City of Philadelphia
Forecasted General Fund
Statements of Operations
Fiscal Years 2023-2027

City Controller
Rebecca Rhynhart

CONTENTS

CITY OF PHILADELPHIA

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REBECCA RHYNHART
City Controller

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INDEPENDENT ACCOUNTANT'S REPORT

To the Chair and Board Members of the
Pennsylvania Intergovernmental Cooperation Authority

We have examined the accompanying forecast of the City of Philadelphia, Pennsylvania, which comprises the forecasted general fund statements of operations and summaries of significant assumptions and accounting policies for each of the five years ending through June 30, 2027, of the City of Philadelphia, Pennsylvania, based on the guidelines for the presentation of a forecast established by the American Institute of Certified Public Accountants (AICPA). City of Philadelphia's Office of the Director of Finance management is responsible for preparing and presenting the forecast in accordance with the guidelines for the presentation of a forecast established by the AICPA. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with attestation standards established by the AICPA. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the forecast is presented in accordance with the guidelines for the presentation of a forecast established by the AICPA, in all material respects. An examination involves performing procedures to obtain evidence about the forecast. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the forecast, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the accompanying forecast is presented, in all material respects, in accordance with the guidelines for the presentation of a forecast established by the AICPA, and the underlying assumptions are suitably supported and provide a reasonable basis for management's forecast.

There will usually be differences between forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

Emphasis of a Matter – Growth in Revenues Resulting from the American Rescue Plan Act

The forecasted statement referred to above, and footnote C.6. reflect significant growth in revenues between fiscal years 2022 and 2025 due to grant funding received under the American Rescue Plan Act (ARPA). ARPA provided direct relief to state and local governments in the wake of negative economic impacts caused by the COVID-19 public health emergency. The City received a $1.395 billion grant in FY 21 that, in accordance with federal regulations, must be obligated by December 2024. As such, no new ARPA grant funding is anticipated in fiscal years 2026 and 2027, resulting in the total forecasted revenue amount declining in fiscal year 2026. Our opinion is not modified with respect to this matter.

Christy Brady

CHRISTY BRADY, CPA
Deputy City Controller
Philadelphia, Pennsylvania
July 20, 2022

Forecasted General Fund Statements of Operations

Fiscal Years Ending June 30, 2023 through June 30, 2027

Prepared by:

Office of Budget and Program Evaluation
Office of the Director of Finance

City of Philadelphia - Office of the Director of Finance
Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2023 through June 30, 2027

(Amounts in thousands)

NO.	ITEM	FY 2023 Adopted	FY 2024 Estimate	FY 2025 Estimate	FY 2026 Estimate	FY 2027 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	OPERATIONS OF FISCAL YEAR					
	REVENUES					
1	Taxes	4,015,653	4,148,503	4,280,417	4,429,614	4,589,440
2	Locally Generated Non-Tax Revenues	372,765	336,501	335,419	355,025	381,943
3	Revenue from Other Governments	913,380	942,871	971,548	999,505	1,027,634
4	Sub-Total (1 thru 3)	**5,301,798**	**5,427,875**	**5,587,384**	**5,784,144**	**5,999,017**
5	Revenue from Other Funds of City	400,959	455,012	512,146	63,228	62,925
6	**Total Revenue and Other Sources (4)+(5)**	**5,702,757**	**5,882,887**	**6,099,530**	**5,847,372**	**6,061,942**
	OBLIGATIONS/APPROPRIATIONS					
7	Personal Services	2,057,006	2,119,876	2,122,789	2,123,047	2,123,055
8	Personal Services-Pensions	842,533	864,732	872,249	883,267	880,996
9	Personal Services-Other Employee Benefits	760,978	786,516	828,024	866,510	900,764
10	**Sub-Total Employee Compensation (7 thru 9)**	**3,660,517**	**3,771,124**	**3,823,062**	**3,872,824**	**3,904,815**
11	Purchase of Services	1,236,034	1,205,360	1,161,087	1,176,252	1,188,224
12	Materials, Supplies and Equipment	143,529	125,559	122,146	121,299	121,008
13	Contributions, Indemnities, and Taxes	408,158	398,450	404,389	404,089	404,089
14	Debt Service	193,710	223,997	236,096	250,118	260,569
15	Payments to Other Funds	74,404	96,987	96,922	84,016	80,885
16	Payment to Budget Stabilization Reserve Fund	40,128	41,604	43,208	41,146	0
17	Advances & Misc. Pmts. / Labor Obligations	54,000	63,000	96,000	133,000	171,000
18	Adv. & Misc. Pmts. / Recession, Inflation & Reopenin	32,000	32,000	32,000	37,000	32,000
19	**Total - Obligations (10 thru 18)**	**5,842,480**	**5,958,081**	**6,014,910**	**6,119,744**	**6,162,590**
20	Oper.Surplus (Deficit) for Fiscal Year (6)-(19)	(139,723)	(75,194)	84,620	(272,372)	(100,648)
21	**Prior Year Adjustments:**					
22	Other Adjustments	19,500	19,500	19,500	19,500	19,500
23	Total Prior Year Adjustments	19,500	19,500	19,500	19,500	19,500
24	**Adjusted Oper. Surplus/ (Deficit) (20)+(23)**	**(120,223)**	**(55,694)**	**104,120**	**(252,872)**	**(81,148)**
	OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS					
25	Fund Balance Available for Appropriation June 30 of Prior Fiscal Year	492,417	372,194	316,500	420,620	167,748
26	Fund Balance Available for Appropriation June 30 (24)+(25)	**372,194**	**316,500**	**420,620**	**167,748**	**86,600**

