

Cash Report: Fiscal Year 2021 Q2



City Controller
Rebecca Rhynhart
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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 2021 (FY21 Q2), and it reflects the ongoing impacts of the COVID-19 pandemic on the City's finances. While the ultimate impact of the pandemic remains unknown, unemployment remains well above pre-COVID levels and many public health restrictions remain in place. As the City's economy begins its recovery, the Controller's Office will continue to monitor the City's finances in future cash reports.

The 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 for FY21 Q2. All data used in this report is taken directly from the City's QCMRs. The QCMR for FY21 Q2 can be found [here](#).

Key Takeaways

- The City's cash balances remained historically high at the end of FY21 Q2, boosted by \$300M in short-term borrowing, as well as grant funding received as part of the response to the COVID-19 pandemic.
- In FY21 Q2, cash spending for the General Fund increased by \$62.7M, or about 5.6 percent, relative to the second quarter of last fiscal year. General Fund cash revenue decreased by \$107M (−10.7 percent) in FY21 Q2 relative to FY20 Q2, reflecting the economic impact of the COVID-19 pandemic on the City's finances.
- The City revised down its annual FY21 totals for nearly all major taxes, lowering its annual cash revenue projection for the General Fund by \$49.9M. On the other hand, the City increased its expected cash spending in FY21 by \$43.2M. With these changes, the City is projecting a year-end General Fund balance of \$505M, a net decrease of \$93.2M from the first quarter projection.

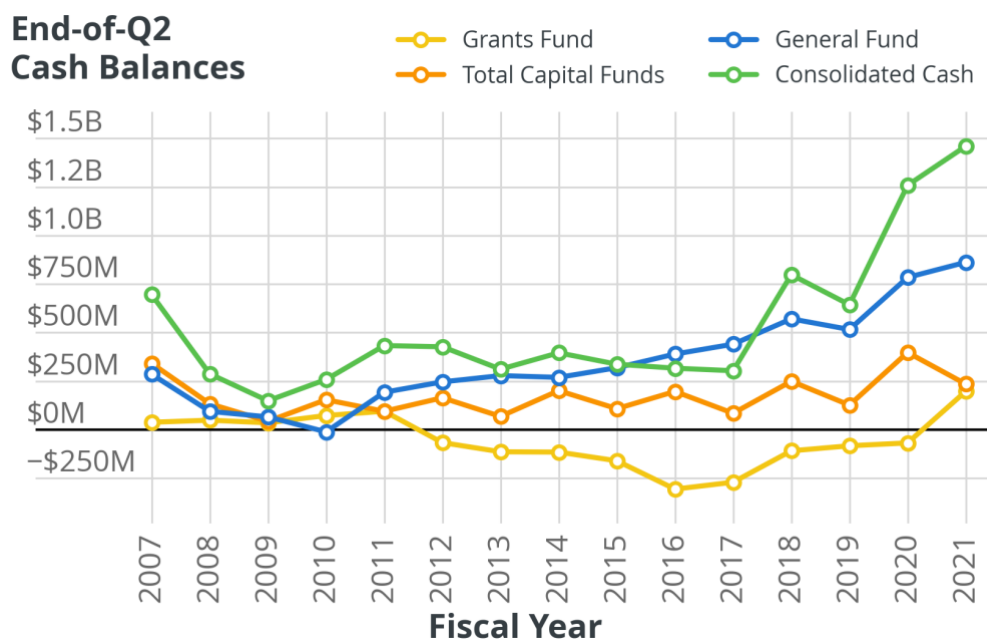
Cash Balances

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:

