

Cash Report Fiscal Year 2019, Q1



**City Controller
Rebecca Rhynhart**

Cash Report: Fiscal Year 2019, Q1

Introduction

The City of Philadelphia (City) releases a summary of its current financial state, entitled the Quarterly City Manager's Report (QCMR), forty-five days after the close of each fiscal quarter. As part of the QCMR, the City publishes up-to-date snapshots of the current cash position of the City and estimates for cash balances at the close of the fiscal year. As part of our on-going commitment to increasing transparency around the City's financials, the Controller's Office releases data on the City's cash position in an interactive format following the release of each QCMR.

This release builds upon the [previous report](#) issued by the Controller's Office at the end of Fiscal Year 2018. At that time, the City's cash position was at a 10-year high, with a year-end cash balance of \$769M for the General Fund and \$993M for the Consolidated Cash account. This Cash Report presents the City's cash position following the close of the first quarter (Q1) of Fiscal Year 2019 (FY19). It reflects actual revenue and expenditure totals from the first three months of the fiscal year: July, August, and September. As such, the cash balances and totals for the remaining months are projections that are subject to change. As the year progresses and the City's economic and fiscal outlook becomes clearer, these monthly projections generally grow more accurate.

This report is divided into two main sections. The first discusses the cash balances for the City's major funds, and the second examines the revenues and expenditures associated with the General Fund. In both sections we present actual data from FY19 Q1, as well as the projected data for the rest of the current fiscal year. We also compare values for this fiscal year to the corresponding values from last fiscal year and use historical data to assess the accuracy of the City's projections. All data used in this report is taken directly from the City's QCMRs. The latest QCMR for the period ending September 30, 2018 is available on the City's [Investor Information page](#).

