CITY OF PHILADELPHIA

OFFICE OF THE CONTROLLER
1230 Municipal Services Building
1401 John F. Kennedy Boulevard
Philadelphia, PA 19102-1679
(215) 686-6680 FAX (215) 686-3832

CHRISTY BRADY
City Controller

CHARLES EDACHERIL
Deputy City Controller

July 15, 2025

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

Dear Ms. Waxman:

ln accordance with Section 12720.209(£)(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, 2026 through June 30, 2030, 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 15,2025.

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.

With the recommendation to accept this plan, we would like to note that projected operating deficits significantly erode the fund balance through Fiscal Year 2029. Since the Covid-19 pandemic, the city has maintained fiscal stability and improved its credit rating through management of $1.3 billion in revenue replacement funds received through the American Rescue Plan Act (ARPA). However, escalating expenditures, and the end of ARPA funding in December 2024 results in a projected $479 million operating deficit for fiscal year 2026, reducing the fund balance to $471 million. Operating deficits are projected to continue through FY2029 with the fund balance falling to $45 million, the lowest year-end balance over the life of the plan. Sustained budget discipline over the five-year plan is essential for reversing the fund balance decline, rebuilding reserves, and securing the city's financial future by FY2030.

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.

Sincerely,

Christy Brady

Christy Brady, CPA
City Controller

cc: Chair and Board Members of the
Pennsylvania Intergovernmental Cooperation Authority
Cherelle Parker, Mayor
Rob Dubow, Director of Finance
Sabrina Maynard, Budget Director
Bill Rubin, First Deputy Controller
Charles Edacheril, Deputy Controller of Audit

CITY OF PHILADELPHIA
PENNSYLVANIA

OFFICE OF THE CONTROLLER

CITY OF PHILADELPHIA

FORECASTED GENERAL FUND

STATEMENT OF OPERATIONS

FISCAL YEARS 2026 - 2030

City Controller

Christy Brady, CPA

Ensuring transparency, accountability, and fiscal integrity in city government

CONTENTS

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CHRISTY BRADY
City Controller

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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, 2030, 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 – Decline in Revenues and Fund Balance Resulting from the American Rescue Plan Act

The forecasted statement referred to above, and footnote C.6. reflect a significant reduction in revenues for *Revenue from Other Funds of City* for fiscal year 2026 due to the final spend down of grant funding received under the American

Rescue Plan Act (ARPA). The City received a $1.395 billion grant in fiscal year 2021 that, in accordance with federal regulations, was fully obligated by December 2024. As such, no new ARPA grant funding is anticipated in fiscal years 2026 through 2030. The City's forecasted annual spending combined with the ARPA fiscal cliff also results in a substantial decline 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 C.7.a. includes assumptions that are particularly sensitive due to the uncertainty in the outcome of current negotiations with the major unions. Three-year contracts for FY 26 through FY28 have been negotiated, pending ratification, for employees represented by District Council 33 and District Council 47. However, contracts expired for the Fraternal Order of Police, the International Association of Firefighters, Deputy Sheriffs, the Steelworkers, and Correctional Officers, after a one-year extension ended on June 30, 2025. 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, 2025

Forecasted General Fund Statements of Operations

Fiscal Years Ending June 30, 2026 through June 30, 2030

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, 2026 through June 30, 2030

(Amounts in thousands)

