

# Cash Report: Fiscal Year 2021



**City Controller**  
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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 fourth quarter of fiscal year 2021 (FY21 Q4), and it reflects the ongoing impacts of the COVID-19 pandemic on the City's finances. Although COVID-19 vaccines are now widely available, the pandemic continues to impact the city's economy and small business community, 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. All data used in this report is taken directly from the City's QCMRs. The QCMR for FY21 Q4 can be found [here](#).

## Key Takeaways

- The City's cash position remained strong at the end of FY21, with the General Fund ending the year with its highest cash balance since at least FY07. Due primarily to higher-than-expected revenue and lower-than-expected spending, the actual end-of-year cash balance for the General Fund was \$476M higher than the projection from the adopted FY21 budget in June 2020.
- The Grants Fund ended FY21 with a cash balance of \$950M, its highest since at least FY07. The balance was boosted by the City receiving the first half of its \$1.4B in federal relief as part of the American Rescue Plan.
- The Consolidated Cash account, the City's combined cash fund, ended FY21 with a balance of more than \$2.2B, its highest since at least FY07, as a result of the historically high cash balances for the General Fund and Grants Fund.
- Due to budget cuts enacted in response to the COVID-19 pandemic, total cash spending declined by 3% in FY21. Total cash revenue for the General Fund increased by 6.2% relative to FY20. Primarily, this increase is a result of the City delaying the filing deadline for business taxes in FY20 to FY21, which lead to additional payments of these taxes during FY21.

## 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:

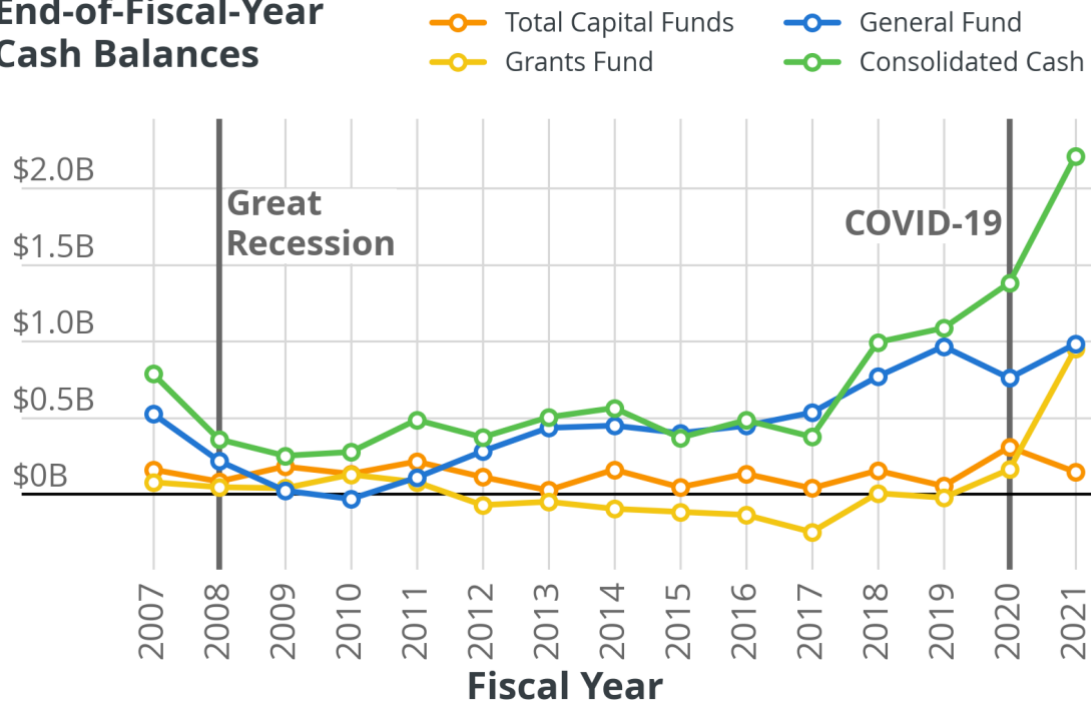
- The General Fund, which is the principal operating fund of the City. About three-quarters of the revenue flowing into the General Fund is generated from local taxes;
- The Grants Fund, which manages grants received from state, federal, and private agencies; and
- The Capital Fund, which manages resources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