See accompanying summaries of significant accounting policies and assumptions and accountant's report.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2023 through June 30, 2027

A. Nature of the Forecast

The City of Philadelphia Budget Office (Budget) is responsible for providing revenue and obligation estimates to the Director of Finance and the Mayor for discussion and inclusion in the FY2023 budget and the FY2023-2027 Five Year Financial Plan (FYP) submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on June 30, 2022. These financial forecasts present, to the best of management's knowledge and belief, the City of Philadelphia's (City) expected results of operations for the forecast periods. Accordingly, the forecasts reflect the City's judgment as of June 30, 2022, the date of these forecasts, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecasts. There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as forecasted or expected and those differences may be material.

B. Summary of Significant Accounting Principles

The Forecasted General Fund Statements of Operations are presented on the budgetary basis of accounting. The budgetary basis of accounting differs from the modified accrual (Generally Accepted Accounting Principles) basis used in the preparation of the City's governmental fund financial statements in that both expenditures and encumbrances are applied against the current budget, adjustments affecting activity budgeted in prior years are accounted for through fund balance or as a reduction of expenditures and certain interfund transfers and reimbursements are budgeted as revenues and expenditures.

C. Summary of Significant Forecast Assumptions

1. Approach to Revenue Forecasting

The City's estimated general fund revenues for FY23 total $5.703 billion. Approximately 70% of the City's revenue comes from local taxes, and 16% comes from other governments (including the PICA tax). In FY23, $401 million (7% of revenues) will come from other funds of the City, primarily $335 million of American Rescue Plan federal funds being drawn down. The City is expected to receive $1.395 billion by the close of FY22 and has already received 89% of the grant funds. Locally generated non-tax revenues, which include fees, fines and permits, account for 6.5% of revenues.

Budget provides forecasts for the seven major taxes, totaling over $3.97 billion in the adopted FY23 budget, as well as $372.8 million of Locally Generated Non-Tax revenues, and $913.4 million in Revenue from Other Governments. These three sources comprise 92.2% of the revenues anticipated for the FY23 budget.

Budget employs several approaches to developing its forecasts of local revenues. These include:

a) Forecasts of economic activity provided by several sources including the Congressional Budget Office;

b) Continuous evaluation of national and local economic data on employment, inflation, interest rates, and economic growth;
c) Ongoing examination of the City's current tax receipts;
d) Economic forecasting of tax revenues provided by a revenue forecasting consultant;
e) Analysis and tax history provided by experienced staff within the Philadelphia Department of Revenue;
f) Discussions with economists at a meeting at the Federal Reserve Bank of Philadelphia; and
g) The extensive experience of its staff.

