CITY OF PHILADELPHIA
PENNSYLVANIA

OFFICE OF THE CONTROLLER

CITY OF PHILADELPHIA

FORECASTED GENERAL FUND

STATEMENT OF OPERATIONS

FISCAL YEARS 2027 - 2031

City Controller

Christy Brady, CPA

Ensuring transparency, accountability, and fiscal integrity in city government

CONTENTS

CITY OF PHILADELPHIA

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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, 2031, 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 Fund Balance Resulting from Operational Deficits

The forecasted statement referred to above reflects a significant and continuous reduction in the General Fund balance through fiscal year 2029 as a result of projected operational deficits. These deficits began in fiscal year 2026 following the expiration of federal funding received through the American Rescue Plan Act. While the City anticipated the loss of this one-time funding, recurring expenditures, including Personal Services and Payments to Other Funds, are projected to exceed annual revenue, requiring the continued use of the fund balance to finance City operations. While a surplus is projected in fiscal year 2030, the resulting recovery of the General Fund balance is modest in the final two years of the forecast and remains below the City's targeted minimum balance for the life of the forecast. 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, 2026

Forecasted General Fund Statements of Operations

Fiscal Years Ending June 30, 2027 through June 30, 2031

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, 2027 through June 30, 2031

(Amounts in thousands)

NO.	ITEM	FY 2027 Adopted	FY 2028 Estimate	FY 2029 Estimate	FY 2030 Estimate	FY 2031 Estimate
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	OPERATIONS OF FISCAL YEAR					
	REVENUES					
1	Taxes	4,844,302	5,003,446	5,156,425	5,296,138	5,427,808
2	Locally Generated Non-Tax Revenues	434,983	395,647	399,169	410,820	414,158
3	Revenue from Other Governments	1,232,146	1,284,129	1,292,664	1,326,114	1,358,956
4	Sub-Total (1 thru 3)	**6,511,431**	**6,683,222**	**6,848,258**	**7,033,072**	**7,200,922**
5	Revenue from Other Funds of City	66,201	66,228	160,418	67,003	67,421
6	**Total Revenue and Other Sources (4)+(5)**	**6,577,632**	**6,749,450**	**7,008,676**	**7,100,075**	**7,268,343**
	OBLIGATIONS/APPROPRIATIONS					
7	Personal Services	2,474,494	2,503,633	2,509,674	2,515,126	2,515,126
8	Personal Services-Pensions	856,539	860,643	924,277	737,548	722,654
9	Personal Services-Other Employee Benefits	982,674	1,001,019	1,057,364	1,123,599	1,195,782
10	**Sub-Total Employee Compensation (7 thru 9)**	**4,313,707**	**4,365,295**	**4,491,315**	**4,376,273**	**4,433,562**
11	Purchase of Services	1,645,979	1,538,141	1,527,299	1,583,776	1,597,122
12	Materials, Supplies and Equipment	175,358	148,981	150,634	150,576	154,503
13	Contributions, Indemnities, and Taxes	480,844	469,844	469,344	469,344	469,344
14	Debt Service	232,195	266,277	258,096	283,184	282,943
15	Payments to Other Funds	96,936	108,622	113,545	115,106	117,766
16	Payment to Budget Stabilization Reserve Fund	52,484	54,653	0	0	0
17	Advances & Misc. Pmts. / Labor Reserve	136,462	65,946	111,579	158,125	208,577
18	**Total - Obligations (10 thru 17)**	**7,133,965**	**7,017,759**	**7,121,812**	**7,136,384**	**7,263,817**
19	Oper.Surplus (Deficit) for Fiscal Year (6)-(18)	(556,333)	(268,309)	(113,136)	(36,309)	4,526
20	**Prior Year Adjustments:**					
21	Other Adjustments	36,500	37,500	38,500	39,500	40,500
22	Total Prior Year Adjustments	36,500	37,500	38,500	39,500	40,500
23	**Adjusted Oper. Surplus/ (Deficit) (19)+(22)**	**(519,833)**	**(230,809)**	**(74,636)**	**3,191**	**45,026**
	OPERATIONS IN RESPECT TO					
	PRIOR FISCAL YEARS					
	Fund Balance Available for Appropriation					
24	June 30 of Prior Fiscal Year	884,415	364,582	133,773	59,137	62,328
	Fund Balance Available for Appropriation					
25	June 30 (23)+(24)	**364,582**	**133,773**	**59,137**	**62,328**	**107,354**