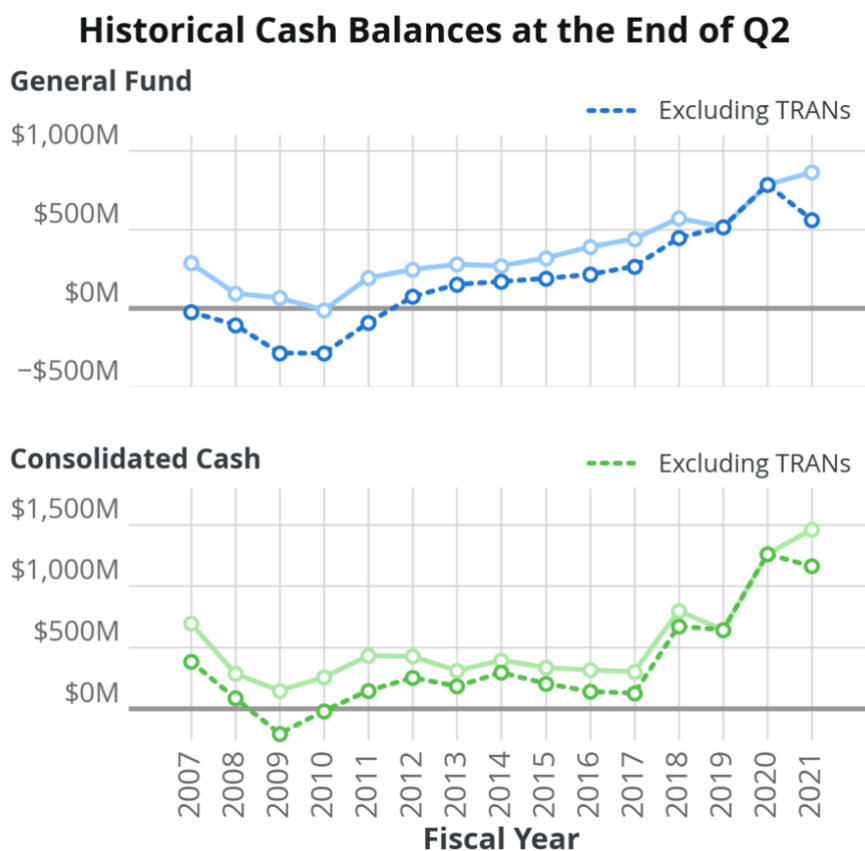
- the General Fund, which is the principal operating fund of the City. About three-quarters of the revenue flowing into the General Fund is generated from local taxes;
- the Grants Fund, which manages grants received from state, federal, and private agencies; and
- the Capital Fund, which manages resources for investing in facilities and infrastructure throughout the city. The majority of its revenue arises from bond proceeds.

As seen in the figure below, the balances for the Consolidated Cash account, the General Fund, and the Grants Fund ended FY21 Q2 at their highest level since at least FY07. These historically high end-of-Q2 cash balances are notable as the City continues to weather the impact of the COVID-19 pandemic on its finances. The City ended FY21 Q2 with a Consolidated Cash balance of \$1,460M, which is more than \$200M higher than the balance at the end of FY20 Q2. The Q2 Consolidated Cash balances for FY21 and FY20 are significantly higher than prior years, with FY18 Q2 having the next highest balance of \$798M.



There are a number of factors that have helped to boost the City's current cash position. First, the City has received an influx of grant funding (through the federal CARES Act) as part of the response to the COVID-19 pandemic, which has contributed to the higher Grants Fund balance. Remaining funds from the CARES Act are expected to be spent in the coming months as part of the City's response to the ongoing pandemic. Second, the increase in the General Fund balance is due primarily to the issuance of a \$300M Tax and Revenue Anticipation Note (TRAN) during the first quarter of FY21. This is a short-term borrowing that must be paid back by the end of the fiscal year. It is intended to strengthen the City's cash position while offsetting the seasonality of