NO.	ITEM	FY 2026 Adopted	FY 2027 Estimate	FY 2028 Estimate	FY 2029 Estimate	FY 2030 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	OPERATIONS OF FISCAL YEAR					
	REVENUES					
1	Taxes	4,555,182	4,734,572	4,897,353	5,029,977	5,146,984
2	Locally Generated Non-Tax Revenues	410,440	389,624	437,589	395,809	398,023
3	Revenue from Other Governments	1,225,774	1,246,475	1,269,307	1,300,550	1,331,112
4	Sub-Total (1 thru 3)	**6,191,396**	**6,370,671**	**6,604,249**	**6,726,336**	**6,876,119**
5	Revenue from Other Funds of City	172,105	67,148	72,133	68,399	68,982
6	**Total Revenue and Other Sources (4)+(5)**	**6,363,501**	**6,437,819**	**6,676,382**	**6,794,735**	**6,945,101**
	OBLIGATIONS/APPROPRIATIONS					
7	Personal Services	2,346,195	2,356,699	2,353,677	2,352,661	2,352,677
8	Personal Services-Pensions	836,433	841,261	848,436	916,766	731,963
9	Personal Services-Other Employee Benefits	909,155	944,795	996,268	1,052,340	1,114,312
10	**Sub-Total Employee Compensation (7 thru 9)**	**4,091,783**	**4,142,755**	**4,198,381**	**4,321,767**	**4,198,952**
11	Purchase of Services	1,608,223	1,543,326	1,551,046	1,550,467	1,603,468
12	Materials, Supplies and Equipment	177,403	147,803	140,491	142,537	161,546
13	Contributions, Indemnities, and Taxes	476,983	417,694	417,694	417,194	417,194
14	Debt Service	231,495	278,252	279,346	268,329	282,430
15	Payments to Other Funds	96,235	88,389	82,996	83,206	86,791
16	Payment to Budget Stabilization Reserve Fund	58,860	59,912	0	0	0
17	Advances & Misc. Pmts. / Labor Reserve	101,577	104,577	104,577	106,577	131,412
18	**Total - Obligations (10 thru 17)**	**6,842,559**	**6,782,708**	**6,774,531**	**6,890,077**	**6,881,793**
19	Oper.Surplus (Deficit) for Fiscal Year (6)-(18)	(479,058)	(344,889)	(98,149)	(95,342)	63,308
20	**Prior Year Adjustments:**					
21	Other Adjustments	35,500	36,500	37,500	38,500	39,500
22	Total Prior Year Adjustments	35,500	36,500	37,500	38,500	39,500
23	**Adjusted Oper. Surplus/ (Deficit) (19)+(22)**	**(443,558)**	**(308,389)**	**(60,649)**	**(56,842)**	**102,808**
	OPERATIONS IN RESPECT TO					
	PRIOR FISCAL YEARS					
24	Fund Balance Available for Appropriation June 30 of Prior Fiscal Year	914,527	470,969	162,580	101,931	45,089
25	Fund Balance Available for Appropriation June 30 (23)+(24)	**470,969**	**162,580**	**101,931**	**45,089**	**147,897**

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, 2026 through June 30, 2030

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 FY26 Budget and the FY26-30 Five Year Financial Plan (FYP) submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on June 30, 2025. 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, 2025, 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 FY26 total $6.36 billion. Approximately 71.6% of the City's revenue comes from local taxes and 19.3% comes from other governments (including the PICA tax). Locally Generated Non-Tax Revenues, which include revenues from fees, fines and permits, account for 6.4% of revenues. In FY26, $172.1 million (2.7% of revenues) will come from Other Funds of the City. This is a drop from $486.6 million (7.5% of revenues) in FY25. This drop in revenues is attributed to the end of federal relief funding from the American Rescue Plan, which was spent down by the end of December 2024, as required by federal law. ARPA funds were placed into the Grants Fund upon receipt and then drawn down by the General Fund as revenue replacement compared to pre-pandemic expectations.

The Adopted FY26 Budget includes revenue forecasts totaling $4.56 billion in City taxes, $410.4 million in locally generated non-tax revenues, and $1.23 billion in revenue from other governments. These sources account for 97.3% of the City's projected revenues for FY26.

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 Five Year Plan 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, Parking Tax, Philadelphia Beverage Tax, and Sales Tax. The Real Estate Tax estimates were forecasted by Budget with data and input from the Office of Property Assessment and the Department of Revenue.

As part of this forecasting process, the City's financial oversight authority (PICA) convenes a meeting at the Federal Reserve Bank of Philadelphia, bringing together economists from throughout the region to review the City's initial proposed projections. At this meeting, which representatives of the Controller's Office attend, the City and S&P share initial projected growth rates for City taxes and obtain feedback from the economists in attendance. Typically, a single scenario is presented to the economists in attendance. This year, given increased federal uncertainty, the City presented two revenue growth scenarios: a baseline scenario, which assumed moderate tariff impacts and reduced immigration, and a more pessimistic scenario, which assumed more significant tariff impacts and reduced immigration, given federal uncertainty. The experts in attendance recommended a hybrid scenario between the baseline and more pessimistic scenarios. This hybrid scenario was subsequently included in the City's Plan as presented to City Council.

The estimates have been revised since the March 2025 introduction of the Five Year Plan based on updated collections information and macroeconomic conditions. The revenue forecasts for FY26-30 reflect sound projections in the face of federal and uneconomic uncertainty.

S&P forecasts that key sectors, including education, healthcare, and social services, are likely to continue driving job growth, but the labor market remains tight, which may limit further expansion. The FY26 projection includes a 4.99% base growth rate for the Wage and Earnings Tax, driven by reduced immigration, a limited labor force, and residual inflationary pressures. The City is heavily reliant on Wage Tax revenue from educational, medical, and governmental entities, as roughly 45 percent ($1 billion in FY24) comes from these industries.