Budget's tax forecasts for the FYP were developed in conjunction with a revenue forecasting consultant, IHS Markit, Ltd. (IHS). IHS created econometric models which included variables such as wage and salary disbursements in the metropolitan statistical area (MSA) and the county, personal income in the county, the unemployment rate, home prices in the county, real estate transaction growth, and national corporate profits. These models, together with their forecast of the Philadelphia economy, were used by IHS to forecast tax revenues for the City. IHS focused on the following taxes – Wage and Earnings Tax, Net Profits Tax, Business Income and Receipts Tax, Real Estate Transfer Tax, Parking Tax, Philadelphia Beverage Tax, and Sales Tax. These forecasts were refined by Budget after discussions with economists at a meeting hosted by the Federal Reserve Bank of Philadelphia, as well as with experienced staff within the Department of Revenue. Forecasts for the remaining major tax – Real Estate– were developed using the internal expertise of employees within the City. The Real Estate Tax estimates were forecasted by Budget with data and input from the Office of Property Assessment and the Department of Revenue. The Philadelphia Beverage Tax estimates are based upon collections of this tax and IHS-projected growth rates. Once the pandemic-related impacts even out at the end of the Plan, the City assumes ongoing annual losses of approximately -0.5% to reflect broad trends in sweetened beverage consumption.

The revenue projections for FY23-27 reflect the ongoing impacts of the COVID-19 global health crisis with both temporary and permanent changes to Philadelphia's tax base. The estimates have been revised since the March 31, 2022 introduction of the Five Year Plan based on updated collections information, macroeconomic conditions, and changes to the tax rates initially proposed.

Prior to the impacts of COVID-19, Philadelphia's medium-term economic outlook was moderately optimistic. Wage Tax revenue was projected to remain stable as IHS Markit, the City's economic consultants, projected payroll growth to continue to grow as a result of very solid gains in number of employees. That outlook changed as a result of the pandemic. In May 2022, Philadelphia payrolls showed gains due to an uptick in both leisure and hospitality sectors. However, total payrolls in the City remain 4.0% below their pre-pandemic peak. Payrolls in local government remain well below the pre-pandemic level, while education and health care services also have more ground to make up.

Fiscal 2022 Sales Tax collections through May are up 17.4% from last year, as collections continue to run ahead of levels from a year ago. However, rising inflation as reflection in increasing prices of fuel, food, rent, and other basis is likely to reduce gains in discretionary income and therefore, slowing down growth in collections moving forward.

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2023 through June 30, 2027

Realty transfer tax collections in May continued their upward trajectory with collections of $54.4 million doubling the year-ago level. Overall revenues through the first eleven months of Fiscal 2022 are 70.7% above the year ago level. The residential real estate market continues to be impacted by higher mortgage rates. And, with record lows in inventory, supply remains tight leading to double digit growth rates in housing prices. Commercial real estate, too, continues to be impacted by rising interest rates providing incentives to developers to compete for commercial properties; thus, promoting redevelopment or renovations.

The Business Income and Receipts Tax (BIRT) preliminary collections posted through May total $687 million, although credits typically reduce the year end total so lower ending numbers are expected. Although lower than FY21 BIRT collections through May, comparisons with the year-ago level remain difficult, as year-ago collections were affected by the onset of the pandemic and a change in the timing of Federal business tax-filing deadlines, with significant revenues in FY21 accruing back to FY20. FY22 collections to date significantly outperformed expectations.

Despite improvements over the course of FY22 in leisure and hospitality, Philadelphia's economy continues to remain impacted by the COVID-19 outbreak, especially in the education, professional and business services, and health services. Historically, the three largest drivers of Philadelphia's economy are educational institutions, medical institutions, and hospitality. Average office occupancy in the Philadelphia metro area (not just the city) is around 38% but remains behind the national pace of 44%. Philadelphia's City Council passed major tax legislation to lower BIRT and Wage Tax rates and offer relief to renters and homeowners to offset increases in property assessments. The rate for the Business Income and Receipts Tax (BIRT) on net income will decrease to 5.99% from the current 6.2%. The Wage Tax rate for city residents will drop from 3.83% to 3.79%, while the rate for non-residents will be lowered from 3.448% to 3.44%.[1] The budget also features an increase in the Homestead Exemption on property taxes from $45,000 to $80,000; the boost in the exemption will help offset the effects of the recent property reassessment, which raised property values by 21% in aggregate.

