



City Council of Philadelphia

From: Council President's Office – Finance and Budget Team

RE: City Financial Condition – Historical Trend Update Based on FY16 Annual Financial Report

Date: November 10, 2016 (Updated on 4.7.17)

City General Fund Balance and Credit Updates

The City released its FY16 Annual Financial Report on October 28, 2016, which highlighted the financial standing of the City at the end of the fiscal year. **The City's FY16 year-end General Fund Balance was \$148.3 million, which is nearly \$78.1 million over the end of the 3rd Quarter Projection (as of mid-May 2016).** In short, the City started FY17 with more cash available for appropriation in its carry forward fund balance line item. When the FY16 budget was adopted, the Administration projected a year-end fund balance of \$69.3 million. During the FY17 budget process, the Administration updated the FY16 Fund Balance projection to \$70.2 million, which is almost \$1 million more than the previous projection, but still \$78 million under where the City actually ended the fiscal year with. *Due to this increase, the City's FY16 Fund Balance as a Percentage of Expenditures ratios increased from 1.7% of Expenditures to 3.7% of Expenditures, which equates to almost 2 weeks of spending available in the Fund Balance.* The higher than projected Fund Balance was primarily due to less than expected spending in the 4th quarter of FY16, and actual revenues growth that proportionally outpaced actual expenditure growth throughout the fiscal year – relative to original projections that were made when the FY16 Budget was adopted June of last year.

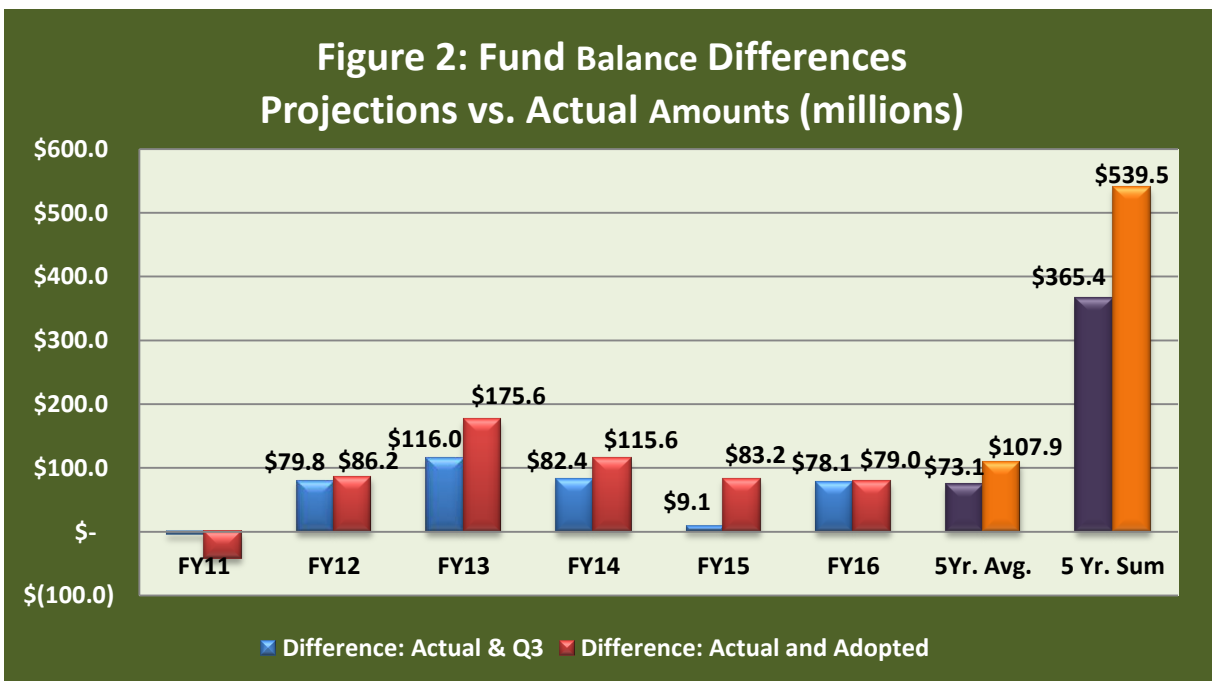
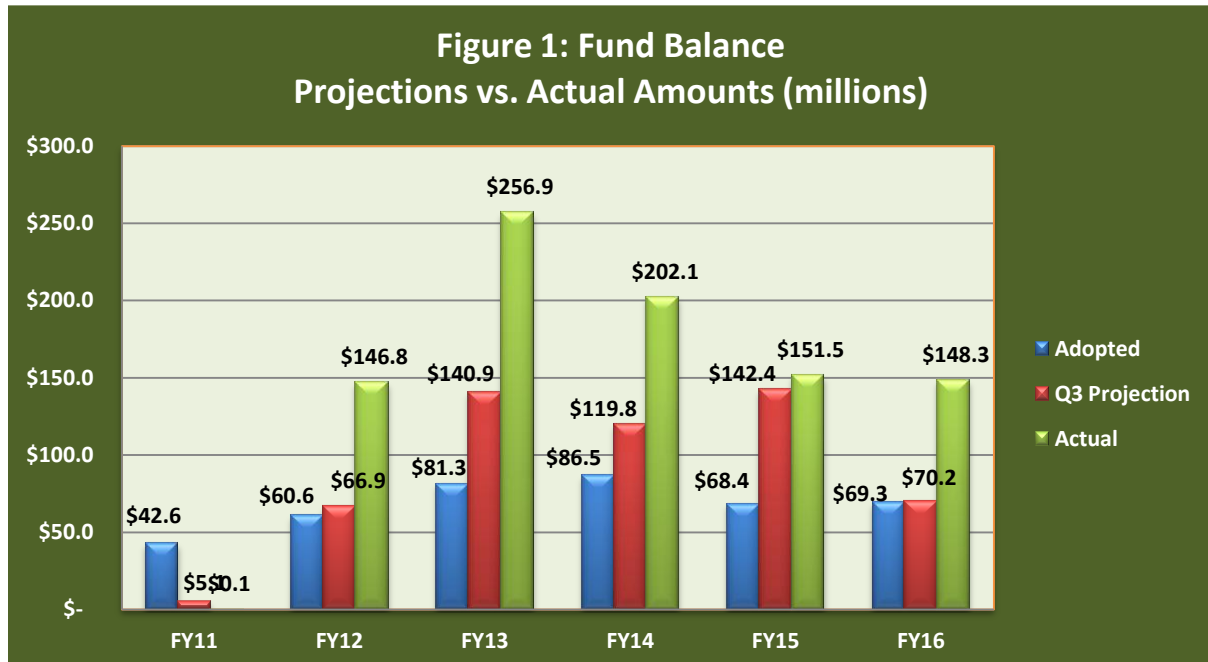
It is important to note that despite the higher than expected FY16 year-end Fund Balance amount, Standard and Poor's (S&P) moved Philadelphia to a 'Negative Outlook' on November, 7, 2016, citing imbalanced revenue to spending ratios and escalating pension costs as some of the primary indicators. This is the second outlook downgrade that was issued to the City this year by Credit Ratings Agencies (Moody's moved Philadelphia to a Negative Outlook on September 6th, 2016). This is a reminder that reserve levels are still low (\$148 million is less than 14 days worth of spending), pension costs – among other fixed costs – are still high and escalating, and that the City's expenditures have exceeded its revenues in each of the last 3 fiscal years, which has led to a declining reserve level.