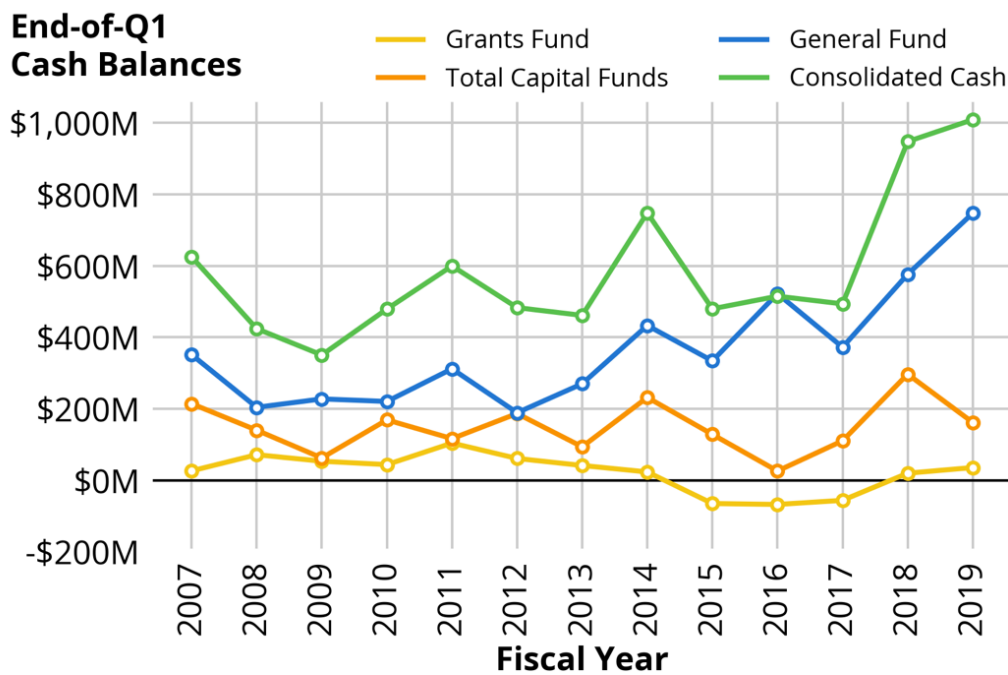
Key Takeaways

- The City's cash levels, which began FY19 at a 10-year high, continued at historic levels through the first quarter of Fiscal Year 2019. The General Fund and Consolidated Cash ended FY19 Q1 with balances of \$747M and \$1.01B, respectively — both are the highest Q1 balances of the last decade.
- Due to planned increases in spending, the cash balances for the General Fund and Consolidated Cash are estimated to be lower at the end of FY19 than the FY18 year-end totals.
- General Fund revenues in FY19 Q1 showed strong growth, totaling \$42M more than in Q1 of last year. The growth is expected to continue, with annual revenue estimated to rise by about 4 percent in FY19.
- Annual General Fund expenditures are projected to be \$517M more in FY19 than in FY18, an increase of about 12 percent. In the last two fiscal years, this Q1 projection has been overestimated by an average of \$146M.

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Cash Balances

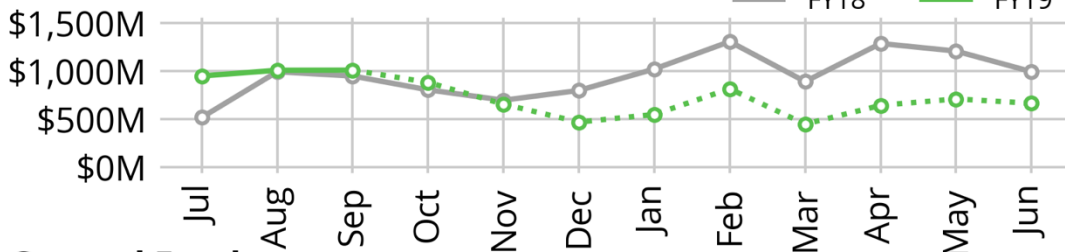
At the end of Fiscal Year 2018, the City's cash levels were the highest of the last decade. This historically strong cash position has continued through the first quarter of Fiscal Year 2019. As shown below, the cash balance of the General Fund at the end of Q1 was \$747M, the largest Q1 General Fund cash balance in the last ten years. Similarly, the end-of-Q1 balance for the combined cash account, called Consolidated Cash, was also the highest in ten years with a closing balance of \$1.01B. The Q1 cash levels for the Capital and Grants Funds are more in line with historical norms. The Grants Fund, which is largely reimbursement-based, has had a negative Q1 balance in three of the last four years, but its balance remained positive at the end of FY19 Q1.



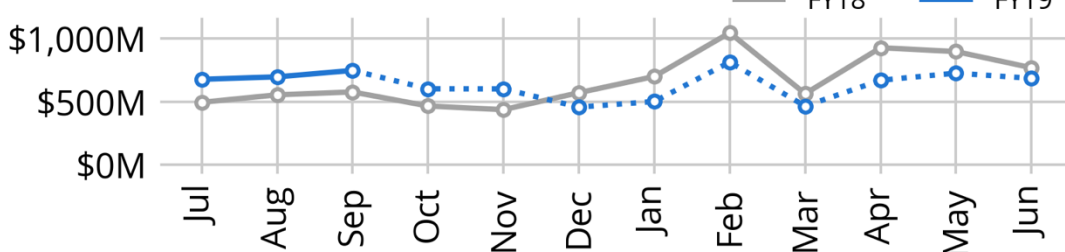
Despite historically high Q1 balances, the year-end cash balances for the General Fund and Consolidated Cash are projected to be lower in FY19 than in FY18. The Q1 estimate for the year-end balance of the General Fund is \$685M, or \$84M below the FY18 closing balance. For Consolidated Cash, the planned year-end balance of \$665M is \$328M below the corresponding FY18 value. These lower year-end balances in FY19 are due in large part to a 12 percent increase in projected General Fund expenditures in FY19 relative to FY18. General Fund expenditures are discussed in detail later in this report.