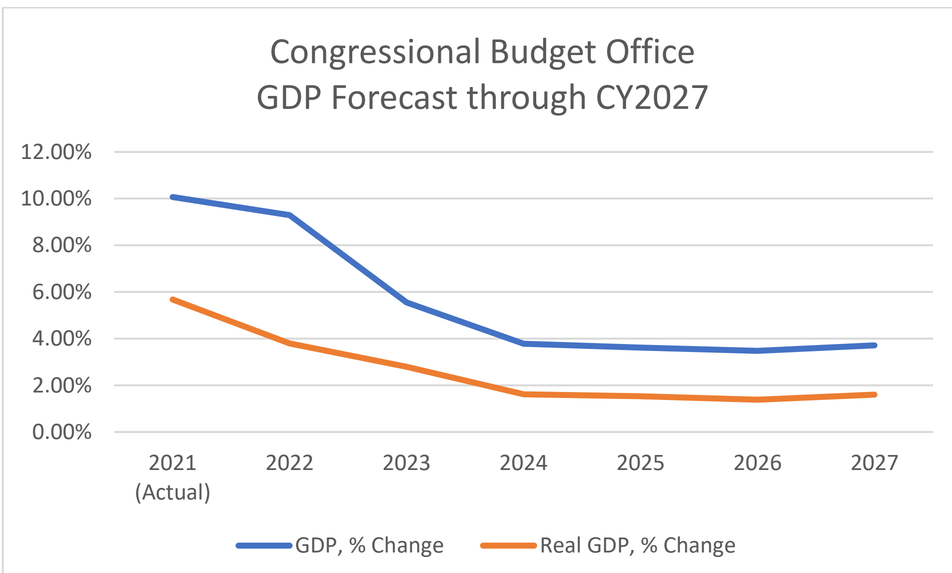
The Administration anticipates that the City's main revenue source, Wage, Earnings, and Net Profits collections, will grow by 5.62% in FY23. This growth reflects ongoing recovery from the pandemic and wage growth from the tight labor market, despite the Plan's incorporating the assumption of a permanent loss of 25% of the non-resident Wage Tax base within the overall Wage Tax projections. For the first time following pandemic-related contractions, Wage Tax collections will achieve an all-time high. Projections show growth for all major tax types in FY23, except for a less than 1% decline in BIRT and a significant reduction in Realty Transfer Tax, which had a tremendously strong FY22 given the general economic

[1] Errors in separate legislation for the net income portion of the BIRT and the resident net profits reductions have been identified. For the resident net profits tax, a period in which no tax rate applies was mistakenly created. The legislation for the BIRT net income reduction does not reflect a reduction applicable to the FY23 budget. The Law Department is reviewing options to correct the mistake for the net profits rate and to implement the Administration and Council's intentions to lower the net income portion of BIRT for taxpayers in FY23.

conditions and local policy changes, including changes to the ten year tax abatement and introduction of the Development Impact Tax, that are believed to have accelerated transactions.

2. The National and Local Economic Context

The strength of the economy is a key determinant of the fiscal health of the City since tax revenues, which are directly tied to the economy's strength, account for nearly 70% of the City's General Fund revenue in FY23. On May 25, 2022, the Congressional Budget Office (CBO) forecast for U.S. Real Gross Domestic Product anticipates growth in 2022 of 3.8% driven by strong gains in consumer spending on services. However, after 2022, the CBO anticipates the annual growth of Real GDP averaging 1.6% from 2023 to 2027 and estimates growth between 1.7 and 1.8 percent for 2028-2032. Employment continues to grow but at less than 1% per year from 2023 onward, with unemployment declining through 2023 reaching 3.5%, and then rising again to reach 4 percent by 2026 and average 4.5 percent for 2027-2032.



[2]

On June 29, 2022, IHS provided updated projections for the national, state, and city domestic product, indicating comparable outlooks in 2023 for the City of Philadelphia, Pennsylvania, and the country.

