CITY OF PHILADELPHIA

OFFICE OF THE CITY CONTROLLER
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679
215-686-6680

CHRISTY BRADY
City Controller

July 15, 2024

Marisa Waxman, AICP
Executive Director
Pennsylvania Intergovernmental Cooperation Authority
1500 Walnut Street, Suite 1600
Philadelphia, PA 19102

Dear Ms. Waxman:

In accordance with Section 12720.209(f)(1) of the Pennsylvania Intergovernmental Cooperation Authority Act, my office conducted an examination of the Forecasted General Fund Statements of Operations (the forecast) for each of the fiscal years ending June 30, 2025 through June 30, 2029, also known as the "Five Year Plan" (Plan). The Plan was prepared by management of the City of Philadelphia's Office of the Director of Finance (City) and submitted to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on July 15,2024

My staff conducted its examination of the Plan in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we evaluate the presentation of the Plan and whether the assumptions used by management are reasonable. Attached is the independent accountant's report signed by my deputy who is a Certified Public Accountant.

I am recommending that PICA accept the Plan that in our opinion presents a forecast that in all material respects is in accordance with the guidelines established by the American Institute of Certified Public Accountants, and the underlying assumptions are suitably supported and provide a reasonable basis for management's forecast.

However, I want to highlight that the City's forecasted annual spending combined with the American Rescue Plan Act (ARPA) fiscal cliff represent a substantial risk to the City's fund balance, which is forecasted to decrease significantly over the Plan. The City received an almost $1.4 billion ARPA grant in FY2021, that in accordance with federal regulations, must be obligated by December 2024. With no new ARPA grant funding anticipated in fiscal years 2026 and beyond and total operating revenues projected to increase by only 4.5 percent over the Plan, the fund balance is projected to decrease by 88 percent. This represents a decline of $568.5 million in FY2025 to $65.8 million in FY2029. Additionally, in FY2026 and FY2027, the City is projected to end its budgeted years with deficits of $238.6 million and $221.4 million, respectively.

In closing, my office would like to express our thanks to the management and staff of the City's Office of Budget and Program Evaluation within the Office of the Director of Finance for their courtesy and cooperation in the conduct of our examination.

Very truly yours,

Christy Brady

CHRISTY BRADY, CPA
City Controller

cc: Chair and Board Members of the Pennsylvania Intergovernmental Cooperation Authority
Hon. Cherelle L. Parker, Mayor
Rob Dubow, Director of Finance
Sabrina Maynard, Budget Director

City of Philadelphia Pennsylvania

OFFICE OF THE CONTROLLER

CITY OF PHILADELPHIA

FORECASTED GENERAL FUND

STATEMENT OF OPERATIONS

FISCAL YEARS 2025 - 2029

City Controller

Christy Brady, CPA

Ensuring transparency, accountability, and fiscal integrity in city government

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CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
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CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

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, 2029, 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.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

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 for fiscal year 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 through 2029. The City's forecasted annual spending combined with the ARPA fiscal cliff represent a substantial risk to the City's fund balance, which is forecasted to decrease significantly from fiscal year 2026 through 2029. Our opinion is not modified with respect to this matter.

Emphasis of a Matter – Labor Agreements

The forecasted statement referred to above, and footnote 7.A. includes assumptions that are particularly sensitive due to the uncertainty in the outcome of expected future negotiations with the major unions. Currently, one-year contract extensions are granted for the Fraternal Order of Police, International Association of Firefighters, Deputy Sheriffs, Steelworkers, and Correctional Officers. Contracts with District Councils 33 and 47 employees have not been extended past June 30, 2024. Our opinion is not modified with respect to this matter.

