

Cash Report Fiscal Year 2019



**City Controller
Rebecca Rhynhart**

Cash Report: Fiscal Year 2019

The City of Philadelphia (City) releases a summary of its current financial state, entitled the Quarterly City Manager's Report (QCMR), 45 days after the close of each fiscal quarter. As part of the QCMR, the City publishes actual and projected monthly cash balances for its major operating funds, as well as revenues and expenditures for its principal operating fund, the General Fund. The QCMR offers the most up-to-date snapshot of the current cash position of the City and the most accurate projection for cash balances at the close of the fiscal year. As part of our ongoing 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 report summarizes the City's cash position at the end of the fourth quarter of Fiscal Year 2019 (FY19 Q4). It 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 for the entirety of FY19. All data used in this report is taken directly from the City's QCMRs. The QCMR for FY19 Q4 can be found [here](#).

Key Takeaways

- The City's General Fund and the Consolidated Cash account ended FY19 with the highest cash balances since FY07.
- The end-of-year General Fund balance was \$966.4M, which represents 21% of the City's annual General Fund cash expenditures in FY19.
- Due to its historically strong cash position, the City did not need to borrow any short-term funds during FY19 for the first time in more than ten years.
- Total cash revenues and expenditures for the General Fund increased substantially relative to last fiscal year, with revenue growing by 7.7% and spending growing by 9.0%.
- A surplus of cash revenue receipts over expenditures resulted in the General Fund's closing cash balance increasing by about \$200M in FY19 relative to its balance at the end of last fiscal year.

Cash Balances

The City publishes the monthly cash balance, actual and projected, for each of its major funds, within the QCMR. For its day-to-day operations, the City pools together the cash balances associated with several funds into a single account, known as the Consolidated Cash account. Three major funds, listed below, and several smaller funds, including the Housing Trust and Hospital Assessment Funds, contribute to the Consolidated Cash account:

- the General Fund, which is the principal operating fund of the City. About three-quarters of the revenue flowing into the General Fund is generated from local taxes;
- the Grants Fund, which manages grants received from state, federal, and private agencies; and

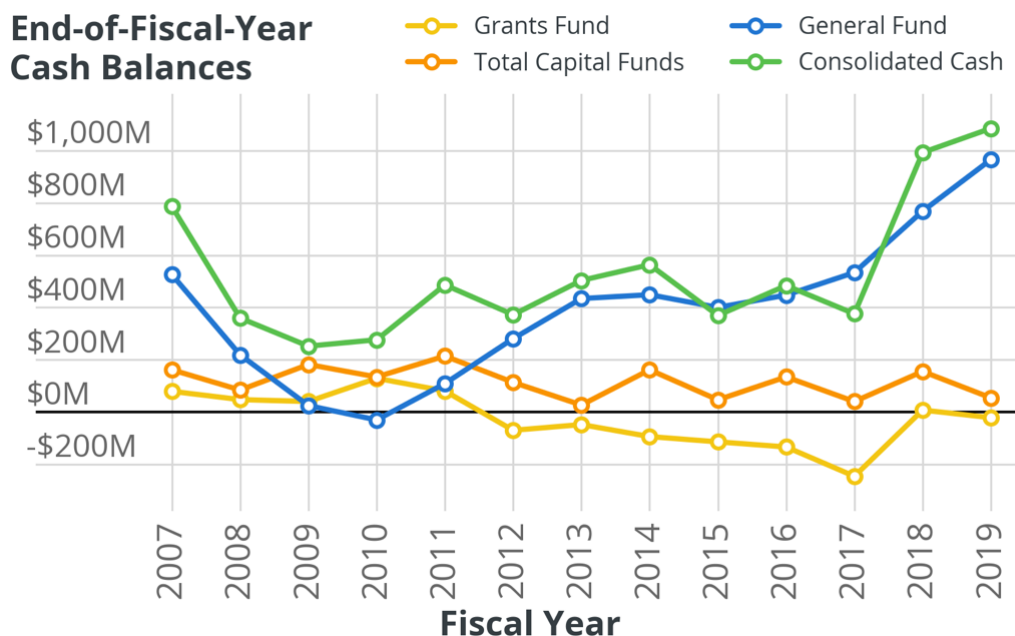
Cash Report: Fiscal Year 2019

- the Capital Fund, which manages resources for investing in facilities and infrastructure throughout the City. The majority of its revenue arises from bond proceeds.