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

Notes to the Forecasted General Fund Statements of Operations
Fiscal Years Ending June 30, 2027 through June 30, 2031

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 FY27 Budget and the FY27-31 Five Year Financial Plan (FYP) submitted by the Mayor to the Pennsylvania Intergovernmental Cooperation Authority (PICA) on June 29, 2026. 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 29, 2026, 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 FY27 total $6.58 billion. Approximately 73.6% of the City's revenue comes from local taxes and 18.7% comes from other governments (including the PICA tax). Locally Generated Non-Tax Revenues, which include revenues from fees, fines and permits, account for 6.6% of revenues. In FY27, $66.2 million (1.0% of revenues) will come from Other Funds of the City.

The Adopted FY27 Budget includes revenue forecasts totaling $4.84 billion in City taxes, $435.0 million in Locally Generated Non-Tax revenues, and $1.23 billion in Revenue from Other Governments. These sources account for roughly 99.0% of the City's projected revenues for FY27.

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 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 economic experts 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. S&P created econometric models which included variables such as wage and salary disbursements in the metropolitan statistical area (MSA) and the Philadelphia and Delaware counties, personal income in the Philadelphia and Delaware counties, the unemployment rate, home prices in the Philadelphia and Delaware counties, 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 economic experts 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. This year, given ongoing federal and economic uncertainty, the City presented two revenue growth scenarios: a baseline scenario, which assumed stagnant job growth and inflation, and a more pessimistic scenario, which assumed lower Wage Tax growth rates to reflect additional downside risk faced by the City. The meetings attendees recommended the baseline scenario, which was subsequently included in the City's Plan as presented to City Council.

The estimates have been revised since the March 2026 introduction of the Five Year Plan based on updated collections information, macroeconomic conditions, and the results of the Tax Year 2027 revaluation. The revenue forecasts for FY27-31 reflect sound projections in the face of federal and economic 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 FY27 projection includes a 4.69% 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 FY25) comes from these industries. The City's tax projections assume that these key sectors, along with social services, will continue to drive job growth but that the overall labor market will remain tight, limiting further expansion.

Fiscal Year 2026 Sales Tax collections through April are 4.8% above the year-ago level. The Sales Tax base growth rate is projected to decrease from 4.05% in FY27 to 3.28% in FY31. While inflation may support revenues in nominal terms, price increases for non-taxable items can dampen real spending on taxable items.

The FY27–FY31 Five Year Financial Plan includes the continuation of rate reductions to both portions of the Business Income and Receipts Tax (BIRT). The Net Income portion will decrease from 5.65% in FY27 to 5.45% in FY31, while the Gross Receipts portion will decline from 0.1395% to 0.1255% 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 one of the City's most volatile taxes. For this reason, S&P recommended that the City assume conservative baseline growth in BIRT collections over the life of the Plan, averaging 1.95%.

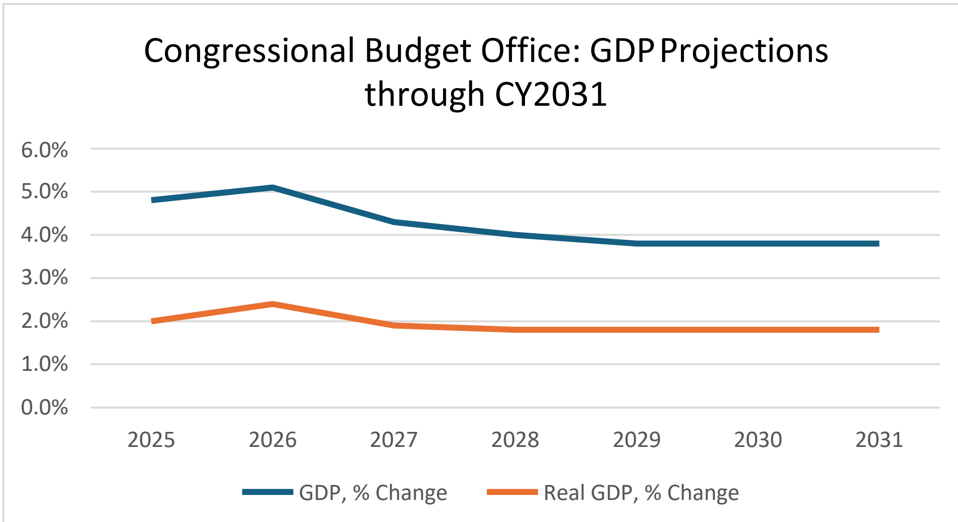
Additionally, the FY27 projections include a 5.84% base growth rate for the Realty Transfer Tax. This reflects ongoing recovery from declines in recent years, which were driven by a slowdown in home sales as rising mortgage interest rates discouraged buyers. The projection assumes market conditions will continue to stabilize and anticipates modest growth each year.