[2] https://www.cbo.gov/publication/57950

Economic Indicators: National, State, and City

	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4	2021	2022	2023
United States								
Employment (millions)	148.6	150.4	151.7	152.5	153.0	146.1	151.9	153.4
Real Per Capita Income (Thousand $)	46.5	45.7	45.5	45.6	45.7	48.3	45.6	46.8
GDP Growth Rate (%)	6.9	-1.5	2.4	2.2	2.5	5.7	2.5	1.8
Pennsylvania								
Employment (millions)	5.83	5.88	5.94	5.98	6.00	5.75	5.95	6.02
Real Per Capita Income (Thousand $)	54.8	54.6	54.6	54.8	55.0	56.9	54.7	55.7
GSP Growth Rate (%)	6.4	-1.4	2.4	2.8	2.5	4.4	2.4	2.1
Philadelphia City								
Employment (thousands)	711.1	715.3	721.7	726.7	729.0	693.5	723.2	732.6
Real Per Capita Income (Thousand $)	51.0	50.5	50.4	50.5	50.7	53.0	50.5	51.4
GMP Growth Rate (%)	9.4	-2.0	1.3	2.5	2.0	3.5	2.8	1.9

[3]

3. The City's Major Taxes

The City receives revenue to fund its services and programs from seven major taxes which are budgeted to contribute 70% of the expected General Fund revenue in FY23. These include:

1. Wage and Earnings and Net Profit Tax (Wage),
2. Real Property Tax,
3. Business Income and Receipts Tax (BIRT),
4. Real Estate Transfer Tax (RTT),
5. Sales Tax,
6. Parking Tax, and
7. Philadelphia Beverage Tax.

The remaining taxes, including the Amusement tax, are budgeted to provide less than 1% of General Fund revenue. Philadelphia's reliance on the Wage Tax (39.0% of the General Fund, including the PICA portion), the BIRT (11.1%) and the Sales Tax (4.9%) places the City at risk from economic trends and employment fluctuations of the local economy. Other cities and counties that rely more heavily on property tax revenues are more susceptible to dramatic shifts in the housing market.

a) Wage Tax

The largest tax revenue source (comprising 41.4% of tax revenues, excluding the PICA portion) is the Wage Tax, which encompasses the wage, earnings, and net profits taxes. The Wage Tax is collected from all employees working within city limits, and all Philadelphia residents regardless of work location. In FY23, the Wage Tax rate for residents will decline to 3.79% and to 3.44% for non-residents. The resident rate includes 1.5% that is reserved for the PICA. PICA has overseen the City's finances since 1992 and based on recent legislation will continue to do so through at least 2047. This FYP maintains the assumption that the 1.5% will continue in FY24 and beyond.

The PICA statute permits the Authority a "first dollar" claim on its portion of Wage Tax proceeds, which is used to pay debt service on bonds issued by PICA for the benefit of the City. Excluding the PICA portion,

[3] IHS Markit projections from June 29, 2022.

the Wage Tax and Net Profits Tax is projected to bring in $1.662 billion in FY23. This projection includes a 6.95% base growth rate for the Wage and Earnings component and 6.48% growth rate for the Net Profit component of the tax.[4] The overall growth rate, when incorporating rate changes, for the current and prior portions of the Wage and Earnings Tax, is 5.6%.

The non-resident portion of the Wage Tax remains due from employees working from outside Philadelphia if the employer is not requiring that the work location be outside the city. While this treatment will lessen the negative impact on collections of continued work from home initially necessitated by stay-at-home orders and business closures, revenue projections reflect a permanent 25% contraction of the non-resident tax base.

b) Real Property Tax

The Real Property Tax (Property) is the City General Fund's second largest source of tax revenue (20.3%), estimated to contribute $813.4 million of the FY23 tax revenues. This tax is levied on the assessed value of residential and commercial property in the City. The Adopted FY23 Budget has a combined City/School District property tax rate for FY23 of 1.3998%, unchanged from FY22. The City portion of the tax is 0.6317% and the School District portion is 0.7681%. The property tax projection includes the increase of the homestead exemption to $80,000 as well as increased homeowner relief through the LOOP and Senior Tax Freeze programs. The FYP assumes taxable assessed values grow each year of the plan starting in FY23, based upon regular reassessments provided by the City's Office of Property Assessment. Significant market value growth of 21.65% is projected for FY23, as a citywide reassessment has been completed following the transition to a new computer system. The projection adjusts the FY23-27 collection rate to 95.0%. The FY22 projected collection rate had been lowered from FY21 with the expectation that the COVID-19 pandemic and related economic impact would have a negative impact. Actual results in FY22 have been consistent in this regard.