Prior to the onset of the COVID-19 pandemic in March 2020, the City's cash balances had grown to their highest levels since the Great Recession. While the strong cash balances cushioned the immediate impact of the pandemic on City finances, the General Fund ended FY20 with a cash balance \$208M lower than the closing balance from the previous year. This year-over-year decline resulted from a sharp drop in tax revenue during FY20 Q4 as the local economy was impacted by the pandemic, as well as a shift in the collection date for the City's Business Income and Receipts Tax (BIRT) and Net Profits Tax. The filing date for these taxes was changed from April to July 2020. Thus, tax revenue that would have been collected during the fourth quarter of FY20 was not collected until the first quarter of FY21.

For the first time since FY18, the City issued a \$300M Tax and Revenue Anticipation Note (TRAN) in the first quarter of FY21. This short-term borrowing helped to offset the seasonality of monthly cash flows and temporarily strengthened the General Fund's cash position throughout the fiscal year. After paying off the TRAN during FY21 Q4, the City's General Fund ended the year with a cash balance of \$981M. This represents the highest end-of-year cash balance since the Great Recession, an increase of \$223M relative to FY20 and \$15M more than the previous record high in FY19.

The Capital Fund's end-of-year cash balance in FY21 was \$162M lower than FY20, a result of the City using bond proceeds from an FY20 borrowing to fund infrastructure projects across the city. The City also received the first half of its \$1.4B allocation from the American Rescue Plan (ARP) during the second half of FY21. This unprecedented influx of federal relief brought the Grants Fund to its highest-ever ending balance of \$950M, a \$788M increase over FY20. With strong cash balances for the General and Grants Funds, the City's Consolidated Cash account ended FY21 with a balance of more than \$2.2B. This represents an \$825M increase from its closing FY20 balance. Despite the negative impacts of the pandemic, the Consolidated Cash account, the General Fund, and the Grants Fund all ended FY21 with their highest cash balances since the Great Recession.

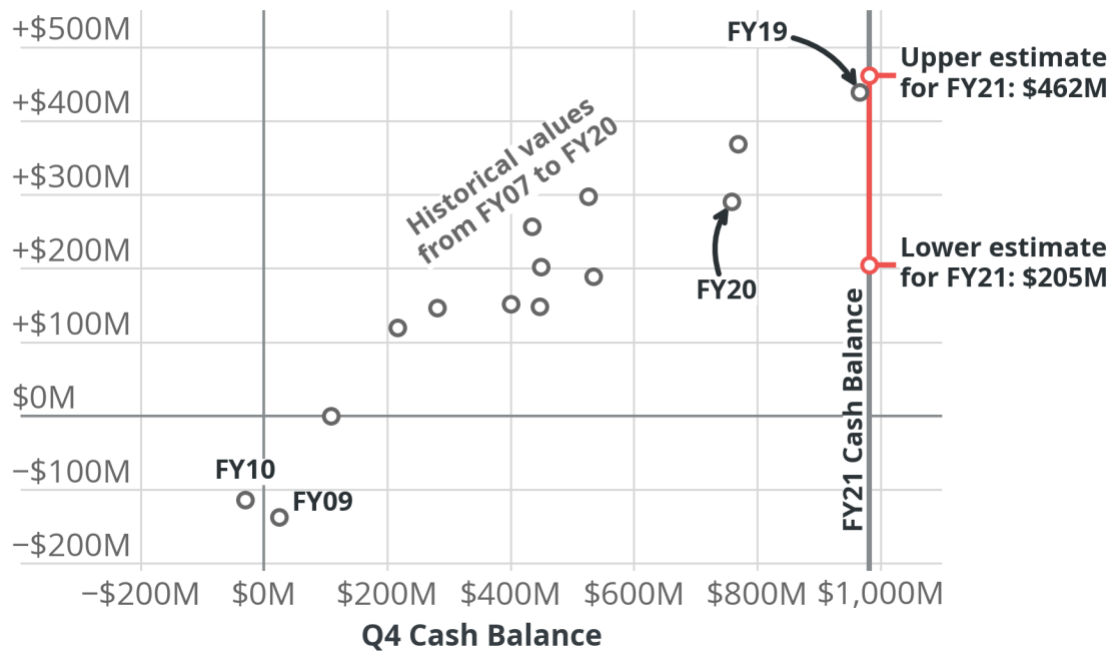
## End-of-Fiscal-Year Cash Balances



Internally, the City aims for a General Fund balance that is between 6% and 8% of annual expenditures, while the Government Finance Officers Association (GFOA) recommends municipalities, regardless of size, maintain a fund balance equal to at least 17% 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 FY20 the City's General Fund balance on a modified accrual basis was \$291M, or 5.8% of annual expenditures. On a cash basis, the General Fund balance was \$759M, or 15.7% of expenditures.