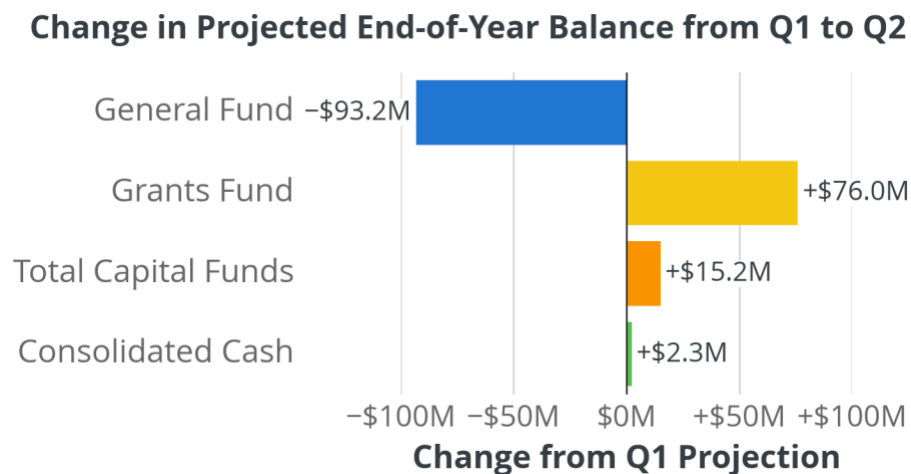
monthly cash flows. This is the first TRAN issuance since FY18 and the largest amount since FY09 when the City borrowed \$350M in the aftermath of the Great Recession. The figure below highlights the effect of the TRAN on the Q2 balances for Consolidated Cash and the General Fund. After excluding TRANs, the end-of-Q2 balances for both funds are lower in FY21 compared to FY20, although both remain relatively high compared to historical levels.



The end-of-Q2 General Fund balance was \$66.4M lower than anticipated due primarily to higher-than-expected spending totals during the second quarter. On the other hand, the City's Consolidated Cash balance ended the second quarter \$382M higher than the City's first quarter projection. This higher balance was driven by higher balances for the Grants Fund (+\$352M) and the Capital Fund (+\$14.7M). The larger Grants Fund balance resulted in part from the extension of the deadline to use federal funding from the CARES Act, which was extended from the end of FY21 Q2 to the end of FY22 Q2.

Despite the Consolidated Cash balance being higher than previously projected, the City increased the projection for its end-of-year balance by only \$2.3M. As seen in the figure on the next page, projections for the General Fund's end-of-year balance decreased by \$93.2M, while the balances for the Grants and Capital Funds increased by \$76M and \$15.2M, respectively. As discussed in the next section, the General Fund revision is due to a combination of lower expected revenue and higher expected spending. While these Q2 projections have historically been conservative,

it's difficult to compare current projections to past experience, as the novel economic impacts of the COVID-19 pandemic have created a large amount of uncertainty around revenue streams and spending requirements.