c) Business Income and Receipts Tax

The Business Income and Receipts Tax (BIRT) is projected to produce $631.5 million in FY23, 15.7% of total tax revenue. Most the BIRT is derived from corporate profits which are volatile and dependent on economic conditions within the City. Starting in FY20, the BIRT was collected on a quarterly basis for new businesses in the second year of operations, easing the impact on new businesses. In FY21, planned rate decreases to the net income portion of the BIRT were suspended; however, the net income portion of the BIRT rate will be decreased to 5.99% in FY23.

d) Real Estate Transfer Tax

The Real Estate Transfer Tax (RTT) is projected to provide $418.3 million in FY23. After an usually strong year, the base growth of the RTT is projected to contract by -22.2% in FY23, followed by marginal growth through the end of the Five Year Plan. The City currently imposes a 3.278% tax on real property sales and an additional 1% is charged by the Commonwealth for a 4.278% total RTT.

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[4] Growth rates referenced throughout these notes are applied to the current portion of the tax base.

e) Sales Tax

Sales Tax revenues are projected to generate $277.6 million for the City's General Fund in FY23, based on a growth rate of 3.4%, and comprising 6.9% of tax revenues. As part of its response to projected City budget deficits in 2009, the Commonwealth of Pennsylvania (the Commonwealth) provided authorization and the City passed legislation to temporarily increase the Philadelphia portion of the Sales Tax rate from 1% to 2% through the end of FY14. This raised the total Sales Tax rate to 8%, with 6% going to the Commonwealth and 2% to the City. The tax was made permanent starting in FY15 with 1% of the local Sales Tax being for the benefit of the School District of Philadelphia and the City's pension fund whereby $120 million of the sales tax goes directly to the School District and remaining amounts flow through the City's General Fund to pay for debt service on a borrowing on behalf of the School District and for additional contributions to the Pension Fund. In FY20, the debt service on the borrowing was complete, and therefore all the proceeds above the $120 million in Sales Tax receipts from the second 1% is going to the City's Pension Fund (projected to be $74.2 million in FY22). From FY23 through FY27, the City's pension fund is projected to receive $456.9 million from the proceeds of the Sales Tax.

f) Parking Tax

The Parking Tax is levied on the gross receipts from all parking transactions. In FY21 only, the Parking Tax rate was increased from 22.5% to 25.0%. For FY22 and through the remainder of the FYP, the Parking Tax rate reverted to 22.5%. Parking Tax revenue is projected to generate $93.1 million in FY23, exhibiting 5.4% growth, following a 65.9% increase in FY22 as activity suppressed by the COVID-19 pandemic resumed.

g) Philadelphia Beverage Tax

The Philadelphia Beverage Tax is a relatively new revenue source, applied to non-retail distributions of both sugar-sweetened and diet beverages, at a rate of one and one-half cents per fluid ounce of sweetened beverages. Original tax estimates were developed by the City's Department of Revenue and utilized local consumption data provided by the University of Connecticut's Rudd Center for Food Policy and Obesity, along with a -1-elasticity rate at the time of implementation. The projections in the proposed FYP were based on IHS Markit input, but closely align with national trends on consumption. The tax was effective January 1, 2017 and is projected to impact revenues and expenditures in the following ways:

- An estimated $389.6 million will be collected in gross revenue from FY23-FY27, before additional costs for collection, advertising and auditing.
- Revenues from the Philadelphia Beverage Tax are funding expenditures for three major initiatives: expanded Pre-K, community schools, and debt service for the Rebuilding Community Infrastructure program.

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2023 through June 30, 2027

City of Philadelphia
General Fund
FY 2023 - 2027 Five Year Financial Plan
Major Taxes ($ in Millions) with Percentage Change from Previous Year