Charles Edacheril

CHARLES EDACHERIL, CPA
Deputy City Controller

Christy Brady

CHRISTY BRADY, CPA
City Controller

Philadelphia, Pennsylvania
July 15, 2024

Forecasted General Fund Statements of Operations

Fiscal Years Ending June 30, 2025 through June 30, 2029

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, 2025 through June 30, 2029

(Amounts in thousands)

NO.	ITEM	FY 2025 Adopted	FY 2026 Estimate	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	OPERATIONS OF FISCAL YEAR					
	REVENUES					
1	Taxes	4,260,467	4,376,370	4,531,580	4,693,270	4,861,337
2	Locally Generated Non-Tax Revenues	391,844	365,668	382,272	424,743	374,250
3	Revenue from Other Governments	1,137,828	1,196,612	1,196,495	1,226,776	1,258,320
4	Sub-Total (1 thru 3)	**5,790,139**	**5,938,650**	**6,110,347**	**6,344,789**	**6,493,907**
5	Revenue from Other Funds of City	481,223	119,605	65,570	61,770	62,292
6	**Total Revenue and Other Sources (4)+(5)**	**6,271,362**	**6,058,255**	**6,175,917**	**6,406,559**	**6,556,199**
	OBLIGATIONS/APPROPRIATIONS					
7	Personal Services	2,279,091	2,272,166	2,285,576	2,287,538	2,287,538
8	Personal Services-Pensions	833,147	852,929	857,754	866,082	941,916
9	Personal Services-Other Employee Benefits	843,974	863,999	900,117	938,002	977,920
10	**Sub-Total Employee Compensation (7 thru 9)**	**3,956,212**	**3,989,094**	**4,043,447**	**4,091,622**	**4,207,374**
11	Purchase of Services	1,422,267	1,345,332	1,350,674	1,370,053	1,362,057
12	Materials, Supplies and Equipment	148,326	139,623	138,494	138,615	138,629
13	Contributions, Indemnities, and Taxes	432,724	413,594	413,094	413,094	413,094
14	Debt Service	234,667	242,227	274,825	281,871	279,388
15	Payments to Other Funds	71,491	74,165	76,982	80,420	83,916
16	Payment to Budget Stabilization Reserve Fund	58,291	59,676	57,754	0	0
17	Advances & Misc. Pmts. / Labor Reserve	43,505	69,620	77,620	96,620	119,620
18	**Total - Obligations (10 thru 17)**	**6,367,483**	**6,333,331**	**6,432,890**	**6,472,295**	**6,604,078**
19	Oper.Surplus (Deficit) for Fiscal Year (6)-(18)	(96,121)	(275,076)	(256,973)	(65,736)	(47,879)
20	**Prior Year Adjustments:**					
21	Other Adjustments	36,500	36,500	35,500	35,500	35,500
22	Total Prior Year Adjustments	36,500	36,500	35,500	35,500	35,500
23	**Adjusted Oper. Surplus/ (Deficit) (19)+(22)**	**(59,621)**	**(238,576)**	**(221,473)**	**(30,236)**	**(12,379)**
	OPERATIONS IN RESPECT TO PRIOR FISCAL YEARS					
24	Fund Balance Available for Appropriation June 30 of Prior Fiscal Year	628,098	568,477	329,901	108,428	78,192
25	Fund Balance Available for Appropriation June 30 (23)+(24)	**568,477**	**329,901**	**108,428**	**78,192**	**65,813**

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, 2025 through June 30, 2029

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 FY2025 Budget and the FY25-29 Five Year Financial Plan (FYP) submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on June 25, 2024. 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 25, 2024, 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 FY25 total $6.3 billion. Approximately 68% of the City's revenue comes from local taxes and 18.1% comes from other governments (including the PICA tax). In FY25, $481.2 million (nearly 7.7% of revenues) will come from Other Funds of the City, $419 million of which is federal American Rescue Plan Act (ARPA) funds being drawn down. The City has received $1.395 billion in ARPA funds, all of which is allocated by the end of calendar year 2024 (halfway through FY25). Locally Generated Non-Tax Revenues, which include revenues from fees, fines and permits, account for just over 6.2% of revenues.

Budget provides forecasts for the City's taxes, totaling $4.3 billion in the Adopted FY25 Budget, as well as $391.8 million of Locally Generated Non-Tax revenues and $1.1 billion in Revenue from Other Governments. These three sources comprise 92.3% of the revenues anticipated for the FY25 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, S&P Global Market Intelligence (formerly IHS Markit, Ltd, or "IHS"). S&P 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 S&P to forecast tax revenues for the City. S&P focused on the following taxes – Wage and Earnings Tax, Net Profits Tax, Business Income and Receipts Tax, Realty Transfer Tax, Philadelphia Beverage Tax, and Sales Tax. These forecasts were refined by Budget after discussions with economists at a meeting hosted by PICA at 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 revenue projections for FY25-29 reflect permanent changes to Philadelphia's tax base following the pandemic. The estimates have been revised since the March 14, 2024 introduction of the Five Year Plan based on updated collections information and macroeconomic conditions.