Fiscal Year 2025 Sales Tax collections through April are 3.06% above the year-ago level. The Sales Tax base growth rate is projected to average 3.75% from FY26-FY30. While inflation may support revenues in nominal terms, price increases for non-taxable items can dampen real spending on taxable items. Additionally, evolving federal tariff policies can increase revenue by influencing the cost of and demand for taxable goods moving forward.

The FY26–FY30 Five Year Financial Plan includes rate reductions to both portions of the Business Income and Receipts Tax (BIRT). The Net Income portion will decrease from 5.81% in FY25 to 5.50% in FY30, while the Gross Receipts portion will decline from 0.1415% to 0.1380% over the same period. These reductions are part of a broader, codified plan to eliminate the Gross Receipts portion of the tax and reduce the Net Income portion by more than half within seven years of the Pension Fund reaching full (100%) funding. Because BIRT revenues are highly sensitive to economic conditions, tax planning strategies, and policy changes at other levels of government, BIRT is the City's most volatile tax. For this reason, S&P recommended that the City not assume any baseline growth in BIRT collections over the life of the Plan.

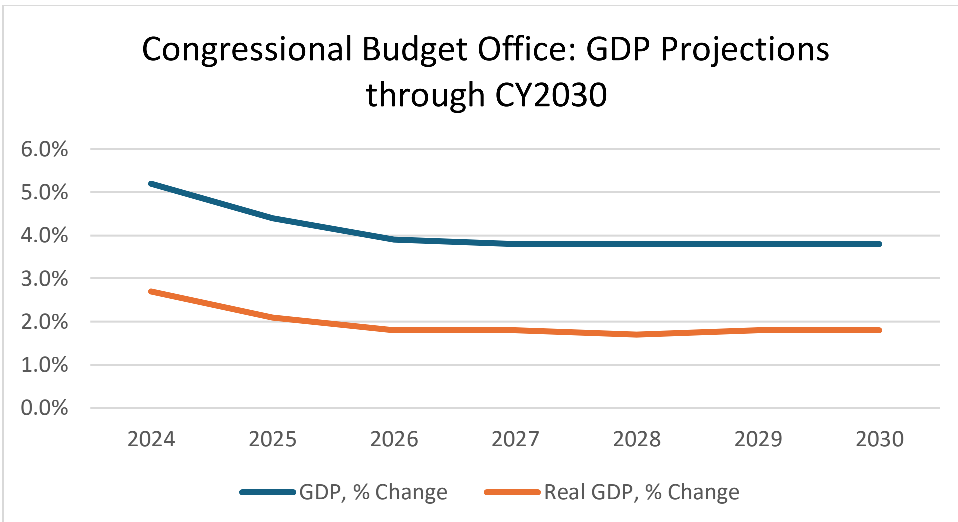
Additionally, the FY26 projections include an 8.23% base growth rate for the Realty Transfer Tax. This reflects an ongoing recovery from declines in recent years, which were driven by a slowdown in home sales as rising mortgage interest rates discouraged buyers. The projection assumes market conditions will continue to stabilize and anticipates modest growth each year.

Projections show growth for most major tax types in FY26, leading to a growth of $234.8M (5.4%) when compared to the FY25 estimate ($4.32 billion in FY25, increasing to $4.56 billion in FY26).

2. *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 71.6% of the City's General Fund revenue in FY26. In the Congressional Budget Office's (CBO) *The Budget and Economic Outlook:*

2025-2035 report[1], CBO forecasts that U.S. Real Gross Domestic Product will grow by 2.1% in 2025. After 2025, the CBO anticipates the annual growth of Real GDP to average 1.8% percent annually from 2026-2030. The unemployment rate is expected to remain stable at 4.3-4.4% from 2025-2030.



On May 29, 2025, S&P Global Market Intelligence provided updated projections for national, state, and city gross domestic product. For 2025, Philadelphia's outlook is expected to track above both state and national projections. By 2026, S&P anticipates generally comparable growth across Philadelphia, Pennsylvania, and the nation.