Tax	Actual FY21	Projected FY22	Projected FY23	Projected FY24	Projected FY25	Projected FY26	Projected FY27
Wage & Net Profits - Current & Prior	1,495.1	1,573.3	1,661.6	1,733.8	1,810.8	1,886.2	1,963.1
% change from prior year	n.a.	5.2%	5.6%	4.3%	4.4%	4.2%	4.1%
Real Property - Current & Prior	723.3	718.7	813.4	841.4	869.5	899.5	934.7
% change from prior year	n.a.	-0.6%	13.2%	3.4%	3.3%	3.5%	3.9%
Business Income & Receipts - Current & Prior	541.6	633.2	631.5	648.0	655.7	677.4	701.3
% change from prior year	n.a.	16.9%	-0.3%	2.6%	1.2%	3.3%	3.5%
Sales	230.4	268.4	277.6	289.2	302.1	315.7	329.1
% change from prior year	n.a.	16.5%	3.4%	4.2%	4.5%	4.5%	4.2%
Real Property Transfer	304.0	537.7	418.3	418.6	421.8	427.1	434.1
% change from prior year	n.a.	76.9%	-22.2%	0.1%	0.8%	1.3%	1.6%
Parking	53.2	88.3	93.1	95.8	98.7	101.6	104.4
% change from prior year	n.a.	66.0%	5.4%	2.9%	3.0%	2.9%	2.8%
Philadelphia Beverage	70.2	76.9	77.9	78.8	78.0	77.6	77.3
% change from prior year	n.a.	9.5%	1.3%	1.2%	-1.0%	-0.5%	-0.4%
Other Taxes	6.1	26.1	42.3	42.9	43.8	44.5	45.4
% change from prior year	n.a.	327.9%	62.1%	1.4%	2.1%	1.6%	2.0%
Total Taxes	**3,423.9**	**3,922.6**	**4,015.7**	**4,148.5**	**4,280.4**	**4,429.6**	**4,589.4**
% Change from prior year		**14.6%**	**2.4%**	**3.3%**	**3.2%**	**3.5%**	**3.6%**

Note: Wage & Net Profits Taxes includes a rate decreases beginning in FY23 to 2.29%/3.44% for the resident and non-resident component respectively. Wage tax does not include the PICA portion of 1.5%. The Business Income & Receipts Tax includes a rate decrease beginning in FY23 to 5.99% for the Net Income component of the tax. Parking Tax includes a one-year rate increase from 22.5% to 25% effective July 1, 2020; the rate was returned to 22.5% in FY22. Development Impact Tax became effective on January 1, 2022, where a $1 levy will be collected for each $100 improvement of residential space.

4. Locally Generated Non-Tax Revenues

Locally Generated Non-Tax Revenues are forecasted based on historical trends, rate changes, and current collection patterns. Certain revenues such as interest earnings, licenses and permits and recording fees are subject to economic conditions and are estimated accordingly. Additionally, in FY22 the City began budgeting for investment manager costs rather than showing discounted interest earnings to improve transparency. This results in a boost in interest earnings expectations.

5. Revenue from Other Governments

Revenue from Other Governments is forecasted based on historical trends and state and federal budget information. The PICA City account, which represents 61.4% of Revenue from Other Governments, is forecasted using Wage Tax variables.

6. Revenue from Other Funds

Revenue from Other Funds has typically represented transfers for services provided by the General Fund that are reimbursed by another fund, such as fire protection at the airport and are forecasted based on historical trends and operational expectations for the coming year. In FY22 and through FY25, there is significant growth in Revenue from Other Funds as American Rescue Plan funds deposited into the Grants Fund are drawn down to replace lost revenues to enable ongoing General Fund operations. The City received the first half of the $1.395 billion grant in FY21 and the City portion of the second tranche in FY22. The remaining county portion is expected in early FY23. An initial draw down of $250 million was made in FY22 and $335 million will be utilized by the General Fund in FY23. The entire amount granted, plus interest earnings on those funds, are scheduled to be drawn down by FY25 in accordance with the federal deadline of December 2024 to obligate all funds. In FY26, the Revenue from Other Funds is projected at a traditional level.

7. *Obligation Estimates*

The Budget Office provided obligation estimates to the Director of Finance and the Mayor for discussion and inclusion in the revised annual FY23 budget and FY23-27 FYP submitted by the Mayor to PICA on June 30, 2022. The Budget Office provides forecasts of all major expenditure categories. FY23 obligations are budgeted at $5.842 billion, an increase of $522.6 million over the FY22 estimate. The largest driver of the increase is pensions costs, with growth of $40 million beyond the FY22 level. This growth stems from restructuring pension obligation bonds in FY21 to save $75 million that year with the tradeoff that future year costs would increase. Additionally, an update on the cost allocation for pensions among the City's funds resulted in an increased contribution from the General Fund, with lower contributions from the Aviation and Water Funds. The increase in budgeted obligations also incorporates a $32 million Recession and Reopening Reserve and a $54 million Labor Reserve to absorb costs associated with new collective bargaining following the expiration of all four labor contracts by early FY22. The balance of the increases, about $140 million, represent increases in programs to address core needs of Philadelphians and restore services cut for financial reasons in FY21. This includes new anti-violence funding and additional educational support for PHLpreK, Community Schools, the School District of Philadelphia, and the Community College of Philadelphia.

