most of the fiscal year, but do not include any changes incorporated resulting from adjustments or accruals. The unaudited actuals included in the Annual Financial Report incorporate those late breaking changes.

FY26 General Fund Revenues

General Fund Revenues ($ in thousands)					
Revenue Source	**July 2025 Expectations (FY26-30 Plan)**	**July 2026 Expectations (FY27-31 Plan)**	**FY26 Results (Unaudited Actuals)**	**FY26 Results vs. FY26-30 Plan**	**FY26 Results vs. FY27-31 Plan**
Tax	4,555,182	4,592,971	4,607,147	51,965	14,176
LGNT	410,440	460,334	455,089	44,649	(5,245)
Other Gov'ts	1,225,774	1,189,469	1,228,171	4,397	38,702
Other Funds	172,105	80,902	92,286	(81,819)	11,384
Total	**6,363,501**	**6,323,676**	**6,382,693**	**19,192**	**59,017**

The City's projection for total FY26 General Fund revenue in the FY26-30 Five-Year Plan approved by the PICA Board in July of 2025 was nearly spot on, with unaudited final figures in October of 2026 coming in less than one percent higher ($19.2 million) than anticipated. The blend of General Fund revenues that got the City's overall projection close to the bullseye was somewhat different than initially anticipated. Less of the total came from Other Funds because the City decided over the course of the year not to draw down interest earnings and more came from tax revenue and interest earnings.

Estimates for FY26 revenues included in the PICA-approved FY27-31 Five-Year Plan were slightly further from the mark. In July, the City had anticipated less revenue than it eventually received from Other Governments, BIRT, Sales and Real Estate Taxes, and Other Funds.

Although unaudited final amounts show higher FY26 General Fund Tax revenue than anticipated by either the FY26-30 or FY27-31 Five-Year Plans, revenue from the City's Wage and Earnings Tax – which generates more than 30 percent of the City's General Fund revenue – came in slightly lower than expected.

FY26 General Fund Spending

General Fund Spending ($ in thousands)					
	July 2025 Expectations (FY26-30 Plan)	July 2026 Expectations (FY27-31 Plan)	FY26 Results (Unaudited Actuals)	FY26 Results vs. FY26-30 Plan	FY26 Results vs. FY27-31 Plan
Class 100	4,091,782	4,128,855	4,023,834	(67,948)	(105,021)
Class 200	1,608,223	1,578,721	1,521,401	(86,822)	(57,320)
Class 300/400	177,403	171,151	164,639	(12,764)	(6,512)
Class 500	476,983	494,333	493,476	16,493	(857)
Class 700	231,495	199,495	192,749	(38,746)	(6,746)
Class 800	155,095	210,095	212,420	57,325	2,325
Class 900	101,577	15,508	25,814	(75,763)	10,306
Total	**6,842,558**	**6,798,158**	**6,634,333**	**(208,225)**	**(163,825)**

The City closed out FY26 spending 3.0 percent ($208.2 million) less than anticipated in the FY26-30 Five-Year Plan, and 2.4 percent ($163.8 million) less than estimated by the FY27-31 Five-Year Plan. Since FY23, the City has spent less than it budgeted for personnel costs, which include payroll and benefits, each fiscal year. Compared to initial Five-Year Plans for each fiscal year from FY23-26, personnel underspending peaked at 3.3 percent ($127.1 million) in FY24 and has since declined as City staffing levels have improved. In FY26, the City spent 1.7 percent less ($67.9 million) on payroll and benefits than estimated in the PICA-approved FY26-30 Plan. The City also spent less than it budgeted on professional services and debt service due to delayed borrowings.

Areas with spending that ended the fiscal year notably higher than originally budgeted included payments to other funds and contributions, indemnities, and taxes. Increased appropriations for payments to other funds included a $55 million transfer from the General Fund to the Transportation Fund to cover costs related to significant winter storms. Appropriations for contributions, indemnities, and taxes saw a $17.4 million increase in the FY26 mid-year appropriations bill, resulting in a net increase of $16.5 million (3.5 percent) over the FY26-30 Plan's anticipated FY26 Class 500 spending.

FY26 General Fund Balance

General Fund Balance ($ in thousands)				
July 2025 Expectations (FY26-30 Plan)	July 2026 Expectations (FY27-31 Plan)	FY26 Results (Unaudited Actuals)	FY26 Results vs. FY26-30 Plan	FY26 Results vs. FY27-31 Plan
470,969	884,415	982,255	511,285	97,840

Unaudited final figures for FY26 show the City's General Fund ending the fiscal year with a $982.3 million fund balance, $511.3 million (108.6 percent) higher than estimated in the FY26-30 Five-Year Plan, and $97.8 million (11.1 percent) higher than estimated in the FY27-31 Plan. The FY26 General Fund balance was boosted by a higher than anticipated FY25 fund balance, and a combination of higher than anticipated revenues and lower than anticipated expenditures that resulted in an operating deficit of nearly half the magnitude of the deficit anticipated by the FY26-30 Plan. The FY26 operating deficit caused the General Fund balance to decline from 18.1 percent of revenues in FY25, above the GFOA-recommended 17 percent, to 15.4 percent of revenues in FY26.

Areas of Concern

Wage and Earnings Shortfall:

Wage and Earnings Tax collections for FY26 were $14.5 million (0.7 percent) lower than projected in the FY26-30 Five-Year Plan and $22.6 million (1.1 percent) lower than estimated in the FY27-31 Five-Year Plan. As the City's largest source of tax revenue, overestimated projections for Wage and Earnings Tax collections can have a major impact on the City's finances and fund balances projected in the FY27-31 Five-Year Plan.

Operating Deficits:

Since FY21, General Fund balances have come in significantly higher than anticipated in original Five-Year Plans due to a combination of transient factors: support from American Rescue Plan funds, high staffing vacancy rates leading to significant underspending on personnel, and higher than anticipated tax revenues bolstered by economic growth. American Rescue Plan funding is no longer available, the City has made strides to staff up and reduce vacancies, and economic headwinds have the potential to slow or reverse tax revenue growth. Without those supporting factors, it will be harder to mitigate the impact of plans that spend

more than they collect. Consistent operating deficits will eat away at reserves for fiscal uncertainty that the City worked hard to build up.

What is the Annual Financial Report?

The Annual Financial Report (AFR) is prepared in accordance with the Philadelphia Home Rule Charter and provides an overview of the City's finances at the end of each fiscal year. It shows how much money the City received and spent, and the remaining balances in each fund. The report includes both operating and special-purpose funds, as well as financial documentation from other City-related entities whose information was available at the time of publication.

The AFR is unaudited, meaning the figures are preliminary and may change. A complete and audited version of the City's financial statements for the fiscal year, called the Annual Comprehensive Financial Report (ACFR), will be published by the end of February.

PICA's analysis focuses on results presented on a budgetary basis rather than modified accrual. The budgetary basis of accounting recognizes a reduction of funding balance when available funds are obligated. The modified accrual basis of accounting recognizes reductions in fund balance when an expense is incurred, typically when a good or service is received. The main difference in fund balances is a result of encumbrances and reserves that do not reduce fund balance on the modified accrual basis, but that PICA anticipates – so long as the City isn't in fiscal distress – will be spent as intended and therefore should not be considered available.