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Consolidated Cash Balance



General Fund Cash Balance



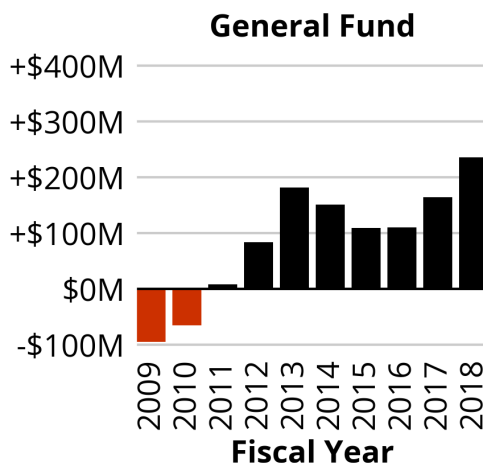
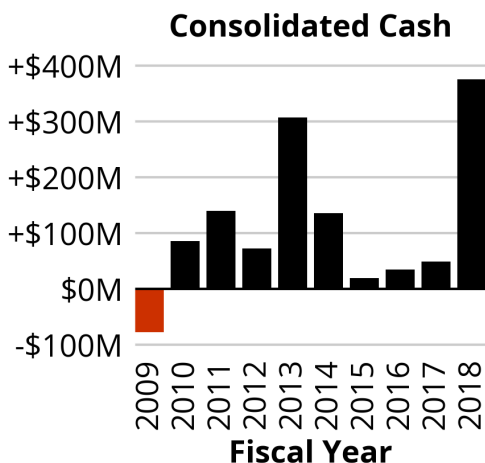
Note: projections beyond FY19 Q1 shown as a dotted line

Fiscal Year

Projections, particularly after only the first quarter of the year, are uncertain and subject to change. Historically, the Q1 estimates for year-end balances of the General Fund and Consolidated Cash have been underestimated. The chart below shows the difference between the actual year-end cash balances and the Q1 projection since 2009. The Q1 projection for the year-end Consolidated Cash balance has been underestimated (black bars) in nine of the last ten years by an average amount of \$135M. Similarly, actual year-end General Fund cash balances were higher than the Q1 projection in eight of the last ten years, by an average amount of \$131M. In FY18, the actual year-end balances of Consolidated Cash and the General Fund exceeded the Q1 projection by \$375M and \$236M, respectively.