The City's cash levels at the end of FY19 were the highest in more than a decade, surpassing the historic balances at the end of last fiscal year. The Consolidated Cash balance at the end of FY19 was \$1,085.9M, while the General Fund balance was \$966.4M. As shown in the figure below, these are the highest cash balances at the end of a fiscal year since FY07. The closing balances for Consolidated Cash and the General Fund increased by \$92.5M and \$197.5M, respectively, relative to the balances at the end of FY18.

The end-of-year balances for the Capital Fund and Grants Fund were in line with historical expectations. Because the Capital Fund is comprised mostly of long-term debt (bond proceeds), which is usually issued on a two-year cycle, its balance has a cyclical nature. As bond proceeds are spent, the balance decreases from about \$200M to about \$0. When new bonds are issued, the balance is replenished to about \$200M. FY19 was near the end of this cycle, with bond proceeds being spent and the end-of-year balance approaching \$0.

The Grants Fund, which is largely reimbursement-based, has struggled historically to maintain an end-of-year cash balance near \$0, primarily due to delays by the Department of Human Services in filing and receiving reimbursements from the Commonwealth of Pennsylvania. This situation greatly improved in FY18, and the trend has continued in FY19. The Grants Fund ended FY19 with a relatively small negative cash balance of negative \$21.9M.



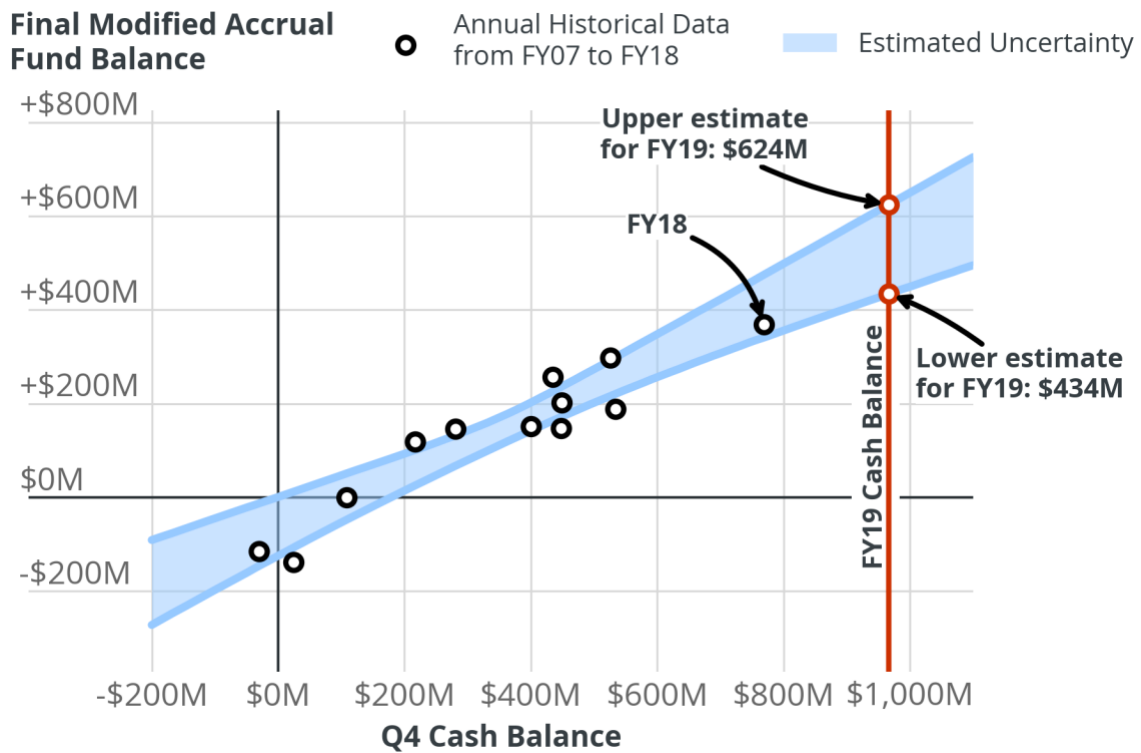
Given the City's historically high General Fund balance, it's important to consider the recommended level of funding reserves for municipalities. Rating agencies, such as Standard & Poor's (S&P), set guidelines for what is deemed an adequate, good, and strong level of reserves.

