Cash Report: Fiscal Year 2021 Q3

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's Budget Office 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 finances, 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 third quarter of fiscal year 2021 (FY21 Q3), and it reflects the ongoing impacts of the COVID-19 pandemic on the City's finances. During the months covered in this report (January through March of calendar year 2021), the City had not yet lifted many of the public health restrictions that were implemented over the course of the pandemic. Though the public health situation in Philadelphia has improved with the availability of COVID-19 vaccines, the pandemic continues to impact the city's economy, with unemployment remaining above pre-COVID levels. As the City's economy recovers, 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 Q3. All data used in this report is taken directly from the City's QCMRs. The QCMR for FY21 Q3 can be found here.

Key Takeaways

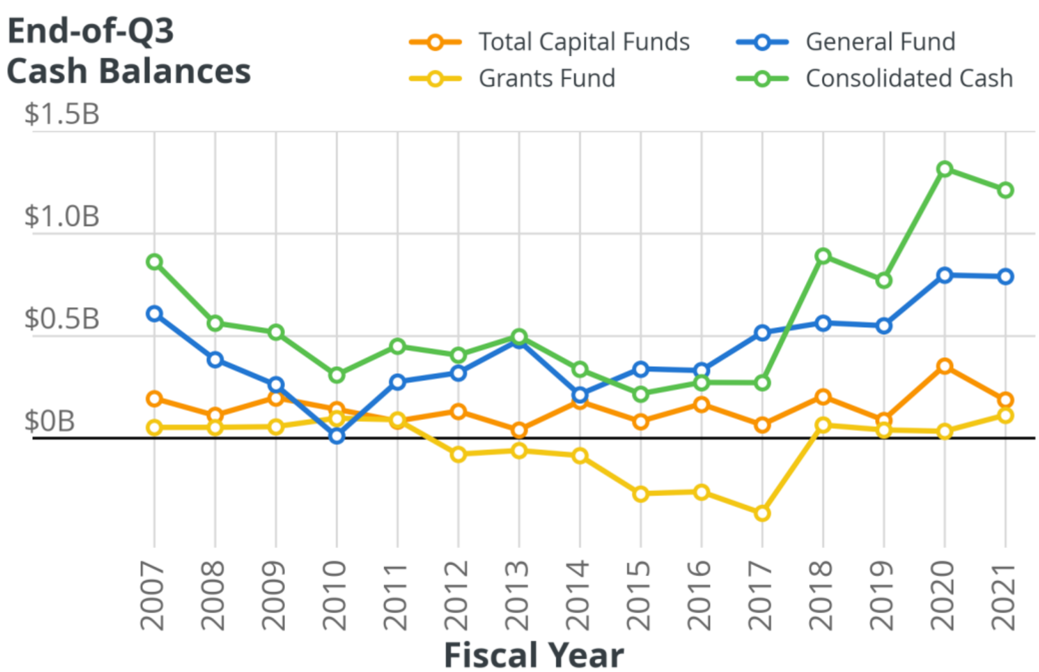
- Boosted by $300M in short-term borrowing during FY21 Q1 and grant funding received from the federal government to support COVID-19 pandemic response efforts, the City's cash balances remained historically high.
- In FY21 Q3, cash spending for the General Fund decreased by $20.9M, or about 1.4 percent, relative to the third quarter of last fiscal year. General Fund cash revenue experienced a larger decline due to the ongoing economic effects of the pandemic, decreasing by $105.8M (-6.9 percent) in FY21 Q3 relative to FY20 Q3.
- The projection for the end-of-year General Fund cash balance increased by $158.6M due to a combination of lower expected spending (-$138.6M) and increased revenues (+$20.1M). Despite the projected increase, the projected cash balance of $663.8M would still be the lowest year-end fund balance since FY18.
- The City will receive the first half of its $1.4B in federal relief from the American Rescue Plan during Q4 of FY21. To incorporate these funds, the City revised the end-of-year balance for the Grants Fund upwards by $688M relative to previous projections.

