

Cash Report: Fiscal Year 2020, Q1

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 first quarter of fiscal year 2020 (FY20 Q1). 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 from FY20 Q1, as well as the projected data for the rest of the current fiscal year. All data used in this report is taken directly from the City's QCMRs. The QCMR for FY20 Q1 can be found [here](#).

Key Takeaways

- The General Fund and Consolidated Cash ended FY20 Q1 with balances of \$896M and \$1,506M, respectively — both are the highest Q1 balances since 2007. The large Consolidated Cash balance is due in part to a recent debt borrowing for the Capital Fund totaling close to \$300M. With these additional bond proceeds, the Capital Fund ended FY20 Q1 with its highest balance in more than a decade, \$436M.
- The City's cash levels following FY20 Q1 are substantially higher than the projections from the City's Five Year Plan, adopted by City Council in June 2019. The Five Year Plan projections, which tend to be conservative in nature, underestimated the actual end-of-Q1 General Fund cash balance by \$343M and the actual Consolidated Cash balance by \$515M.
- Annual General Fund cash receipts are projected to increase by about \$63M in FY20, or 1.3 percent, relative to last fiscal year.
- Annual General Fund expenditures are projected to be \$376M more in FY20 than in FY19, an increase of 8.1 percent. However, annual spending projections in Q1 have been overestimated by an average of \$143M for the last three fiscal years.

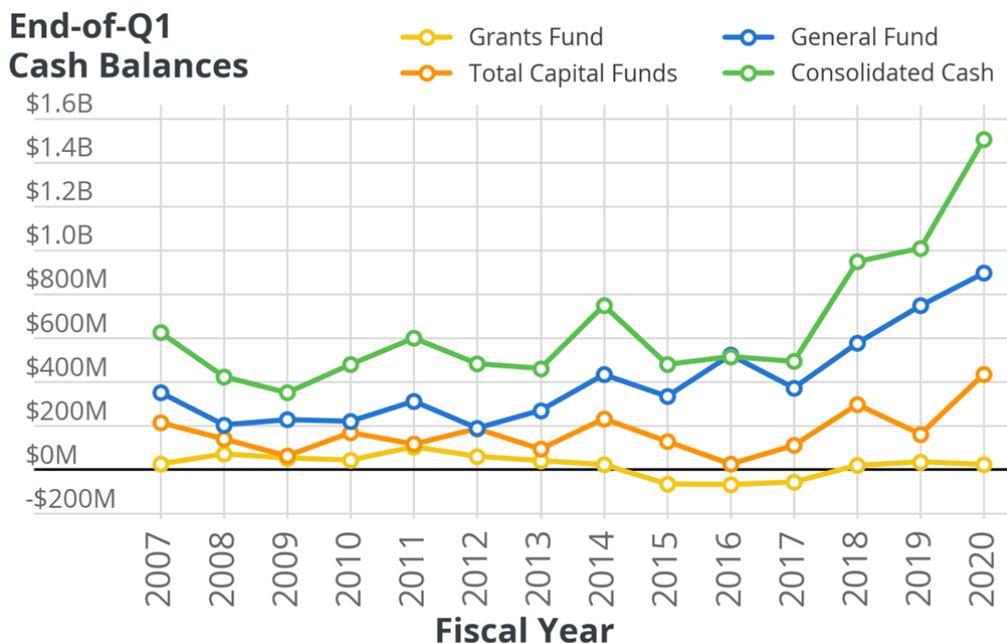
Cash Balances

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:

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- 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
- 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 recent upward trend for the City’s cash position has continued through the first quarter of fiscal year 2020. As seen in the figure below, the cash balances at the end of FY20 Q1 for the General Fund (\$896M) and the Consolidated Cash account (\$1,506M) were both historic highs. Following relatively slow progress since the Great Recession, the City’s cash levels have increased more dramatically over the last three fiscal years. Since FY17 Q1, the Consolidated Cash balance has increased by more than \$1B, while the General Fund cash balance has increased by more than \$500M.



The Consolidated Cash balance at the end of FY20 Q1 (\$1,506M) is nearly \$500M higher than the end-of-Q1 balance for last fiscal year. This large increase is due in part to new bond proceeds for the Capital Fund. In FY20 Q1, the City replenished the Capital Fund with an uncommonly large issuance of new debt (about \$300M). As such, the Capital Fund balance, which typically reaches a peak balance of about \$200M, had a balance of \$436M at the end of FY20 Q1. These funds should be spent down over the course of the next several years, as capital projects for facilities and infrastructure across the city are undertaken.