Year-End Cash Balances: Actual vs. the Q1 Projection

■ Actual Balance Higher
■ Actual Balance Lower

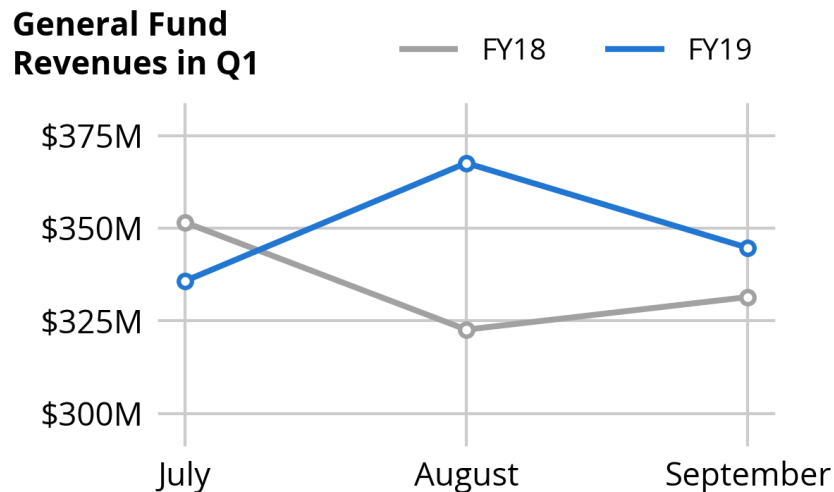


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The General Fund

Cash Revenues

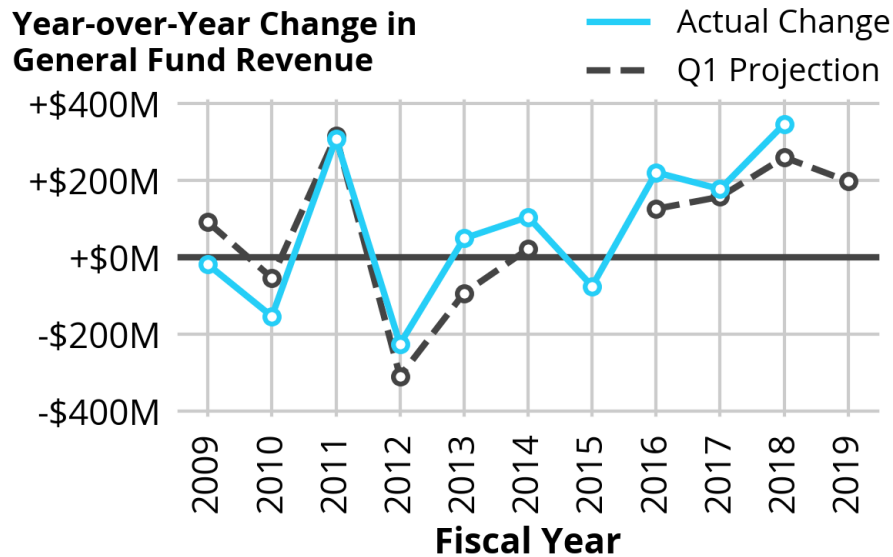
The City's cash receipts for the General Fund, composed largely of local tax revenue, are expected to show strong growth in FY19. General Fund receipts for the first quarter of FY19, shown in the chart below, were \$1.05B, an increase of \$42M, or 4 percent, over the first quarter of FY18. The City estimates the total revenue for the year to be \$4.70B, an increase of \$198M (4 percent) over FY18.



This revenue growth largely reflects the strong economy during the first quarter of FY19 and its expected continuation throughout the fiscal year. The Wage Tax is particularly sensitive to the city's economic health, and despite a slight decrease to its tax rate, Wage Tax revenue grew by \$18M in FY19 Q1 relative to FY18 Q1. Over the entirety of FY19, revenue from the Wage Tax is expected to increase by \$85M. Annual revenue from the Business Income and Receipts Tax (BIRT), which is also sensitive to the city's economy, is estimated to be \$17M more than last year, despite a lowering of the BIRT tax rate. Finally, Real Estate Tax revenue is expected to grow by \$16M in FY19, due in large part to increased residential property assessments.

Because the City's tax revenues depend upon the economic health of Philadelphia, it can be difficult to accurately estimate the year-end total for cash receipts. Historically, the City's Q1 revenue estimate has been under-projected relative to the actual value. For example, the FY18 Q1 value for total General Fund receipts was \$86M less than the actual year-end total. Below, we show the year-over-year change in the total General Fund revenues, comparing the actual change (blue) to the Q1 projection (grey, dashed). The Q1 projection has been underestimated relative to the actual year-end total in six of the last seven years. Fiscal Year 2015 stands out as an outlier due to additional expected revenue from the sale of the Philadelphia Gas Works, which ultimately did not occur. For this reason, we have removed the Q1 projection for FY15 from the chart below.

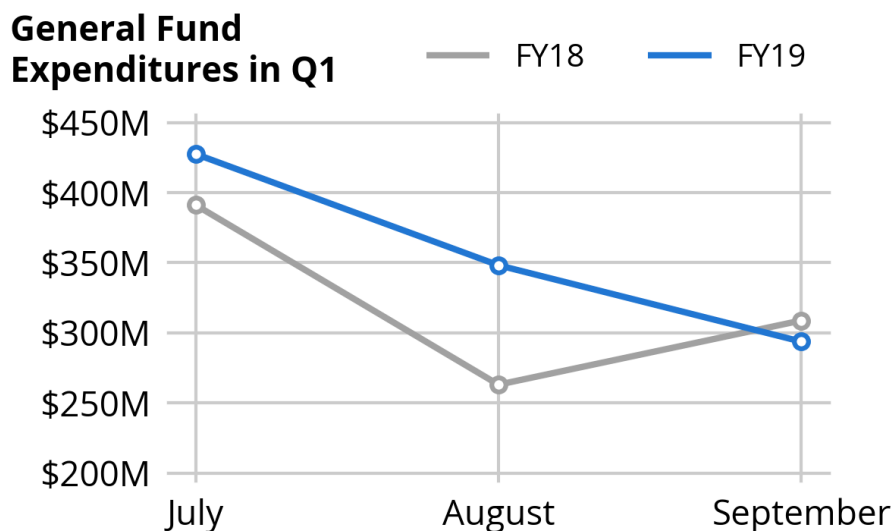
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Note: Q1 projection for Fiscal Year 2015 not shown due to the budgeted sale of Philadelphia Gas Works that did not occur