Cash Report: Fiscal Year 2019

S&P considers fund balance levels that are 8% to 15% of annual expenditures to be strong, while 4% to 8% is considered good. The Government Finance Officers Association (GFOA) recommends governments, regardless of size, maintain a fund balance of no less than two months of General Fund expenditures, corresponding to about 17% of annual expenditures. Internally, the City aims for a General Fund balance that is between 6% and 8% of annual expenditures.

These guidelines are set for a fund balance reported on a modified accrual basis, rather than a cash basis. The modified accrual basis accounts for future, but known, revenues and expenditures. Fund balances using this method are typically lower than balances on a cash basis. For example, in FY18 the City's General Fund balance on a modified accrual basis was \$368.8M, or 8.4% of annual expenditures. On a cash basis, the General Fund balance was \$768.9M, or 18.0% of expenditures.

The General Fund's FY19 cash balance of \$966.4M represents about 21% of the year's cash expenditures. On a modified accrual basis, the end-of-year balance is currently projected to be \$297.7M, which is about 6.2% of total expenditures. However, this balance is not yet finalized and will likely be adjusted during the first quarter of the next fiscal year. In the past, the General Fund's cash balance at the end of the fiscal year has been a strong predictor of the final balance on a modified accrual basis. This historical relationship is shown in the figure below. The blue shaded region in the figure highlights the mostly likely range of values for the modified accrual balance.



Cash Report: Fiscal Year 2019

Based on the General Fund's cash balance at the end of FY19, the final modified accrual balance is likely to fall between \$434M and \$624M, or about 9% and 13% of annual expenditures, respectively. If the balance were to fall within this range, it would surpass the City's internal goal of 6% to 8% and be considered a strong reserve level by S&P. While still short of the GFOA's recommendation of 17%, it would represent substantial improvement over past years, when the City's funding reserves were well below the recommended guidelines in the aftermath of the Great Recession.

General Fund Revenue / Spending

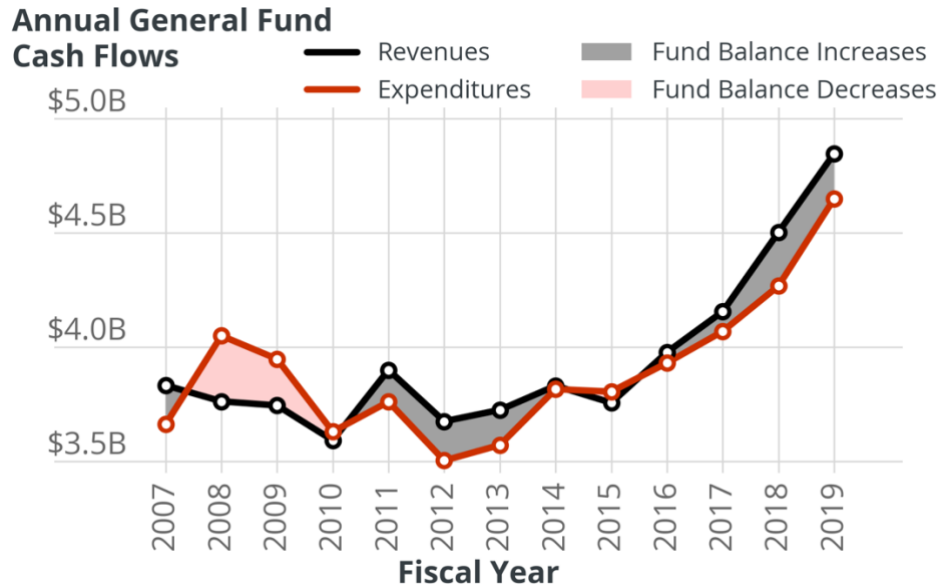
As the principal operating fund for the City, the General Fund's finances offer a unique perspective on the City's current fiscal state. Monthly revenues and expenditures for the General Fund are published as part of the QCMR and offer further insight into the cash position of the City. The majority of revenues for the General Fund are generated from local taxes, the largest of which are the [Wage Tax](#), [Real Estate Tax](#), and the [Business Income and Receipts Tax](#) (BIRT). On the expenditure side, the City's largest annual costs are due to payroll, pension payments, and employee benefits. Other costs include purchases of services (e.g. contracts), debt payments, and equipment and supplies.