These end-of-Q1 fund balances are significantly higher than the City’s projections from just a few months ago. During the annual budget process, the City produces a [Five Year Plan](#), which includes projections for the City’s cash levels during the upcoming fiscal year. The projections for FY20, adopted by City Council in June 2019, substantially underestimated the fund balances

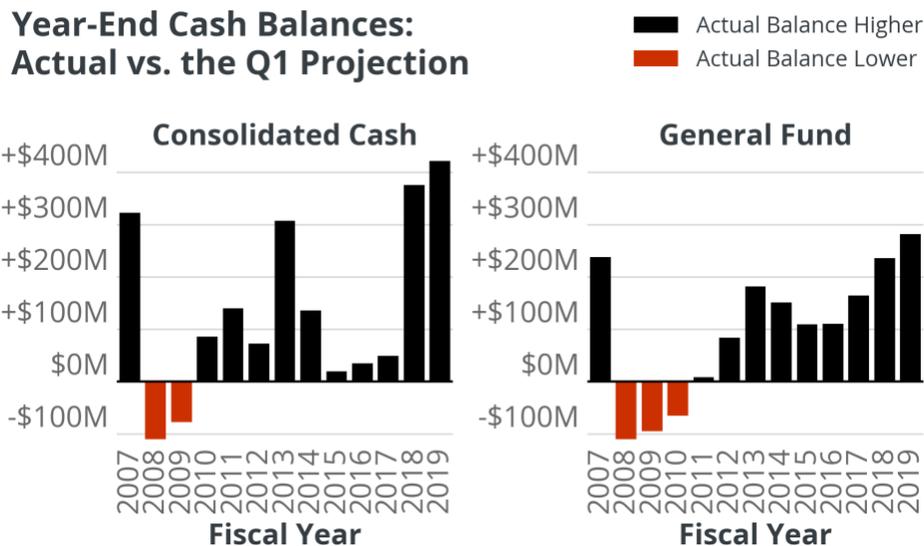
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at the close of Q1 (Sept 30, 2019). The actual end-of-Q1 balance for the General Fund was \$343M higher than the projected amount in the Five Year Plan, while the actual Consolidated Cash balance was \$515M higher. Some of the reasons for these differences include:

- The City received more revenue and kept expenditures lower than projected amounts during the last quarter of FY19. As a result, the General Fund began FY20 with a cash balance that was \$126M higher than projected in the Five Year Plan;
- The City spent \$230M less from the General Fund during FY20 Q1 than the projection in the Five Year Plan; and
- The cash balances for the Capital Fund and Grants Fund each ended FY20 Q1 about \$60M higher than anticipated in the Five Year Plan.

The Five Year Plan projections illustrate the City’s tendency to err on the conservative side when producing fund balance projections. This is important context when considering the City’s Q1 projections for the FY20 year-end fund balances. The year-end cash balance for the General Fund is projected to be \$851M, about \$115M less than the FY19 closing balance. The projected year-end balance for Consolidated Cash this year, \$1,159M, is similar to the Q1 year-end balance projection for FY19, only \$73M higher. Based on recent history, these Q1 estimates for year-end balances are most likely underestimated.

Using data since 2007, the figure below shows the differences between the actual year-end cash balances and the projected year-end balances estimated in Q1. The figure also illustrates the typically conservative nature of the City’s Q1 projection. For both Consolidated Cash and the General Fund, Q1 projections of year-end cash balances have underestimated (black bars) actual balances for most years since 2007. The actual balance for Consolidated Cash has been \$178M higher than the Q1 projection on average, while the actual General Fund balance has been \$156M higher than the Q1 projection on average. Last fiscal year, the actual year-end balances for Consolidated Cash and the General Fund exceeded the Q1 projection by \$421M and \$282M, respectively.



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The General Fund

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 [Business Income and Receipts Tax](#). 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.

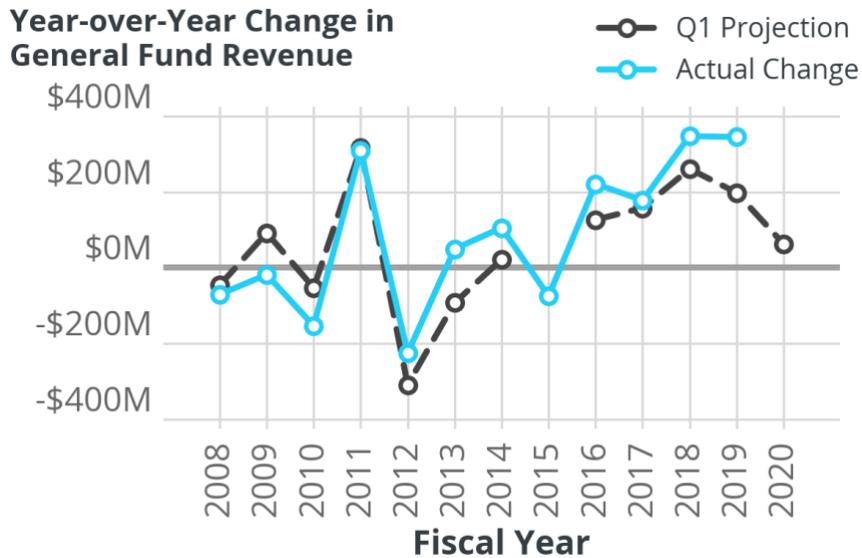
Cash Revenues

The City's cash receipts for the General Fund, composed largely of local tax revenue, are expected to show modest growth in FY20. General Fund receipts for the first quarter of FY20 were \$1,052M, an increase of only \$3.8M over the first quarter of FY19. The City estimates the total revenue for the year to be \$4,911M, an increase of \$63M (1.3 percent) over FY19.