As the City continues to recover from the pandemic, the outlook has remained positive albeit less optimistic than last year's adopted plan. According to S&P's May monthly economic outlook for Philadelphia, April 2024 payrolls were up by 17,400 jobs when compared to 2023, largely driven by gains in education and health care services. However, the Federal Reserve Bank of Philadelphia's May 2024 Manufacturing Business Outlook Survey indicated a slowdown in manufacturing growth, with indices for new orders and current shipments showing declines. Despite this, median advertised rents in the region were 1.5% higher year-over-year in April, contrasting with a broader national trend of decreasing rents, suggesting a balanced market for renters amidst ongoing housing adjustments post-pandemic.

Fiscal 2024 Sales Tax collections through May are $8.2M above year-to-date collections in FY23 ($264.8M vs. $256.5M) and are projected to grow an average of 3.79% from FY25 through FY29.

Overall, Realty Transfer Tax collections remain below FY23's level, with an overall projected year-over-year decline of 28.2%. The residential real estate market continues to be impacted by higher mortgage rates and, with record lows in inventory, supply remains tight. Commercial real estate, too, continues to be impacted by relatively high interest rates.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

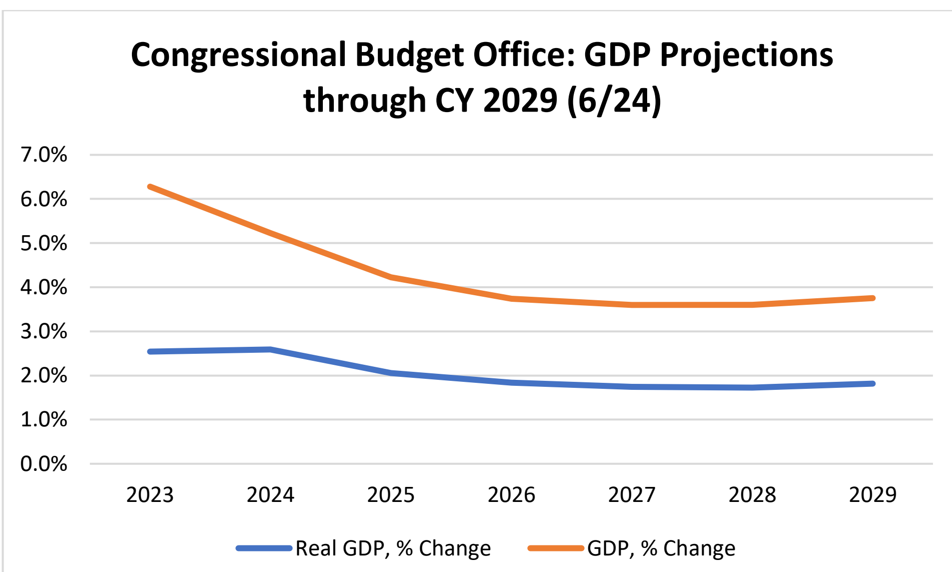
The Business Income and Receipts Tax (BIRT) preliminary collections posted through May total $603.2M, a decrease of $73.5M when compared to 2023. Estimates for the BIRT have been adjusted to $606.7M, down from the original estimate of $669.7M for FY24.

The Administration anticipates that the City's main revenue source, Wage, Earnings, and Net Profits collections, will grow by 4.65% in FY25. 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. This 25% loss has already happened and continues throughout the Plan.

Projections show growth for all major tax types in FY25, leading to a growth of $251M (6.3%) when compared to the FY24 estimate ($4.00 billion in FY24, increasing to $4.26 billion in FY25).

2. The National and Local Economic Context

The strength of the economy is a key determinant of the fiscal health of the City since local tax revenues, which are directly tied to the economy's strength, account for approximately 68% of the City's General Fund revenue in FY25. As of June 2024, the Congressional Budget Office (CBO) forecast for U.S. Real Gross Domestic Product anticipates growth in 2024 of 2.6% percent. After 2024, the CBO anticipates the annual growth of Real GDP to average 1.8% percent from 2025 to 2029 and 1.7% and 1.8% for 2030-34. While labor force participation is projected to increase each year (0.8% annually between 2024 and 2029), the unemployment rate is projected to increase from 3.9% in 2024 to 4.5% in 2029.