Annual Cash Flows

Total cash revenue for the General Fund totaled \$4.85B in FY19, an increase of 7.7% from last fiscal year, while cash spending totaled \$4.65B, an increase of about 9%. The surplus of revenue receipts, about \$200M, resulted in an overall increase to the General Fund's cash balance during FY19.

As shown in the figure below, the spending and revenue totals in FY19 continued a broader trend in recent years that has seen both revenue and spending increase substantially from year to year. While both have increased, revenues have outpaced spending, buoyed by the City's continued economic expansion. Since FY15, annual revenues have increased by 29%, while annual cash spending has increased by 22%. Over that same time period, the General Fund's cash balance has more than doubled, increasing from \$400.4M at the end of FY15 to its current level of \$966.4M. While strong revenue growth has sustained spending increases and helped to grow the City's cash balances, the City's rising spending levels would be difficult to maintain in the event of an economic downturn.

Cash Report: Fiscal Year 2019



In FY19, taxes sensitive to the City’s economic health saw substantial increases: receipts for the Business Income and Receipts Tax increased by \$99M and receipts for the Wage Tax increased by \$69M relative to FY18. In fact, Wage Tax revenues have increased each year since 2011, a sign of Philadelphia’s economic recovery since the Great Recession. Increased taxation has also contributed in part to the sharp rise in revenues in recent years. The last four years have seen the addition of the Philadelphia Beverage Tax, as well as single-year increases to the tax rates for the Real Estate Tax and the Realty Transfer Tax.

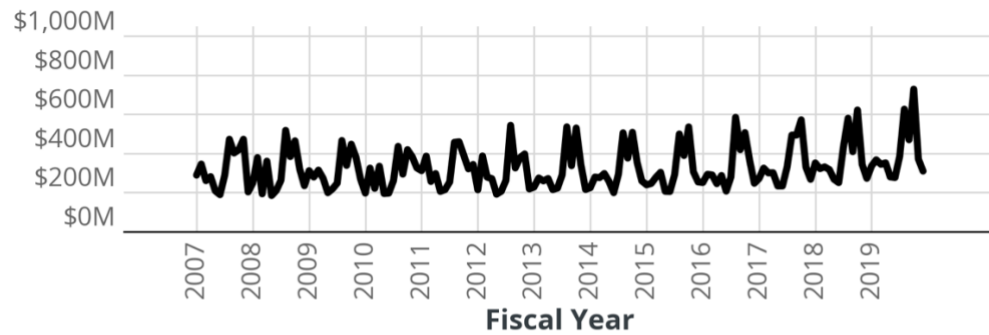
The 9% increase in General Fund expenditures in FY19 resulted primarily from increases in spending on payroll and employee benefits (+\$120M) and contributions/indemnities (+\$85M). The latter, which represents a 43% increase compared to FY18, includes the City’s increased contribution to the School District. In past years, the City’s rising fixed costs have also contributed to the rise in spending. Since FY16, debt service payments increased by 21% while pension costs increased by 12.5%. Other increases over that same period have included payroll and employee benefits (12%) and contracted expenditures (6%).

