

Cash Report: Fiscal Year 2020 Q2



**City Controller
Rebecca Rynhart**

Note: This report describes the City's cash balances and projections as of December 31, 2019, before the City of Philadelphia's response to the COVID-19 pandemic. As such, the following analysis does not consider the potential impact of COVID-19 on the City's tax revenues or spending for the rest of the fiscal year. The financial impact of COVID-19 will be discussed in detail in future cash reports.

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 second quarter of fiscal year 2020 (FY20 Q2). 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 Q2, 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 Q2 can be found [here](#).

Key Takeaways

- With a Consolidated Cash balance of \$1.25B and a General Fund balance of \$774M, the City's cash levels remained historically strong at the end of the second quarter of FY20.
- The City's cash levels at the end of FY20 Q2 were also higher than anticipated. The Consolidated Cash account and the General Fund ended FY20 Q2 with balances \$177M and \$120M higher than projected after Q1 of this fiscal year.
- General Fund cash revenue in FY20 Q2 increased by 10.6 percent as compared to the second quarter of last fiscal year, while General Fund spending decreased by 1.1 percent relative to Q2 of last fiscal year.
- The General Fund's cash spending annual total is projected to increase by 7.9 percent in FY20 relative to FY19, surpassing the \$5B threshold for the first time in the City's history. Despite the strong revenue growth in FY20 Q2, the City estimates that annual General Fund cash revenue will increase by only 2.3 percent relative to last fiscal year.

Cash Balances

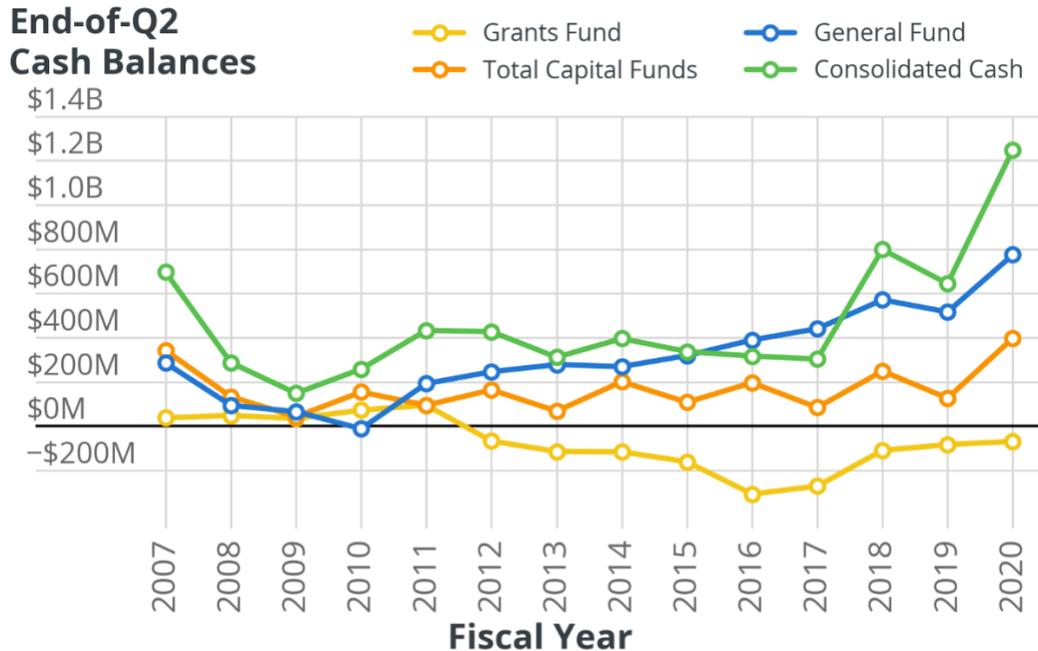
The City publishes the monthly cash balance, actual and projected, for each of its major funds, within the QCMR. For its day-to-day operations, the City pools together the cash balances associated with several funds into a single account, known as the Consolidated Cash account.

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
- 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 ended FY20 Q2 with a Consolidated Cash balance of \$1.25B, which is more than \$1B higher than the Q2 balance from just three fiscal years ago. The FY20 Q2 balance also increased significantly from last fiscal year, when the City ended FY19 Q2 with a Consolidated Cash balance of \$643M.

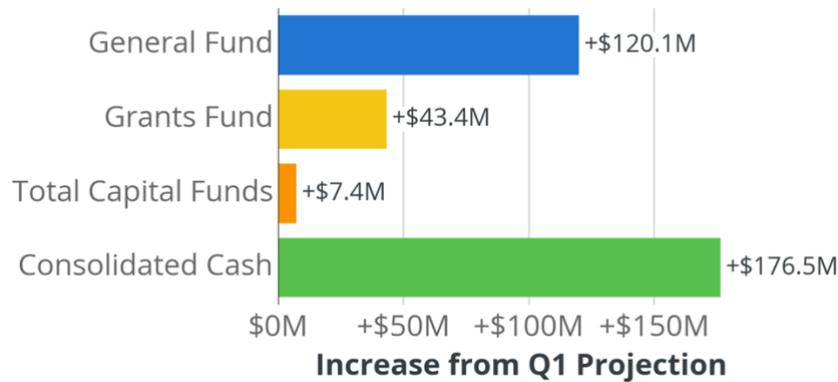
The increase in the Consolidated Cash balance is driven by historically high cash balances for the General Fund and the Capital Fund. As seen in the figure below, both funds have the highest end-of-Q2 balances since 2007. As noted in the [cash report](#) for last quarter, the large Capital Fund balance is due in part to a debt borrowing totaling close to \$300M that occurred during the first quarter of FY20. The Capital Fund’s balance of \$397M at the end of FY20 Q2 is \$39M lower than its balance at the end of FY20 Q1. The balance should continue to decline over the next year as capital projects for facilities and infrastructure across the city are undertaken.