[1]

[1] https://www.cbo.gov/publication/60039

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

On May 30, 2024, S&P Global Market Intelligence provided updated projections for the national, state, and city domestic product, indicating mostly comparable outlooks in 2024 for the City of Philadelphia, Pennsylvania, and the country, with Philadelphia projected to lag behind the Pennsylvania and national projections in 2025.

Economic Indicators: National, State, and City

	2023Q4	2024Q1	2024Q2	2024Q3	2024Q4	2023	2024	2025
United States								
Employment (millions)	157.1	157.8	158.5	159.0	159.3	156.1	158.7	159.7
Real Per Capita Income (Thousand $)	49.7	49.8	49.8	50.0	50.2	49.6	49.9	51.0
GDP Growth Rate (%)	3.4	1.6	2.1	1.9	1.5	2.5	2.5	1.6
Pennsylvania								
Employment (millions)	6.11	6.14	6.16	6.17	6.18	6.09	6.16	6.18
Real Per Capita Income (Thousand $)	58.7	59.3	59.4	59.8	60.1	58.5	59.6	61.1
GSP Growth Rate (%)	3.8	1.9	2.5	2.2	1.5	2.2	2.9	1.5
Philadelphia City								
Employment (thousands)	773.6	776.6	778.7	778.1	775.7	766.0	777.3	776.4
Real Per Capita Income (Thousand $)	50.1	50.8	50.8	50.9	51.1	49.6	50.9	51.9
GMP Growth Rate (%)	4.9	1.5	2.4	0.6	-1.1	3.6	2.7	0.2

[2]

3. The City's Major Taxes

The City receives revenue to fund its services and programs from the City's major taxes which are budgeted to contribute approximately 68% of the expected General Fund revenue in FY25. These include:

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

The remaining taxes, including the Amusement Tax, are budgeted to provide 0.8% of General Fund revenue. Philadelphia's reliance on the Wage and Net Profits Tax (43.3% of General Fund revenues, including the PICA portion), Business Income and Receipts Tax (9.8%), and the Sales Tax (5.1%) places the City at risk from economic trends and employment fluctuations of the local economy. By contrast, other cities and counties that rely more heavily on property tax revenues are more susceptible to dramatic shifts in the housing market.

[2] S&P Global Market Intelligence projections from May 30, 2024.

[3] Prior to FY24, the Parking Tax was included among the City's major taxes. Starting in FY24, Parking Tax revenues appear in the Transportation Fund, which funds transportation-related obligations within the Streets Department.

Budget Office
CITY OF PHILADELPHIA

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2025 through June 30, 2029

City of Philadelphia
General Fund
FY 2025 - 2029 Five Year Financial Plan
Major Taxes ($ in Millions) with Percentage Change from Previous Year

Tax	Actual FY23	Projected FY24	Projected FY25	Projected FY26	Projected FY27	Projected FY28	Projected FY29
Wage & Net Profits - Current & Prior	1,771.8	1,888.1	1,975.8	2,053.4	2,128.9	2,208.2	2,291.2
% change from prior year	n.a.	6.6%	4.6%	3.9%	3.7%	3.7%	3.8%
Real Property - Current & Prior	809.6	825.7	925.0	931.0	961.1	993.0	1,027.9
% change from prior year	n.a.	2.0%	12.0%	0.6%	3.2%	3.3%	3.5%
Business Income & Receipts - Current & Prior	673.3	606.7	616.7	621.2	643.7	666.2	688.7
% change from prior year	n.a.	-9.9%	1.6%	0.7%	3.6%	3.5%	3.4%
Sales	302.2	300.5	316.9	334.6	351.5	368.9	386.4
% change from prior year	n.a.	-0.6%	5.5%	5.6%	5.1%	5.0%	4.7%
Real Property Transfer	378.8	271.8	305.8	315.5	325.2	334.9	344.6
% change from prior year	n.a.	-28.2%	12.5%	3.2%	3.1%	3.0%	2.9%
Parking	101.9	0.0	0.0	0.0	0.0	0.0	0.0
% change from prior year	n.a.			*See note below referencing the Parking Tax.*			
Philadelphia Beverage	73.4	70.3	71.2	70.5	70.1	69.8	69.3
% change from prior year	n.a.	-4.2%	1.3%	-1.0%	-0.6%	-0.4%	-0.7%
Other Taxes	43.3	45.6	49.1	50.2	51.1	52.3	53.2
% change from prior year	n.a.	5.3%	7.7%	2.2%	1.8%	2.3%	1.7%
Total Taxes	**4,154.3**	**4,008.7**	**4,260.5**	**4,376.4**	**4,531.6**	**4,693.3**	**4,861.3**
% Change from prior year		**-3.5%**	**6.3%**	**2.7%**	**3.5%**	**3.6%**	**3.6%**