Monthly Cash Flows

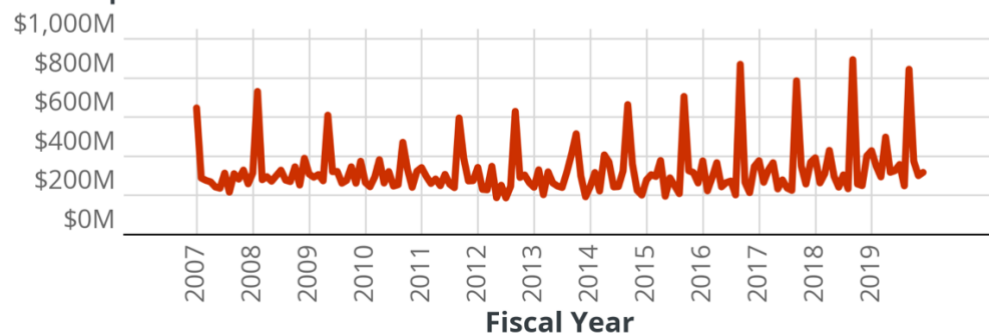
The chart below shows the monthly General Fund cash revenues (top panel) and expenditures (bottom panel) since FY07. Monthly totals for revenue and spending are typically at least \$200M, but they can vary significantly from month to month. Revenue receipts have two particularly strong months. The first spike occurs in February and is a result of Real Estate Tax receipts, while the second is in April due to BIRT receipts. The large increase in BIRT receipts in FY19 is evident in the top panel of the chart — the total revenue in April 2019 was the largest monthly total recorded since 2007. Unlike revenues, there is only a single spike in monthly spending, which occurs when the City makes its annual pension payment. Over the past decade, the City’s pension costs have grown substantially, which is reflected in the growing size of the spikes in the chart below.

Cash Report: Fiscal Year 2019

Monthly General Fund Cash Revenues

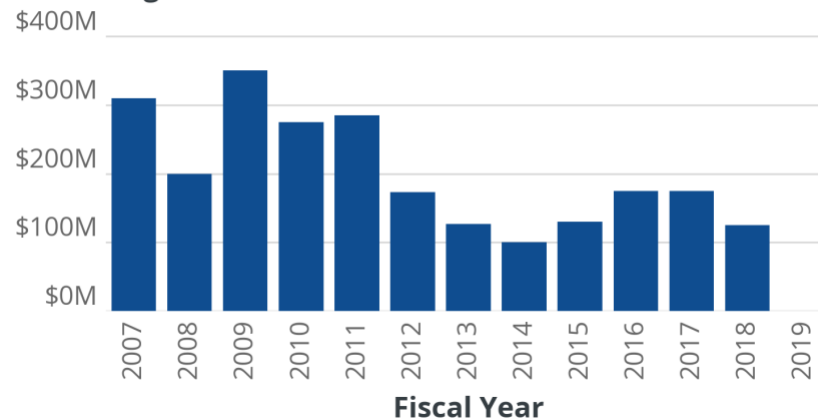


Monthly General Fund Cash Expenditures



Because the monthly spikes in General Fund revenue receipts and spending requirements are not aligned, the City typically borrows short-term funds, known as Tax and Revenue Anticipation Notes (TRANS), which are paid back by the end of the fiscal year. The size of the TRANS issued each year provides an indicator of the cash position of the General Fund. With lower cash balances, the City must borrow more money to cover the monthly fluctuations in expenditures. Due to its historically strong General Fund cash balance, the City did not have to borrow any short-term funds during FY19. As seen in the chart below, this is the first time the City has not done so since FY07.

Short-term General Fund Borrowing Amounts



Cash Report: Fiscal Year 2019

Summary

The City began FY19 with cash balances at a historic level and ended the year with balances even higher. The Consolidated Cash account ended the fiscal year with a balance \$1,085.9M, breaking the \$1B threshold at the end of a fiscal year for the first time since 2007. Despite expenditures increasing by 9% in FY19, a surplus of \$200M in revenue receipts led to an end-of-year balance of \$966.4M for the General Fund. Driven by Philadelphia's ongoing economic expansion, revenue receipts continued to grow in FY19, increasing by 7.7% relative to last fiscal year.

The City's cash position is an important measure of its financial health. Cash enables the City to perform the daily operations of a local government and pay its short-term obligations. In its recovery since the Great Recession, Philadelphia has struggled to meet fund balance recommendations for local governments. However, the City's cash balances reached historic levels last fiscal year, and they have remained historically strong at the end of FY19. With a closing General Fund balance of \$966.4M, the City's General Fund cash level represented 21% of its annual cash expenditures in FY19.