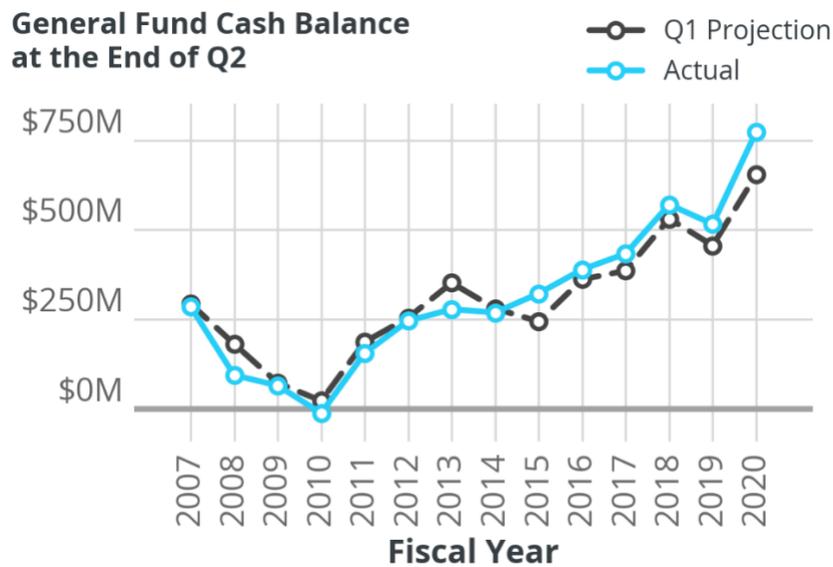
On trend with recent years, the City’s cash levels following FY20 Q2 were higher than anticipated. As seen in the chart below, the Consolidated Cash balance (\$1.25B) was \$176.5M higher than the City’s projection following the first quarter, driven by higher-than-expected balances for the General Fund (+\$120M) and the Grants Fund (+\$43.4M). This also occurred last fiscal year: the

actual FY19 Q2 balances for the General Fund and Grants Fund were \$60M and \$109M higher than their respective Q1 projections.

Actual Cash Balances at the End of Q2 vs. Q1 Projections



As seen in the chart below, the \$120M difference between the actual FY20 Q2 General Fund balance and Q1 projection is the largest difference in recent history. The actual Q2 balance for the General Fund has outpaced the City’s Q1 projection every year since FY15, an indication of the City’s tendency to produce conservative estimates for its fund balance projections.



With its current cash levels higher than expected, the City also increased its projections for the year-end balances of the Consolidated Cash account (+\$52M) and the General Fund (+\$56M). As of FY20 Q2, the Consolidated Cash account is projected to end the year with a balance of \$1.21B, while the General Fund is projected to end the year with a balance of \$908M. However, it is worth noting that these Q2 projections have been historically conservative, underestimating the actual year-end balance by a significant margin. For example, last fiscal year, the Q2 projection for Consolidated Cash underestimated the actual year-end balance by \$451M, while the Q2 General Fund projection was \$313M below the actual year-end balance.

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 [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.

The City spent more from the General Fund during FY20 Q2 than it received in revenue, with cash spending outpacing total revenue by \$122M. As seen in the chart below, the City's spending level decreased slightly, by about 1.1 percent, relative to the second quarter of last fiscal year. Meanwhile, General Fund cash revenue continued to show strong growth, increasing by 10.6 percent relative to Q2 of FY19.

General Fund Cash Revenue/Spending in FY20 Q2 vs. FY19 Q2



The total revenue in Q2 was \$35.4M more than the City anticipated following Q1 of this fiscal year. Increases in BIRT revenues, which came in \$23.1M above projections, accounted for a substantial portion of the difference. This BIRT increase could have a significant impact on the projection for the City's end-of-year revenue total. Notably, the BIRT increase occurred despite the fact that most BIRT taxes are historically paid in April. Last fiscal year, the City significantly underestimated the amount of BIRT revenue for April, with the Q2 projection for April 2019

falling short by \$85.1M. The increased BIRT revenue in FY20 Q2 could suggest a similar scenario for the current fiscal year.

The City's Q2 General Fund spending total was a substantial \$84.6M less than the Q1 projection. This difference is due largely to an overestimation of payments attributed to expenditures in past fiscal years. The City spent \$54.6M less on these prior year payments than anticipated. Differences in payroll spending accounted for the next largest change relative to projections — actual payroll expenditures in FY20 Q2 were below the Q1 projection by \$15.9M.

At the end of FY20 Q2, the annual total for General Fund cash expenditures is projected to increase by about 7.9 percent, surpassing the \$5B threshold for the first time in the City's history. This continues the recent upward trajectory for the City's spending levels, which has seen General Fund cash spending increase by 9.0 percent and 4.9 percent in the last two fiscal years. Meanwhile, total cash revenue for the General Fund is estimated to grow by only 2.3 percent in FY20. This is substantially lower than the City's revenue growth in recent years: annual revenue grew by 8.3 percent and 7.7 percent in FY18 and FY19. In recent years, this strong revenue growth has supported the City's large spending increases. With the possibility of declining revenue growth in the future, the Controller's Office will continue to closely monitor the City's spending levels in future cash reports.