Note: Wage & Net Profits Taxes include resident tax decreases in FY23 and FY24 moving the rate to 3.75%. Wage tax does not include the PICA portion. Business Income & Receipts Tax includes decreases to the Net Income portion in FY23 and FY24 moving the rate to 5.81%. Parking Tax was removed from the General Fund in FY24 and assigned to the Transportation Fund. Real Estate Tax includes a decrease to the City millage rate in FY25 from 0.6317% to 0.6159%.

a) Wage Tax

The largest tax revenue source (comprising 46.4% of local 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 FY24, the Wage Tax rate for residents declined to 3.75% and remained at 3.44% for non-residents. These rates remain in place for FY25. The resident rate includes 1.5% that is reserved for PICA. PICA has overseen the City's finances since 1992 and, based on state legislation that was signed into law in 2022, will continue to do so through at least 2047.

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. The original PICA bonds were paid off in June 2023. Thus, starting in FY24, all PICA Wage Tax revenues are remitted to the City, minus administrative costs for PICA's operations. Excluding the PICA portion, the Wage Tax and Net Profits Tax is projected to bring in $1.98 billion in FY25. This projection includes a 4.69% base growth rate for the Wage and Earnings component and 3.63% base growth rate for the Net Profit component of the tax.[4]

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

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. Revenue projections reflect a permanent 25% contraction of the non-resident tax base following the COVID-19 pandemic.

b) Real Property Tax

The Real Property Tax (Property) is the City General Fund's second-largest source of tax revenue (21.7%), estimated to contribute $925.0 million of the City's FY25 tax revenues. This tax is levied on the assessed value of residential and commercial property in the city. The Adopted FY25 Budget has a combined City/School District property tax rate for FY25 of 1.3998%, unchanged from FY24. Following the adoption of Bill No. 240180, which adjusts the millage split from 45% City/55% School District to 44% City/56% School District starting in FY25, the City portion of the tax is 0.6159% and the School District portion is 0.7839%. The property tax projection includes a $100,000 homestead exemption for owner-occupied homeowners as well as additional homeowner relief through a new low-income tax freeze and the continuation of the Longtime Owner Occupants Program (LOOP) and the Senior Tax Freeze program. In FY25, property tax revenues are projected to increase by approximately 12%. From FY26 to FY29, the FYP assumes average growth rates of 2.5% for residential properties and 3% for commercial and industrial properties.

c) Business Income and Receipts Tax

The Business Income and Receipts Tax (BIRT) is projected to produce $616.7 million in FY25, 14.5% of total local tax revenue. A majority of the BIRT is derived from business profits which are volatile and dependent on economic conditions within the City. Starting in FY20, the BIRT is collected on a quarterly basis for new businesses in the second year of operations, easing the impact on new businesses.

d) Realty Transfer Tax

The Realty Transfer Tax (RTT) is projected to provide $305.8 million in FY25 -- 7.2% of total tax revenue. In FY24, the tax is projected to decrease nearly 30% compared to FY23 ($378.8m in FY23 vs. $271.8m in FY24), followed by 12.5% growth in FY25 following a slight uptick in collections this spring compared to the rest of FY24. The City imposes a 3.278% tax on real property sales and an additional 1% is charged by the Commonwealth for a 4.278% total RTT rate.

e) Sales Tax

Sales Tax revenues are projected to generate $316.9 million for the City's General Fund in FY25, based on a base growth rate of 3.9%, comprising 7.4% 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. This change to the tax rate 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 FY18, 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% go to the City's Pension Fund (projected to be $98.5 million in FY25). From FY25 through FY29, the City's pension fund is projected to receive $579.2 million from the proceeds of the Sales Tax.

f) Philadelphia Beverage Tax

The Philadelphia Beverage Tax (PBT) is still one of the City's newest revenue sources and is applied to non-retail distributions of sweetened beverages, at a rate of one-and-one-half cents per fluid ounce of sweetened beverages. The projections in the proposed FYP were based on S&P Global Market Intelligence input but closely align with national trends on consumption. The tax was effective January 1, 2017.