Projections show growth for most major tax types in FY27, leading to a growth in projected tax revenue of $251.3 million (5.5%) when compared to the FY26 estimate ($4.59 billion in FY26, increasing to $4.84 billion in FY27).

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, are projected to account for approximately 73.7% of the City's General Fund revenue in FY27. In the Congressional Budget Office's (CBO) *The Budget and Economic Outlook: 2026-2036* report,[1] CBO forecasts that U.S. Real Gross Domestic Product will grow by 2.2% in 2026. After 2026, the CBO anticipates the annual growth of Real GDP to average 1.8% annually from 2027-2031. The unemployment rate is expected to decline from 4.6% to 4.2% from 2026 to 2031.

[1] https://www.cbo.gov/publication/62105



On June 1, 2026, S&P Global Market Intelligence provided updated projections for national, state, and city gross domestic product. In 2027, S&P anticipates generally comparable growth across Philadelphia, Pennsylvania, and the nation.

Economic Indicators: National, State, and City

	2025Q4	2026Q1	2026Q2	2026Q3	2026Q4	2025	2026	2027
United States								
Employment (millions)	158.4	158.6	158.7	158.8	158.7	158.4	158.7	158.5
Real Per Capita Income (Thousand $)	52.8	52.9	52.7	52.7	53.0	52.7	52.8	54.1
GDP Growth Rate (%)	0.5	2.0	1.9	1.3	1.3	2.1	1.9	1.8
Pennsylvania								
Employment (millions)	6.18	6.19	6.19	6.20	6.19	6.17	6.19	6.18
Real Per Capita Income (Thousand $)	60.3	60.3	60.2	60.4	60.8	60.0	60.4	62.2
GSP Growth Rate (%)	0.7	2.0	2.7	1.8	1.3	1.9	2.4	1.8
Philadelphia/Delaware County								
Employment (thousands)	1,025.1	1,026.0	1,026.8	1,026.8	1,024.9	1,025.0	1,026.1	1,024.1
Real Per Capita Income (Thousand $)	55.0	55.0	54.8	54.9	55.3	54.7	55.0	56.8
GMP Growth Rate (%)	0.8	0.9	2.4	1.6	1.2	2.7	2.1	1.9

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 72.8% of the expected General Fund revenue in FY27. 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 0.8% of General Fund revenue. Philadelphia's reliance on business taxes, the Wage and Earnings Tax, and the PICA City Account, which total 57.5% of total revenues in FY27, 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 45.0% 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 FY27-FY31 Five Year Financial Plan includes rate reductions continuing in FY27, lowering the resident and non-resident portions of the Wage Tax from 3.735% to 3.690% and 3.425% to 3.380%, respectively, through FY31 based on the Plan's assumptions; however, only the rate changes through FY30 have been established under 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 $2.18 billion in FY27. This projection includes a 4.69% base growth rate for the Wage and Earnings component and 3.30% base growth rate for the Net Profit component of the tax.

B. Real Property Tax

The Real Property Tax is the City General Fund's second-largest source of tax revenue (20.9%), estimated to contribute $1.0 billion of the City's FY27 tax revenues. This tax is levied on the assessed value of residential and commercial property in the city. The Adopted FY27 Budget has a combined City/School

[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.

District property tax rate for FY27 of 1.3998%, unchanged from FY26. 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 $806.4 million in FY27, 16.6% 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 and an estimate for activity for the following year. A majority of the BIRT is derived from business profits which can be volatile and are dependent on economic conditions within the City.

The FY27–FY31 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 5.65% in FY27 to 5.45% in FY31, while the Gross Receipts portion will decline from 0.1395% to 0.1255% 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 has eliminated 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 $377.3 million in FY27, accounting for 7.8% of total tax revenue. The Realty Transfer Tax rate has two components: the portion imposed by the City and an additional one 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 increased from 3.278% to 3.578% starting in FY26. This adjustment will help support debt service costs associated with the two large borrowings for the H.O.M.E Initiative, which aims to create or preserve 30,000 units of housing in Philadelphia.