The General Fund's FY21 cash balance of \$981M represents 20.9% of the year's cash expenditures. On a modified accrual basis, the end-of-year balance is currently projected to be \$79M, which is only 1.7% of total expenditures. As seen in the chart below, this modified accrual projection is likely to be underestimated. This chart uses the historical relationship between the end-of-year cash balance and the final modified accrual balance to estimate the final balance in FY21. Based on the cash balance at the end of FY21, the final modified accrual balance is likely to fall between \$205M and \$462M, or about 4.1% and 9.4% of annual expenditures, respectively. If the balance were to fall within this range, it could potentially satisfy the City's internal goal of 6% to 8% but would still fall short of the GFOA's recommended level. However, it would be substantially larger than the City's fund balances in the aftermath of the Great Recession, when the City ended FY09 and FY10 with negative modified accrual balances.

## Final Modified Accrual Fund Balance



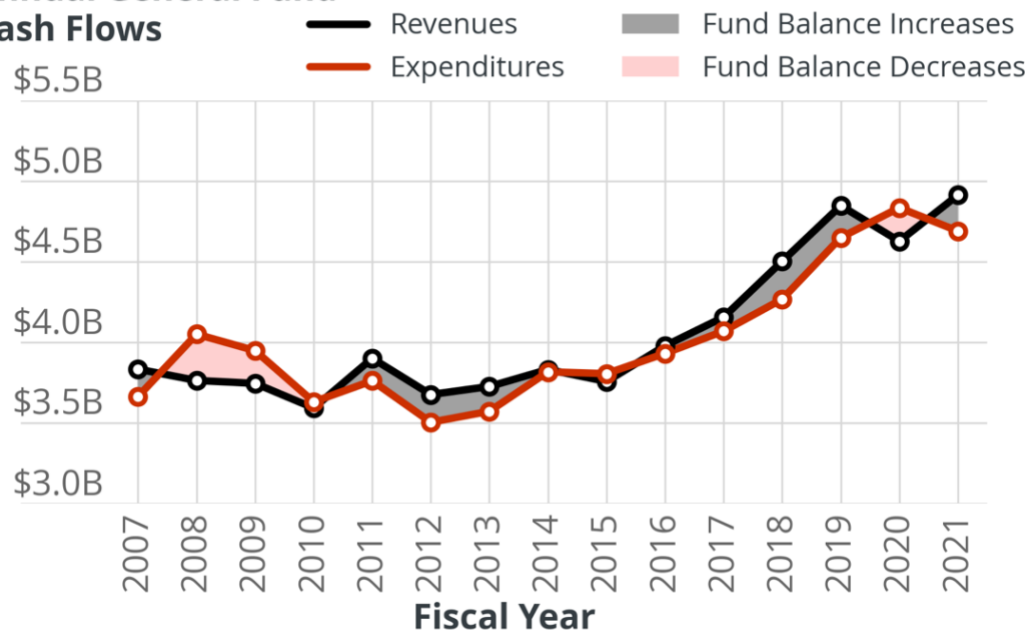
## General Fund Revenue & Spending

As the principal operating fund for the City, the General Fund's finances offer a unique perspective on the City's 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](#). 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.

### FY21 vs. FY20

Cash revenue for the General Fund totaled \$4.9B in FY21, an increase of \$286M from last fiscal year, while cash spending totaled \$4.7B, a decrease of about \$144M. With a surplus of \$223M, the City's General Fund cash balance increased year-over-year in FY21. As seen in the chart on the following page, this differs from last fiscal year when annual cash spending outpaced revenue, and the General Fund's cash balance declined year-over-year by \$207M. This was the first decline since FY15 and the largest single-year decline since the Great Recession in FY08.