Economic Indicators: National, State, and City

	2024Q4	2025Q1	2025Q2	2025Q3	2025Q4	2024	2025	2026
United States								
Employment (millions)	158.6	159.2	159.6	159.7	159.6	158.0	159.5	159.9
Real Per Capita Income (Thousand $)	51.5	51.8	51.6	52.1	52.3	51.4	51.9	53.2
GDP Growth Rate (%)	2.4	-0.3	1.0	0.9	1.4	2.8	1.3	1.7
Pennsylvania								
Employment (millions)	6.17	6.20	6.22	6.22	6.22	6.14	6.21	6.22
Real Per Capita Income (Thousand $)	59.3	59.8	59.6	59.7	60.0	58.9	59.8	61.1
GSP Growth Rate (%)	2.5	0.3	1.2	1.1	1.6	2.4	1.7	1.7
Philadelphia/Delaware County								
Employment (thousands)	1017.2	1023.7	1026.0	1025.4	1024.2	1013.2	1024.8	1026.3
Real Per Capita Income (Thousand $)	53.9	54.3	54.0	53.9	54.0	53.7	54.1	55.0
GMP Growth Rate (%)	3.2	0.2	2.8	1.1	1.4	2.7	2.0	1.9

[1] https://www.cbo.gov/publication/60870

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 70.7% of the expected General Fund revenue in FY26. 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 [2]

The remaining taxes are budgeted to provide 0.9% of General Fund revenue. Philadelphia's reliance on business taxes, Wage, PICA City Account, BIRT, and Net Profits, which total 67% of total revenue from taxes in FY26, 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.

A. Wage Tax

The largest tax revenue source (comprising 45.5% 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. The FY26-FY30 Five Year Financial Plan includes rate reductions beginning in FY26, lowering the resident and non-resident portions of the Wage Tax from 3.75% to 3.70% and 3.44% to 3.39%, respectively, by FY30, as established with the adoption of Bill No. 250195.

The resident rate includes 1.5% that is reserved for PICA. PICA has overseen the City's finances since its creation in 1991 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 $2.07 billion in FY26. This projection includes a 4.99% base growth rate for the Wage and Earnings component and 1.41% base growth rate for the Net Profit component of the tax.

[2] 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.

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2026 through June 30, 2030

B. Real Property Tax

The Real Property Tax is the City General Fund's second-largest source of tax revenue (20.6%), estimated to contribute $940.4 million of the City's FY26 tax revenues. This tax is levied on the assessed value of residential and commercial property in the city. The Adopted FY26 Budget has a combined City/School District property tax rate for FY26 of 1.3998%, unchanged from FY25. In FY25, there was an adjustment to the millage split from 45% City/55% School District to 44% City/56% School District. Pursuant to the adoption of Bill No. 250201, an additional adjustment will take effect in FY30, further modifying the split to 43.5% City and 56.5% School District. The property tax projection accounts for the continuation of City property tax relief programs, including the $100,000 homestead exemption for owner-occupied properties, the Longtime Owner Occupants Program (LOOP), and the Senior and Low Income Tax Freeze programs.

C. Business Income and Receipts Tax

The BIRT is projected to produce $725.9 million in FY26, 15.9% of total local tax revenue. Every individual, partnership, association, and corporation engaged in a business, profession, or other activity for profit within Philadelphia must file a Business Income and Receipts Tax return, whether or not it earned a profit during the preceding year. The BIRT is filed and paid annually for business activity from the prior year. A majority of the BIRT is derived from business profits which are volatile and dependent on economic conditions within the City.

The FY26–FY30 Five Year Financial Plan includes reductions to both portions of the BIRT, as established with the adoption of Bill No. 250199. The Net Income portion will decrease from 5.81% in FY25 to 5.50% in FY30, while the Gross Receipts portion will decline from 0.1415% to 0.1380% over the same period. These reductions are part of a broader, codified plan to eliminate the Gross Receipts portion and reduce the Net Income portion by more than half within seven years of the Pension Fund reaching full (100%) funding. Additionally, as a result of a legal challenge, the City will eliminate the former exclusion from the BIRT tax base of a taxpayer's first $100,000 in receipts for Tax Year 2025 and forward.

D. Realty Transfer Tax

The Realty Transfer Tax is projected to total $372.7 million in FY26, accounting for 8.2% of total tax revenue. The Realty Transfer Tax rate has two components: the portion imposed by the City and an additional 1 percent which is charged by the Commonwealth of Pennsylvania. This tax applies to all property transfers and is collected at the time of sale.

With the adoption of Bill No. 250211, the City portion of the Realty Transfer Tax will increase from 3.278% to 3.578% starting in FY26. This adjustment will help support debt service costs associated with the two $400 million borrowings for the H.O.M.E Initiative, which aims to create or preserve 30,000 units of housing in Philadelphia.