The FY27 projection includes a 5.84% base growth rate for the Realty Transfer Tax. This growth reflects 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 $342.0 million in FY27, based on a base growth rate of 4.05%, comprising 7.1% of tax revenues. The total Sales Tax rate in Philadelphia is 8%, with 6% going to the Commonwealth and 2% to the City. The Sales Tax projections included in the FY27-31 Plan assume an additional $1.5 million in annual revenue by requiring remittance of the local portion of the tax by remote sellers. The first one percent of the local Sales Tax supports the School District of Philadelphia and the City's Pension Fund, with $120 million of the sales tax going directly to the School District while the remainder allows for additional contributions to the Pension Fund as part of the City's strategy to increase the funding percentage and reach 100% funding in FY33. The Sales Tax allocation to the Pension Fund is projected to be $111 million in FY27.

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 $72.5 million in FY27. Following slight growth in FY27, Beverage Tax collections are projected to 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 FY27, the City projects to collect $435.0 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 FY27 is projected to be $1.23 billion, with the majority ($796.9 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, such as 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 $66.2 million in

FY27. This reflects a decline that began in FY26 and now totals more than $400 million (86.4%) less than FY25, when American Rescue Plan Act (ARPA) resources were fully expended by December 2024, as required by federal law. ARPA funds were deposited into the Grants Fund and drawn down by the General Fund as revenue replacement relative to pre-pandemic expectations. In FY29, Revenue from Other Funds is projected to increase to $160.4 million due to the application of approximately $94 million in ARPA interest earnings until that year, which the City has reserved as a fiscal management tool to mitigate the impact of the pension obligation bond balloon payment due that year.

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 FY26 budget and FY27-31 FYP submitted by the Mayor to PICA on June 29, 2026. The Budget Office provides forecasts of all major expenditure categories. For FY27, obligations are budgeted at $7.13 billion, an increase of $335.8 million over the FY26 estimate. The largest driver of the increase is Personal Services, which includes salaries, pensions, and employee benefits. Employee benefit costs in particular have experienced significant growth, accounting for the largest share of the increase in Personal Services. The FY27 obligation estimate also includes a $45.5 million deposit to the Labor Reserve for future labor costs, with contributions totaling $605 million over the life of the Plan. Following planned transfers to the Budget Stabilization Reserve Fund (BSRF) of $52.5 million in FY27 and $54.7 million in FY28, the balance in the BSRF is expected to total $345 million by the end of FY28. In addition, the Adopted FY27 Budget reestablishes the Federal Funding Reserve at $91 million to help hedge against federal funding uncertainty. The FY27 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 FY26, the City completed collective bargaining agreements and arbitration awards with AFSCME District Council 33, AFSCME District Council 47, the Fraternal Order of Police, the International Association of Firefighters, and bargaining units within the First Judicial District, as well as pay increases for Exempt and Non-Represented employees. The City continues to work with its remaining union partners to finalize agreements for Correctional Officers and employees of the Register of Wills and the Sheriff's Office. Throughout these negotiations, the City's goal is to reach agreements that are fair to employees while maintaining long-term fiscal stability. The forecasted statements include a set-aside of $605 million from FY26 to FY31 in a labor reserve to support fair and fiscally responsible collective bargaining agreements.

B. Health/Medical

The Administration has a self-insured group health plan for medical benefits for non-union employees with a disease management and wellness program with financial incentives for completing wellness activities, as well as 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% in FY27, remaining flat in FY28-31, 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 above-mentioned 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 FY27 through FY31, the City's Pension Fund is projected to receive $637.6 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, in accordance with the City's revenue recognition policy (RRP).
- 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 fifteen years, the Pension Fund's earnings assumption has been reduced incrementally from 8.75% to 7.20% (effective July 1, 2026). 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 2025, the pension system's funding percentage has increased from 45.9% to 67.7% 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. Changes to the City's annual contribution to the Pension Fund, totaling approximately $100 million over five years, have been incorporated following the actuary's experience study released since the Proposed Plan. These higher contribution amounts are due to growth in the size of the City's workforce and increases in salary costs.

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 in FY21 and $19 million due in FY22 to future years, resulting in higher ongoing pension bond 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 $120.8 million in the General Fund in FY28 to $184.6 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.