## Annual General Fund Cash Flows



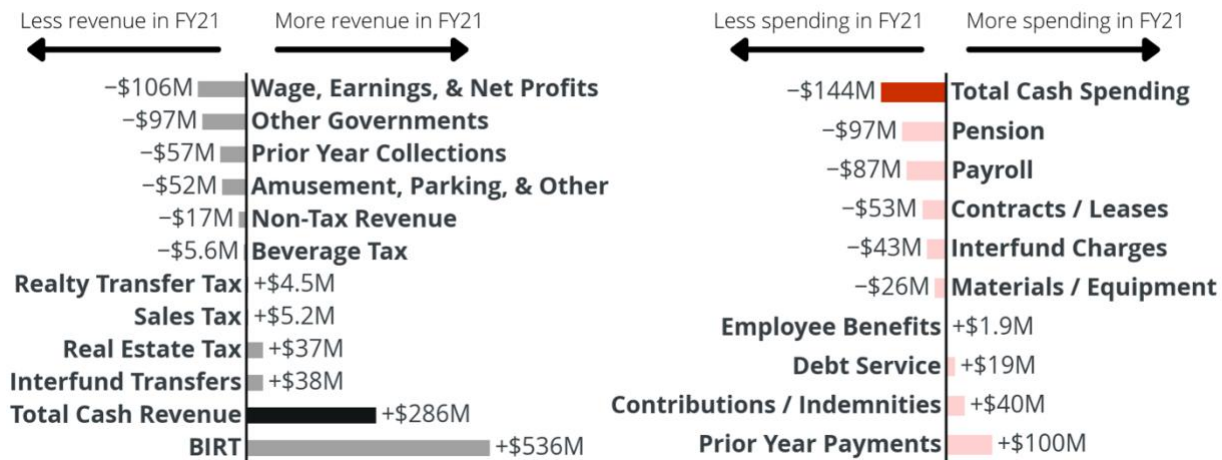
Total cash revenue for the General Fund increased year-over-year by 6.2%, in FY21. This increase is primarily due to the shift in collection date for BIRT from April to July 2020, which resulted in the City receiving BIRT collections twice in FY21, in July 2020 and then again in April 2021. In total, the City collected \$823M in BIRT cash receipts in FY21, a year-over-year increase of \$536M.<sup>1</sup>

While cash revenue increased by \$286M in FY21 as compared to FY20, cash revenue would have declined by \$250M without the year-over-year increase for BIRT. As shown in the chart on the following page, total collections for the Wage, Amusement, Parking, and Beverage Taxes all declined in FY21 relative to FY20, with the Sales Tax, Realty Transfer Tax, and the Real Estate Tax experiencing modest year-over-year increases. The increase in Sales Tax collections is particularly noteworthy, given widespread restaurant and business closures and record unemployment during FY21.

In response to the pandemic, the City implemented budget cuts and layoffs during FY21, and as a result, cash spending declined year-over-year by \$144M, or about 3%. Spending related to the City's Pension Fund had the largest decline, the result of the City restructuring its debt service on pension-related bonds in response to the pandemic's impact on City finances. The City ended FY21 with 792 fewer full-time positions funded through the General Fund, and as a result, payroll spending declined by \$87M in FY21 relative to FY20. The City also reduced contract spending by \$53M (6.2%) and spending on materials and equipment by \$26M, or 31%. Prior year payments, which are cash expenditures for spending approved during FY20, increased year-over-year by \$100M, the largest increase of any category.

<sup>1</sup> For accounting purposes, the City is counting about \$306M of the \$823M in BIRT cash receipts received in FY21 as FY20 revenue, resulting in BIRT revenue totaling \$534M in FY20 and \$517M in FY21.