The FY26 projection includes an 8.23% base growth rate for the Realty Transfer Tax. This growth reflects a recovery from declines in recent years, which were driven by a slowdown in home sales as rising mortgage interest rates discouraged buyers.

E. Sales Tax

Sales Tax revenues are projected to generate $324.0 million in FY26, based on a base growth rate of 3.9%, comprising 7.1% 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 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% go to the City's Pension Fund (projected to be $102 million in FY26).

F. Philadelphia Beverage Tax

The Philadelphia Beverage Tax is a tax on any non-alcoholic beverage, syrup, or other concentrate used to prepare a beverage that lists as an ingredient any form of caloric sugar-based sweetener or sugar substitute. This tax is levied on the distribution of sweetened beverages intended for retail sale in Philadelphia. The tax is levied at 1.5 cents per ounce of sweetened beverages. While concentrates or syrups are also taxed, their tax rate is based on the final beverage produced, not the raw syrup or concentrate. The Philadelphia Beverage Tax is projected to generate $64.4 million in FY26. From FY26-FY30, Beverage Tax collections are projected experience modest annual declines, reflecting a gradual decrease in tax receipts observed over the past several years. This trend aligns with national patterns of reduced consumption of sweetened beverages.

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. In FY26, the City projects to collect $410.4 million in Locally Generated Non-Tax Revenue.

5. Revenues from Other Governments

Revenues from Other Governments—including the Commonwealth of Pennsylvania and the Federal Government—typically make up slightly less than 20 percent of total General Fund revenues. The total in FY26 is projected to be $1.23 billion, with the majority ($769.3 million) raised through the residential portion of the City's Wage Tax and then remitted by PICA after PICA's operating expenses. While the General Fund receives some federal revenue, the majority of the federal funding the City receives is in other funds, including the Grants Fund.

6. Revenues from Other Funds

This category consists of payments from other funds of the City to the General Fund, such as from Enterprise Funds (Water and Aviation) or from the Grants Fund and is projected to total $172.1 million in FY26. This is a decrease of $314.5 million (64.6%) from FY25. This drop in revenues is attributed to the end of federal relief funding from the American Rescue Plan, which was spent down by the end of December 2024, as required by federal law. ARPA Funds were placed into the Grants Fund upon receipt and then drawn down by the General Fund as revenue replacement compared to pre-pandemic expectations.

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 FY25 budget and FY26-30 FYP submitted by the Mayor to PICA on June 30, 2025. The Budget Office provides forecasts of all major expenditure categories. For FY26, obligations are budgeted at $6.84 billion, an increase of $273.7 million over the FY25 estimate. The largest driver of the increase is Personal Services, which includes salaries, pensions, and employee benefits. The FY26 obligation estimate also includes a $101.6 million Labor Reserve for future labor costs and a $58.9 million transfer to the Budget Stabilization Reserve Fund (BSRF). The FY26 projection also includes targeted investments directed towards making Philadelphia the safest, cleanest, and greenest big city in the nation, with access to economic opportunity for all.

A. Labor Agreements

In anticipation of entering into multi-year agreements, the City executed one-year extension agreements that expire on June 30, 2025 with each of its major unions. The City has been working with its union partners to reach agreements that are fair to employees while also maintaining the City's fiscal health. The forecasted statements include a set-aside of $550 million from FY26 to FY30 in a labor reserve to support fair and fiscally responsible collective bargaining 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.

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.

Act 111 interest arbitration awards with the FOP Lodge No. 5 (August 2017) and IAFF Local 22 (May 2018) 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 collective bargaining agreements for DC33 (July 2016) and DC47 (June 2018). 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. Subsequent labor agreements and awards have maintained these changes.

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 FY26 through FY30, the City's pension fund is projected to receive $594.8 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 fourteen years, the pension fund's earnings assumption has been reduced incrementally from 8.75% to 7.25% (effective July 1, 2025). 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. From 2015 to 2024, the pension system's funding percentage has increased from 45.9% to 65.4% 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 Five Year Plan 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. This added cost is reflected in the Plan. In FY29, the City will make a balloon payment on the pension obligation bonds issued in 1999. Payments on these bonds decrease substantially in FY30, after increasing from $122.0 million in the General Fund in FY28 to $186.4 million in the General Fund in FY29. The reduction in debt service on those bonds will reduce the City's structural fixed costs over the long term. This reduction in fixed costs is reflected in FY30, when the payment from the General Fund drops to $1.6 million.