An estimated $350.7 million will be collected in revenue from FY25-FY29. Revenues from the PBT support three major initiatives: expanded Pre-K, community schools, and debt service for the Rebuilding Community Infrastructure program (Rebuild). As anticipated when the PBT was implemented, the costs of these programs now exceed the revenues from the PBT. The difference between the costs of these programs and the PBT revenues is covered by other General Fund revenue sources.

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. An estimated $391.8 million in Locally Generated Non-Tax Revenue is expected in FY25.

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 65% of Revenue from Other Governments, is forecast using Wage Tax variables. An estimated $1.138 billion in Revenue from Other Governments is expected in FY25.

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. Starting in FY22 and continuing through FY25, there has been and continues to be significant growth in Revenue from Other Funds as American Rescue Plan Act (ARPA) funds deposited into the Grants Fund are drawn down to replace lost revenues to enable ongoing General Fund operations. The City has received $1.395 billion in ARPA funds. An initial drawdown of $250 million was made in FY22, $335 million was drawn down in FY23, $391 million was drawn down in FY24, and the remaining $419 million in FY25. The entire amount granted is scheduled to be drawn down by December 2024 in accordance with the federal deadline. Once remaining ARPA funds and associated interest earnings are expended in FY25 and FY26 respectively, Revenue from Other Funds is projected to return to a normal, pre-ARPA, 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 FY24 budget and FY25-29 FYP submitted by the Mayor to PICA on June 25, 2024. The Budget Office provides forecasts of all major expenditure categories. FY25 obligations are budgeted at $6.367 billion, an increase of $31.9 million over the FY24 estimate. The largest driver of the increase is Personal Services, which includes salaries, pensions, and employee benefits. The FY25 obligation estimate also includes a $43.5 million Labor Reserve for future labor costs and a $58.3 million transfer to the Budget Stabilization Reserve (BSRF). The BSRF will end FY25 with a balance of $175.8 million. The FY25 projection also includes key investments in core services and targeted investments to make Philadelphia the cleanest, greenest, big city in the nation with access to economic opportunity for all.

a) Labor Agreements

The forecasted statements include a set-aside of $407 million from FY25 to FY29 in a labor reserve to cover certain recruitment and retention initiatives as well as the costs associated with upcoming labor agreements and other labor cost increases. The forecasts also include funding for all existing labor agreements, including one-year contract extensions with the Fraternal Order of Police, the International Association of Firefighters,[5] and Deputy Sheriffs, the Steelworkers, and the Correctional Officers (Local 159b). Contracts with District Councils 33[6] and 47 have not been extended past June 30, 2024.

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.

AFSCME District Council 47, the International Association of Fire Fighters (IAFF), and the Fraternal Order of Police (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's plan, 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 also reflect an increase of 5.0% per year, based on trends.

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 last several 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

[6] Costs for the Register of Wills are incorporated as part of the District Council 33 contract.

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) with any remaining funds dedicated to the pension fund. From FY25 through FY29, the City's pension fund is projected to receive $579.2 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 pays more than what is legally required each year to improve the funding status of the plan more quickly.
- Over the past thirteen years, the pension fund's earnings assumption has been reduced from 8.75% to 7.30% (effective July 1, 2024). 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. This 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 seven years, the pension system's funding percent has increased from 44% to 62.2% on an actuarial basis. 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 $74.9 million 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. This added cost is reflected in the Plan. In FY29, the City will make a balloon payment on the remaining balance of the pension obligation bonds issued in 1999. The satisfaction of these bonds, whose payment from the General Fund will increase from $130.8 million in FY28 to $201.7 million in FY29, will reduce the City's structural fixed costs over the long term. This reduction in fixed costs will be reflected in next year's Plan, starting in FY30.