Cash Balances

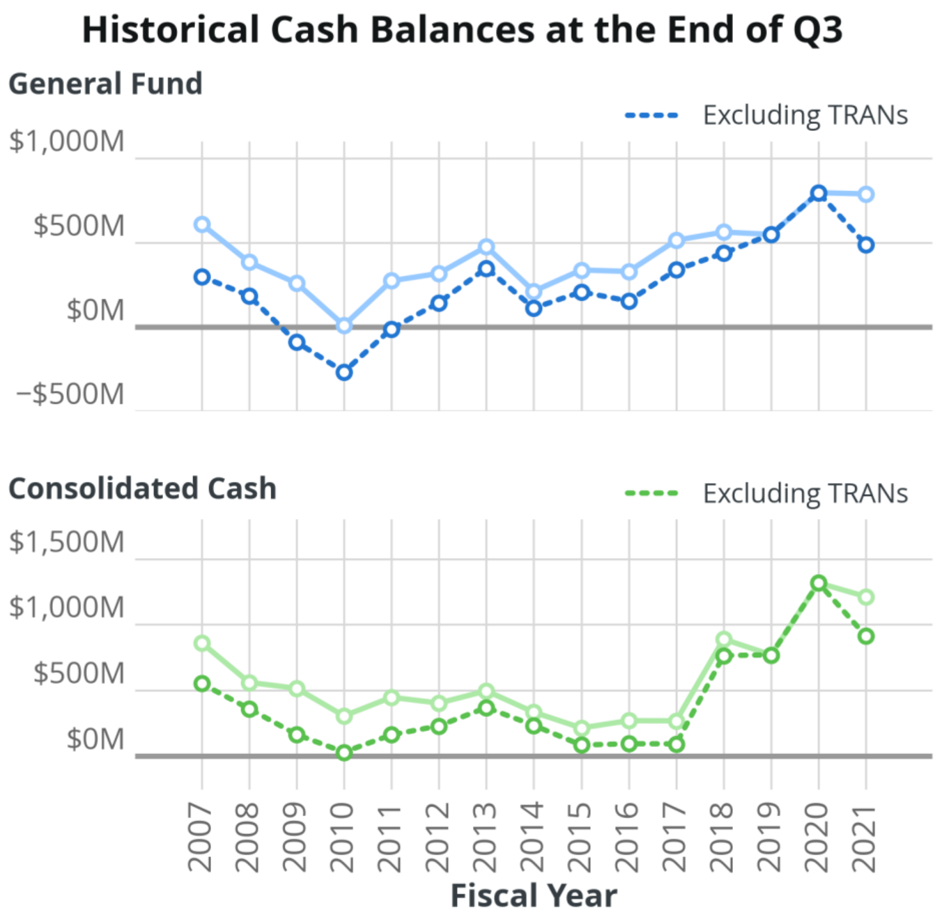
The City publishes the monthly cash balance, actual and projected, for each of its major funds, within the QCMR. For its day-to-day operations, the City pools together the cash balances associated with several funds into a single account, known as the Consolidated Cash account. Three major funds, listed 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 FY21 Q3 with a Consolidated Cash balance of $1,231.1M. This represents a $103.8M decrease from the historically high balance of $1,316.9M at the end of FY20 Q3, the last fiscal quarter prior to the onset of the COVID-19 pandemic. As seen in the figure below, this fiscal year's Q3 balance for the General Fund ($788.6M) also declined slightly relative to FY20 Q3. However, this year's cash balances for these two funds still remained above the Q3 balances for all years prior to FY20.