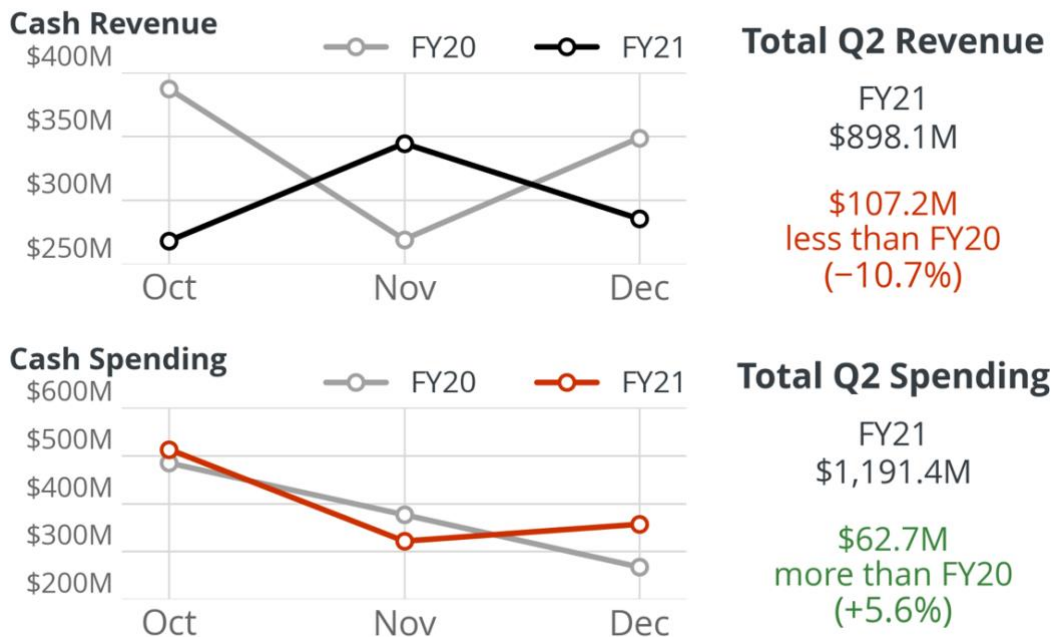


General Fund Revenue/Spending

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 FY21 Q2 than it received in revenue, with cash spending outpacing cash revenue by \$293M. As seen in the chart below, the City's spending level increased by about 5.6 percent relative to the second quarter of last fiscal year. Meanwhile, General Fund cash revenue declined by about 10.7 percent relative to FY20 Q2, a result of the negative economic impacts of the COVID-19 pandemic. Prior to the onset of the pandemic, the City was experiencing historically high revenue growth, with revenues in FY20 Q2 reaching an all-time quarterly high of \$1,005M (+10.6 percent growth from FY19 Q2).

General Fund Cash Revenue/Spending in FY21 Q2 vs. FY20 Q2



While revenues declined relative to last fiscal year, the City's cash revenue total in Q2 was actually \$12.3M more than the City's first quarter projection. Increases in Wage tax revenues (+\$14.3M), BIRT revenues (+\$12.8M), and Realty Transfer Tax revenues (+\$12.8M), accounted for the majority of the difference. However, the City's spending was also higher than anticipated and by a wider margin, with an additional \$78.6M in spending through the second quarter of the fiscal year. The higher spending total was due primarily to increased payroll costs (+\$47.4M) due to a monthly shift in payments which is offset in later months, as well as additional spending on contracts and leases (+\$28.7M).

Some of the additional spending through the first half of FY21 is projected to be offset by declines later in the fiscal year. Despite the year-to-date increase of \$78.6M in cash spending, the City increased the annual projection for the General Fund by only \$43.2M. The largest revisions to the first-quarter projections are for increased spending on contracts (+\$34M) and payments for prior year spending (+\$21.6M). The current projection for the FY21 total is \$4,946M, an increase of 2.3 percent relative to last fiscal year.

On the other hand, the City revised down its annual totals for nearly all major taxes (except the Sales Tax), lowering its annual cash revenue projection for the General Fund by \$49.9M. The current annual projection of \$4,693M represents an increase of only 1.4 percent relative to the total cash revenue in FY20. This modest growth reflects the impact of the COVID-19 pandemic: annual revenue grew by 8.3 percent in FY18 and 7.7 percent in FY19 but fell by 4.6 percent in FY20 as a result of decreased revenue in Q4. It is also worth noting that the FY21 cash revenue total (\$4,693M) includes FY20 revenue that was not collected until FY21 due to changes in filing

dates. After accounting for these differences, the City is projecting a total of \$4,602M in revenue in FY21, a decrease of \$231M (–4.8 percent) from FY20 revenue totals.

Conclusion

As the City continues to address the effects of the COVID-19 pandemic, cash spending for the General Fund is projected to outpace cash revenues by \$254M in FY21. Consequently, the cash balance for the General Fund is projected to decline, ending the fiscal year with a balance of \$505M. This would be the lowest year-end fund balance since FY16 and substantially lower than the pre-pandemic year-end balance in FY19 (\$966M), a sign of the substantial impact the pandemic has had on the City's finances since April 2020. However, the General Fund balance is still significantly higher than the historic lows of the Great Recession, during which the end-of-year fund balance reached a low of –\$30.6M in FY10.

With the City's public restrictions expected to remain in place through the end of FY21, economic activity and tax revenue collections are not expected to return to pre-pandemic levels until sometime during FY22 at the earliest. However, the City is expected to receive about \$1.4 billion in federal aid as part of the recently passed American Rescue Plan Act, which will offset the pandemic's impact [on City finances](#). In future cash reports the Controller's Office will continue to monitor the City's cash position, including this influx of federal funding, as the city continues its economic recovery from the COVID-19 pandemic.