## Total Cash Revenue and Spending for the General Fund: The Difference Between FY21 and FY20 Actuals



### FY21 Actuals vs. Adopted Budget

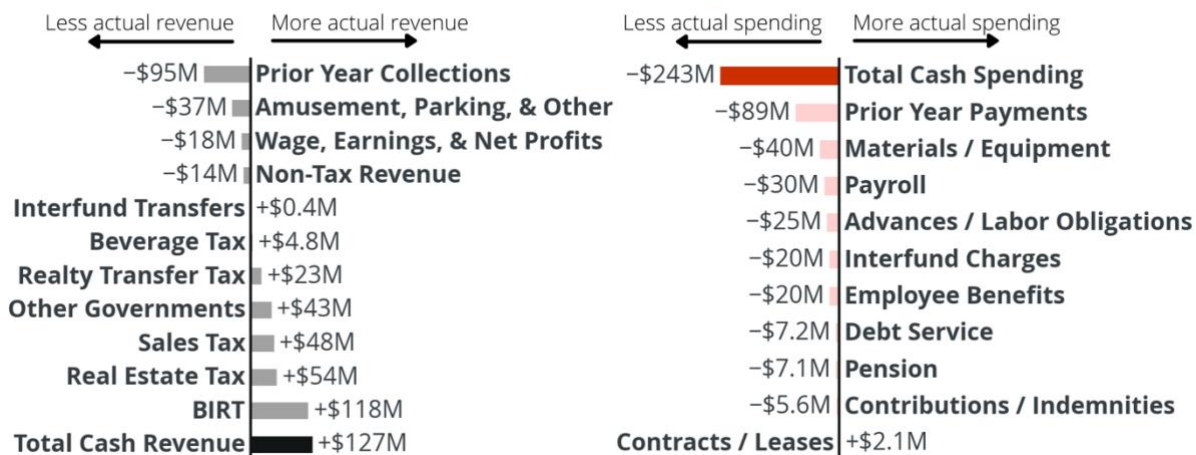
The COVID-19 pandemic's impact on City finances was not as large as originally projected, with the City's General Fund ending FY21 with a cash balance that was \$476M higher than the projection in the adopted FY21 budget from June 2020. This higher balance resulted from higher-than-expected revenues and less-than-expected spending. The General Fund also began FY21 with a cash balance that was \$107M higher than projected in the adopted budget. The passage of the American Rescue Plan in March 2021 helped to boost the General Fund's cash balance, as the City transferred \$26M in ARP funds to the General Fund during the second half of FY21. This funding was not included in the original budget projections and contributed to the higher-than-expected revenue totals for FY21.

Compared to the FY21 adopted budget, total cash revenue came in \$127M over budgeted projections. As seen in the chart on the next page, nearly all taxes outperformed expectations, including BIRT (+\$118M), the Real Estate Tax (+\$54M), the Sales Tax (+\$48M), the Realty Transfer Tax (+\$23M), and the Beverage Tax (+\$4.8M). The ARP funds (+\$26M) are included in the Interfund Transfer category in the chart, as the funding was transferred from the Grants Fund to the General Fund. Note that the overperformance of BIRT occurred over and above the double payment in FY21, which the City accounted for in their budgeted projections. Only collections for the Wage Tax, Parking Tax, and Amusement Tax were below expectations. The Wage Tax was particularly impacted during the pandemic, with the City refunding an estimated \$105M in Wage Tax collections in FY21 for non-residents who worked remotely throughout the pandemic.

Similar to the budgeted revenue estimates, the City's spending projections in the adopted FY21 budget were also conservative. The City's cash spending for the General Fund totaled \$243M less than the budget's projections from June 2020. Payments against prior year expenditures accounted for the largest difference (-\$89M). The City also reduced spending in several other areas relative to its original projections, including materials and equipment (-\$40M), payroll (-

\$30M), and employee benefits (-\$20M). Only spending on contracts increased (+2.1M) relative to the City's budgeted spending projections.

## Total Cash Revenue and Spending for the General Fund: The Difference Between the FY21 Budget and Actuals



## Conclusion

At the close of the first full fiscal year following the COVID-19 pandemic, the City's cash position remained strong. While the pandemic has certainly impacted City finances, resulting in revenue declines and spending cuts, the impact was not as large as originally anticipated in June 2020. The City managed to end FY21 with its highest cash balance for the General Fund since at least FY07, \$15M higher than the pre-pandemic level from FY19. With the passage of the American Rescue Plan, the City also received the first half of its \$1.4B in federal relief, bringing the Grants Fund balance to an unprecedented \$950M at the end of FY21. Altogether, this resulted in the City closing FY21 with a Consolidated Cash balance of more than \$2.2B, its highest since at least FY07.

While economic activity has increased from its low point in summer 2020, the City and Commonwealth have recently re-implemented a number of public health restrictions. As the city continues its recovery from the pandemic, unemployment remains high and collections for the majority of taxes are still below pre-pandemic baselines. In the coming fiscal year, the City can use funds from the American Rescue Plan to fill any additional 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.