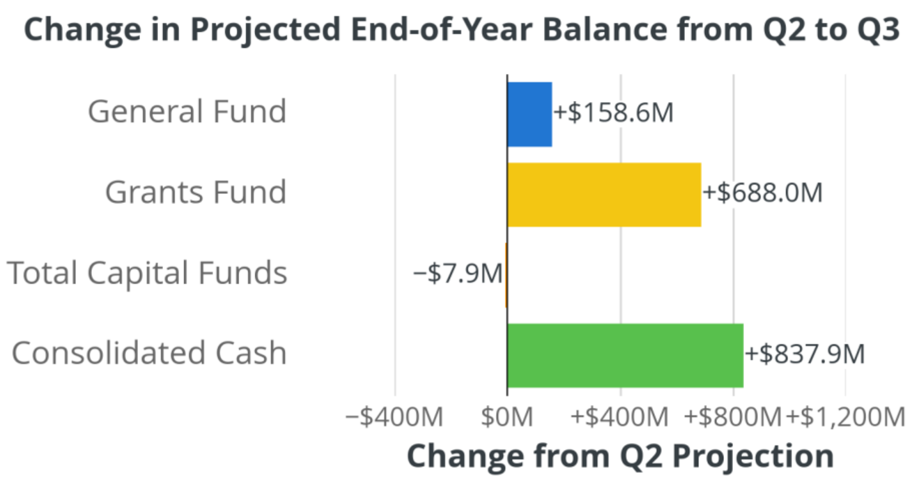
The year-over-year decrease in the City's Consolidated Cash account is largely due to a decline in the Capital Fund balance (-$165.4M), a result of the City using bond proceeds from an FY20 borrowing to fund infrastructure projects across the city. This year-over-year decline was partly offset by an increased balance for the Grants Fund (+78.6M), which has remained high due to an influx of federal and state relief funds in response to the COVID-19 pandemic. The General Fund's FY21 Q3 balance is only slightly lower than FY21 Q3 (-$7.2M) but is temporarily boosted by 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 and is intended to strengthen the City's cash position while offsetting the seasonality of monthly cash flows. The TRAN has been issued in most years in recent history (except for FY19 and FY20) in differing amounts depending on cash needs of that time. The figure below highlights the effect of the TRAN on the Q3 balances for Consolidated Cash and the General Fund. After excluding TRAN funding, the impact of the pandemic on the City's finances becomes more apparent. The end-of-Q3 balances for both funds are lower in FY21 compared to FY20, with the General Fund balance dropping below the FY19 Q3 level.



The actual Consolidated Cash balance at the end of FY21 Q3 was noticeably higher (+$403.5M) than last quarter's projection. This higher fund balance was driven by higher balances for the General Fund (+$258.8M) and the Grants Fund (+$123.5M). The General Fund's higher balance was due primarily to the City's Budget Office overestimating Q3 spending levels by $140M and underestimating tax revenues by $96.0M in their previous estimates. 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, allowing the City more time to spend down the Grants Fund balance.

At the end of FY21 Q3, the City made significant revisions to its end-of-fiscal-year fund balance projections to incorporate the anticipated federal relief funds from the American Rescue Plan (ARP) passed by Congress in March 2021. The City increased its projections for the end-of-year Consolidated Cash balance by $837.9M, which includes an increase of $668.0M for the end-of-year Grants Fund balance and $158.6M for the end-of-year General Fund balance. The City has been allocated $1.4B in funding through the ARP and will receive the first half of this total during the fourth quarter of FY21. As discussed in the next section, the General Fund revision is due to a combination of federal relief, higher-than-expected revenue, and lower-than-expected spending. While these Q3 projections have historically been conservative, it is difficult to compare current projections to past experience, as the novel economic impacts of the COVID-19 pandemic have created considerable uncertainty around revenue streams and spending requirements.



General Fund Revenue/Spending

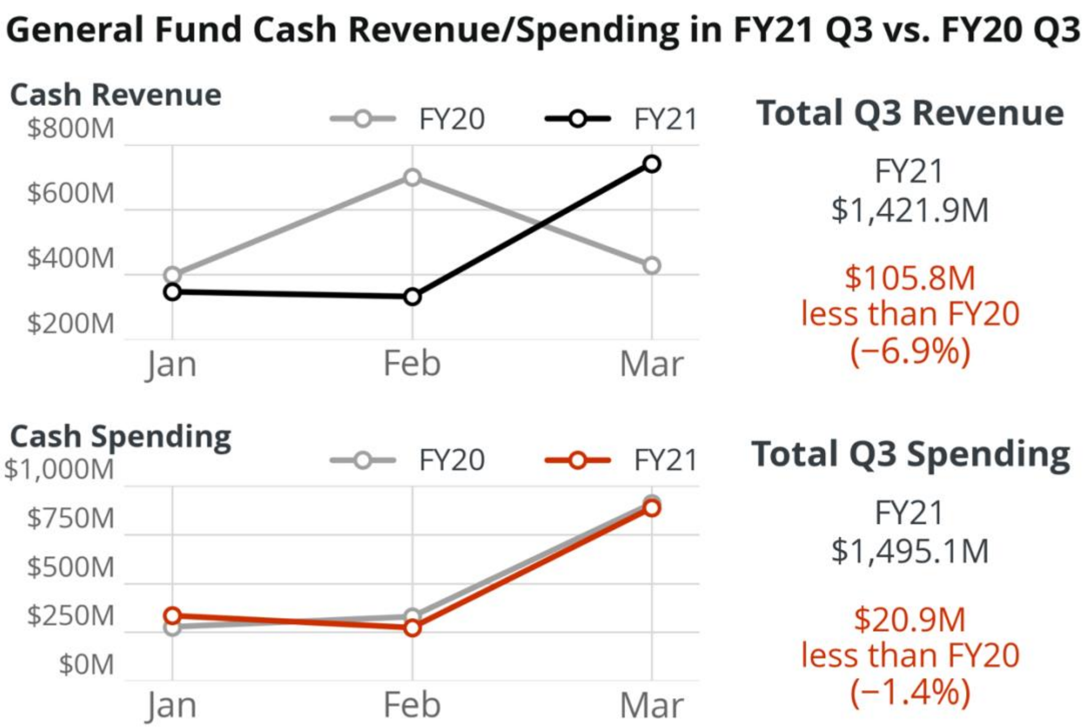
As the principal operating fund for the City, the General Fund's finances offer a unique perspective on the City's current fiscal state. Monthly revenues and expenditures for the General Fund are published as part of the QCMR and offer further insight into the cash position of the City. The majority 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 Q3 than it received in revenue, with cash spending outpacing cash revenue by $73.2M. As seen in the chart on the next page, the City's spending level decreased by about 1.4 percent relative to the third quarter of last fiscal year. The