a) Labor Agreements

The forecasted statements include a set aside of $517 million from FY23 to FY27 in a labor reserve, to cover the costs associated with upcoming labor agreements and other labor cost increases. The forecasts also include funding for all existing labor agreements.

b) Health / Medical

The Administration implemented a self-insured group health plan in 2010 for medical benefits for non-union employees. The City also increased employee copays and instituted a disease management and wellness program with financial incentives for completing wellness activities. In FY15, the City added a tobacco user surcharge. The City has assumed a 5% annual growth in costs for the City Administered Plan. DC47, the IAFF, and the FOP have also implemented self-insured group health plans. For the FOP and IAFF, because the City has no control over the design of their health plans, an increase of 7.5% per year based on medical cost trends has been included. For DC47, which the City also does not control the design of, an increase of 5.0% per year based on medical cost trends has been included. AFSCME District Council 33 (DC33) projections are based on current year expenditures.

c) Pensions

As part of the effort to control major cost drivers and to improve the health of the pension fund, several changes have been made over the past few years. The City continues to seek ways to improve the long-term health of the fund.

The City's Act 111 interest arbitration awards with the FOP, Lodge No. 5 and IAFF, Local 22 both required most current members to make additional contributions to the pension fund of 0.92% starting in FY18 and an additional 0.92% in FY19, for a combined 1.84% in additional contributions. New hires are now required to make an additional 2.5% contribution above rates in effect prior to the arbitration award.

Significant pensions changes were also included in the DC47 collective bargaining agreement, closely mirroring the earlier reforms agreed to with DC33. Effective in January 2019, current employees began participating in a tiered contribution system where those with higher annual salaries will pay higher contribution rates. New employees are now mandatory members of a stacked hybrid plan under which employees will receive a traditional defined benefit pension on their first $65,000 of salary as well as the option to participate in a voluntary defined contribution plan. These reforms have also been applied to employees who are not represented by a union, which means that all City employees, except for elected officials, are participating in strengthening the pension fund.

In addition to the abovementioned changes in pension benefits, the City's pension fund has also undergone the following changes:

- The City continues to make more than its full minimum municipal obligation (MMO) each year and has dedicated a portion of additional revenues to the fund. Under 2014 state legislation, the additional 1% local sales tax provides funding for the School District of Philadelphia (first $120 million), debt service on a four-year borrowing for the District (next $15 million through which was satisfied in FY18), and any remaining funds are dedicated to the pension fund. From FY23 through FY27, the City's pension fund is projected to receive $456.9 million from the proceeds of the Sales Tax. The Sales Tax revenues will supplement the City's MMO payment rather than supplanting a portion of it.
- The City also created the Revenue Recognition Policy under which the Sales Tax revenue and additional employee contributions achieved through collective bargaining and interest arbitration are to be paid above the City's annual required contribution to the pension fund. This means that the City will pay more than what is legally required each year to improve the funding status of the plan more quickly.
- Over the past twelve years, reduced the pension fund's earnings assumption from 8.75% to 7.40%. Lower earnings assumptions allow funds to moderate the risk of their investments, which can also reduce the likelihood of losses. In addition, lower earnings assumptions increase the amount the City is required to contribute to the pension fund, which improves the fund's health.

The net impact of these changes to the City's pension benefits and fund is to moderate what could have been devastating increases in pension costs and to increase the City's ability to fund existing liabilities in the long term. In five years, the pension system's funding percent has increased from 44 to 55. The specific changes to the pension fund assumptions have been tested by the City's actuary and have been determined to be actuarially sound. The pension amounts included in the FYP are provided by the City's actuary and are higher than the amounts required to be paid under state law.

The City restructured a portion of the Pension Obligation Bond (POB) payment due in FY21 and FY22 to postpone payment of $74.9M originally due from the General Fund FY21 and $19 million due in FY22 to future years, resulting in higher ongoing pension costs due to additional interest payments.