The projection for total cash receipts in FY20 is in line with the broader economic projections for the Philadelphia area. The City has experienced several years of strong economic growth and as a result, has seen corresponding increases in annual revenue: total cash receipts increased by 8.3 percent in FY18 and an additional 7.7 percent last fiscal year. Looking to the future, economists believe we may be approaching the end of this unprecedented period of economic expansion, with increasing chances of a recession or economic slowdown in the near future. The City's Q1 projection of only 1.3 percent growth in the total cash receipts in FY20 is consistent with this expectation.

The figure below shows the year-over-year change in total General Fund cash receipts, comparing the actual change (blue) to the Q1 projection (grey, dashed). The figure illustrates the difficulties associated with predicting the City's annual revenue total after only three months of the fiscal year. For each year since fiscal year 2012, the Q1 projection for revenue growth has underestimated the actual change. This has resulted from a combination of factors, including the conservative nature of the projections and the City's ongoing economic expansion. If the region's economy begins to slow in 2020 as predicted, the City's actual revenue growth in FY20 should be more in line with the Q1 projection. Note that the Q1 projection for FY15 has been removed from the chart since it included additional expected revenue from the sale of the Philadelphia Gas Works, which ultimately did not occur.

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

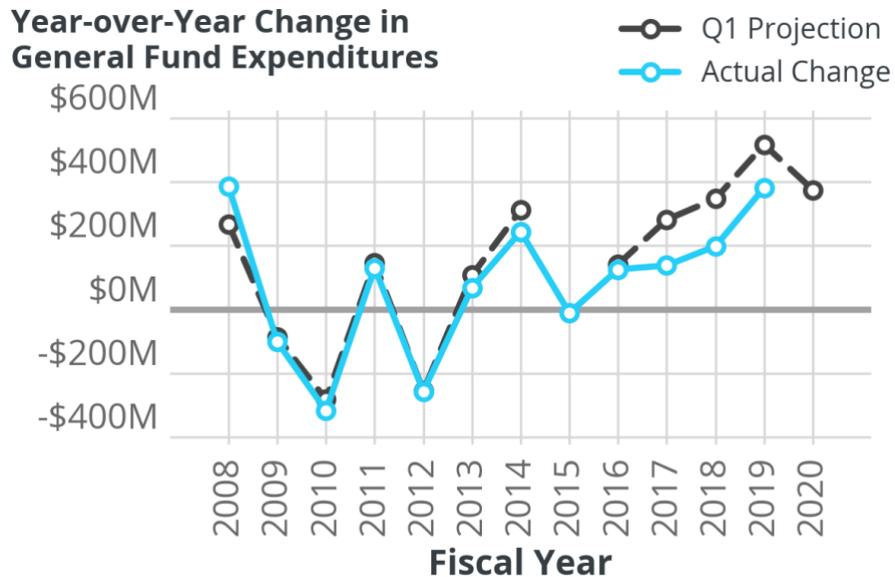
Cash Expenditures

Total General Fund cash expenditures totaled \$1,122M in FY20 Q1. This is \$53M, or 4.9 percent, more than in the first quarter of FY19. Spending is projected to increase throughout the year, growing by \$376M (8.1 percent) over FY19 to an estimated \$5,026M.

The FY20 General Fund spending increase continues the City's recent spending trajectory. Annual General Fund spending has increased over the last four fiscal years, peaking last fiscal year when cash spending increased by 9.0 percent. The largest planned spending increases in FY20 are for the City's payroll (+\$125M), contracts and leases (+\$75M), and contributions and indemnities (+\$52M), which includes the City's additional payments to the School District of Philadelphia.

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 fiscal year 2017, the differences between the Q1 projection and actual expenditure totals were small, with an average difference of about \$27M. In the past three fiscal years, however, this difference has increased, with the Q1-projected spending total overestimated by an average of \$143M.

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Summary

The City's cash position at the end of FY20 Q1 has continued at historic levels. The FY20 Q1 cash balances for the General Fund, Capital Fund, and Consolidated Cash were the largest Q1 balances since 2007. This continues an upwards trend in the last three fiscal years that has seen the Consolidated Cash balance increase by more than \$1B and the General Fund cash balance increase by more than \$500M.

The end-of-FY20 balance for the General Fund is currently projected to be lower than the FY19 year-end total, due in large part to the projected 8.1 percent growth in cash spending. This added General Fund spending is the second largest of the last ten years, following only the 9 percent spending increase from FY19. With only modest (about 1 percent) revenue growth projected for FY20, such a large single-year spending increase is worth monitoring closely in future Cash Reports as the fiscal year progresses.