Cash Expenditures

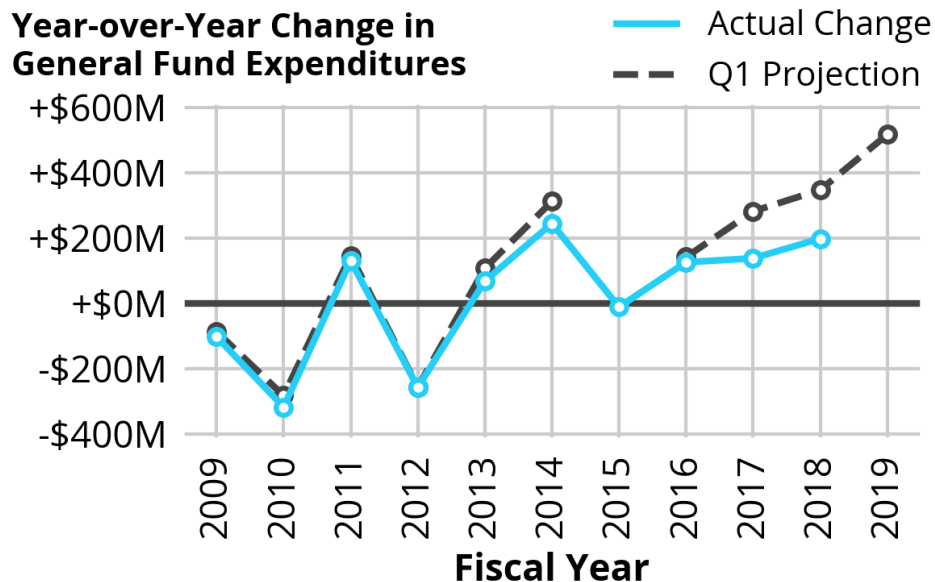
Total General Fund expenditures for Q1, shown in the chart below, totaled \$1.07B. This is \$107M, or 11 percent, more than in the first quarter of FY18. Increased spending is projected to continue throughout the year, with the annual spending total in FY19 estimated to be \$4.79B, an increase of \$517M (12 percent) over FY18.



The 12 percent increase in total General Fund spending in FY19 is the largest projected increase of the last ten years other than Fiscal Year 2015, which included inflated projections due to the anticipated sale of the Philadelphia Gas Works that did not occur. The largest planned spending increases in FY19 are for the City's payroll (+\$111M) and contributions / indemnities (+\$87M). The latter includes payments to the School District of Philadelphia from the City.

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The chart below compares the actual (blue) and Q1-projected (grey, dashed) year-over-year change in General Fund expenditures. The Q1 projection for FY15 is not shown on this chart since, as discussed earlier, the projections included the sale of Philadelphia Gas Works. Prior to 2017, the difference between the Q1 projection and actual expenditure totals were small, with an average difference of only \$27M. This difference has increased in the past two fiscal years, with the Q1-projected spending total overestimated by an average of \$146M.



Note: Q1 projection for Fiscal Year 2015 not shown due to the budgeted sale of Philadelphia Gas Works that did not occur

Summary

The cash balances of the General Fund and Consolidated Cash at the end of the first quarter of FY19 are the largest Q1 balances of the last ten years. Despite these historically high balances, cash balances at the close of FY19 are projected to be lower than the FY18 year-end totals. This is due in large part to the estimated 12 percent growth in General Fund spending in FY19 relative to FY18. This added General Fund spending is one of the largest single-year increases of the last ten years and is worth monitoring closely in future Cash Reports as the fiscal year progresses.

Q1 projections for the end of the fiscal year are uncertain and subject to change. Given this uncertainty, year-end estimates should generally be conservative in nature. This has historically been the case for the Q1 estimates for the year-end cash balances of the General Fund and Consolidated Cash, which have underestimated actual year-end balances by about \$130M, on average, since 2010. In a departure from historical trends, actual General Fund cash spending has been lower than the Q1 projections by about \$146M in the past two fiscal years. From Fiscal Years 2009 to 2017, Q1 projections were more aligned with actual spending totals, with a difference of only \$27M, on average.