General Fund cash revenue also declined, with cash revenues 6.9 percent lower than the FY20 Q3 level. These declines in both spending and revenue relative to the prior fiscal year reflect the impacts of the COVID-19 pandemic on the City's finances, with negative economic conditions affecting revenue and budgetary changes affecting Q3 spending.

Prior to the onset of the pandemic, the City was experiencing historically strong revenue growth, with revenues in FY20 Q3 reaching an all-time quarterly high of $1,527M (+3.1 percent growth from FY19 Q3). With the pandemic still impacting the local economy, several taxes experienced large year-over-year declines in FY21 Q3, including the Real Estate tax (-$69.6M), the Wage Tax (-$60.6M), the Realty Transfer Tax (-$23.7M), and the Parking and Amusement Taxes (-$19.4M).

Spending in FY21 Q3 was dominated by the City's annual contribution to the Pension Fund in March. To help weather the pandemic's impact on City finances, the City restructured its debt service on pension-related bonds, which resulted in lower pension spending in FY21 and a decrease of $103.9M relative to FY20 Q3. These savings were partially offset by additional spending on contributions and indemnities (+$17.1M) and payments for obligations made in previous fiscal years (+$55M). The additional spending on contributions is largely due to an increase in the City's annual payment to the School District, with FY21 contributions totaling $189M as of Q3, compared to $167M through Q3 of last fiscal year (+$23M).



While revenues declined relative to last fiscal year, the City's cash revenue total in Q3 was actually $118.9M more than the City's second quarter projection. Higher-than-expected collections for the Real Estate Tax (+$90.8M) made up the majority of this increase. Actual Q3 spending came in significantly below projections (-$140.1M), with lower-than-projected spending on contracts and leases (-$70.2M) and prior year payments (-$47.8M) making up the majority of this decrease. Some of the decrease for contract spending is anticipated to be offset by increased spending in the fourth quarter. The latest projections for contract spending in FY21 Q4 anticipate a $53.8M increase relative to previous projections.

Overall, the City has revised its projection for annual General Fund cash spending downward by $138.6M, while the annual cash revenue total was positively adjusted by $20.1M. With these changes, the projection for the end-of-year General Fund balance increased by $158.6M to a total of $663.8M.

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 $95M in FY21. Consequently, the cash balance for the General Fund is projected to decline, ending the fiscal year with a balance of $663.8M. This would be the lowest year-end fund balance since FY18 and more than $300M 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 most of the City's public health restrictions coming to an end in June 2021, 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 will receive a total of $1.4B in federal aid from the American Rescue Plan, which will allow the City to fill revenue shortfalls caused by the pandemic and restore services and cuts to departmental spending. Previously, the Controller's Office released a report with recommendations on how to best spend this unprecedented influx of federal funding. In future cash reports, the office will continue to monitor the City's cash position, including the impact of the federal relief on the City's finances.