Summary

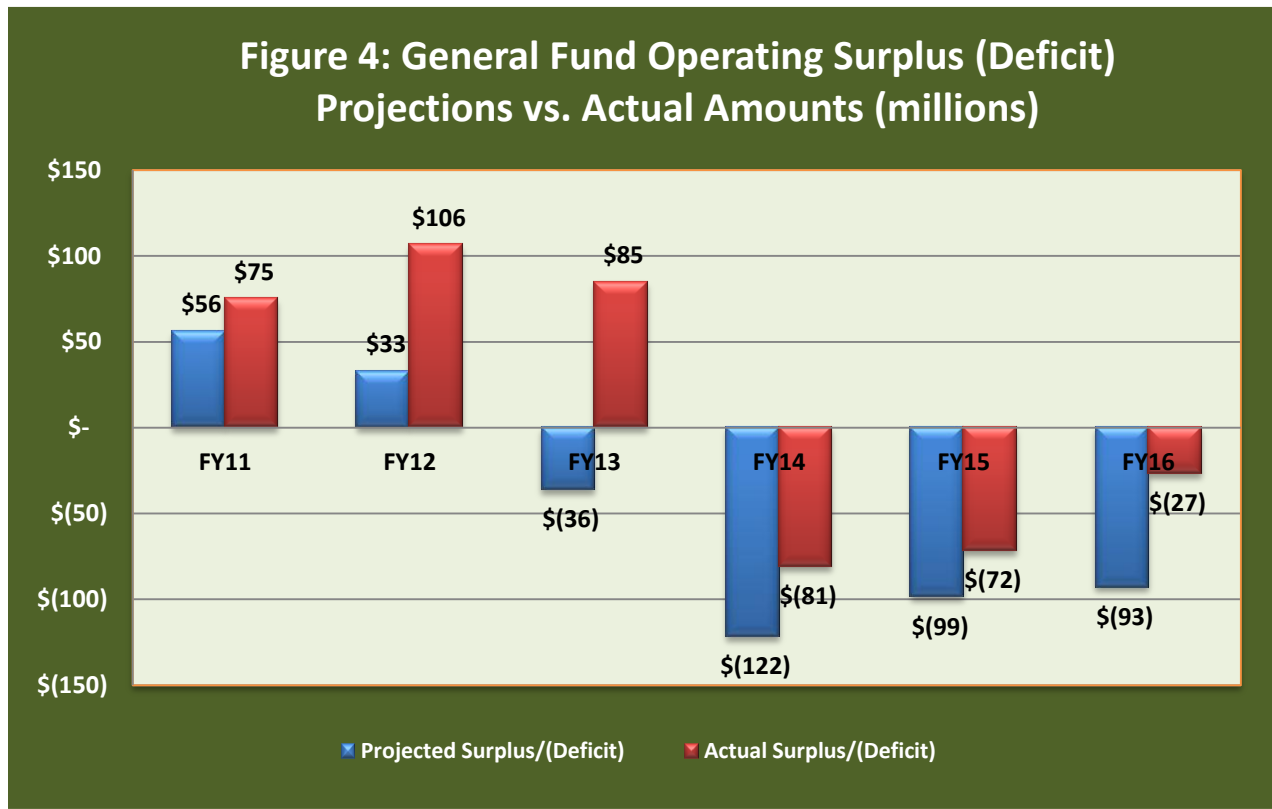
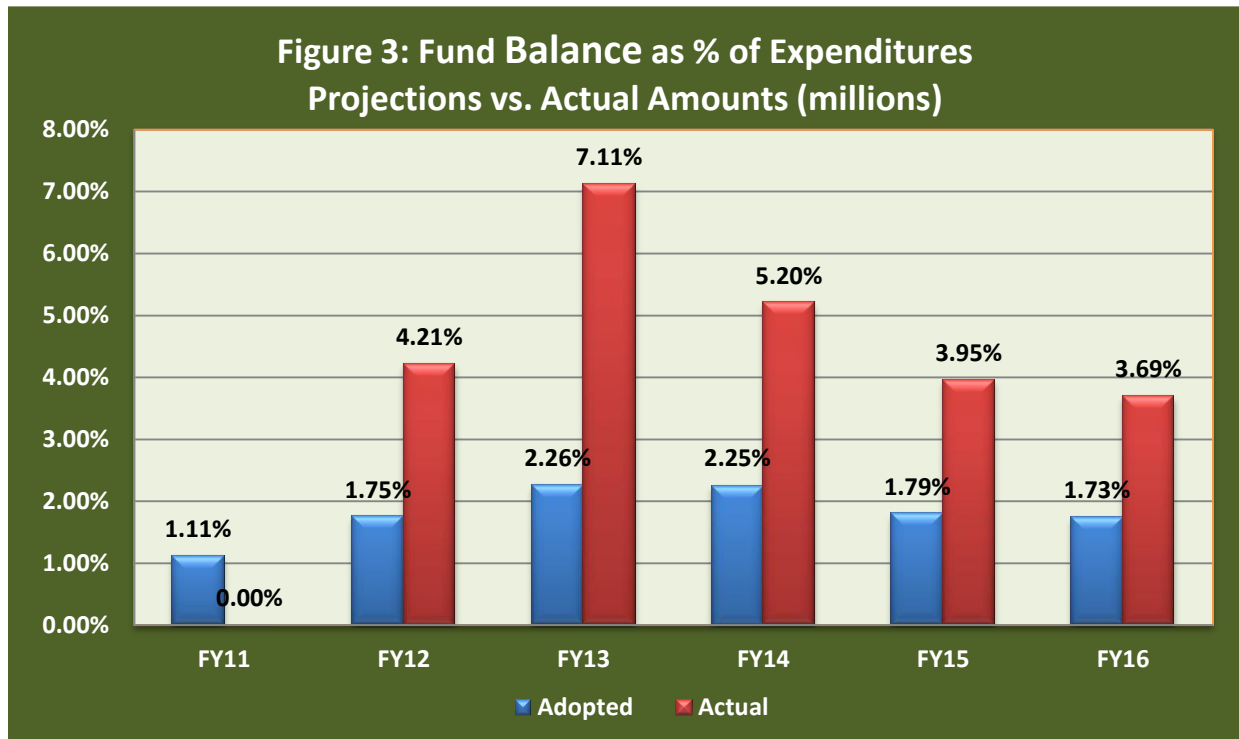
- During the planning of the FY17 budget, the Q3 City Managers Report estimated a year-end General Fund Balance of \$70 million, which turned out to be \$78 million lower than the actual year-end Fund Balance amount of \$148 million.
- From FY12 to FY16, the projected year-end Fund Balances (as of the end of the 3rd Quarter) available during the budget process have been under the actual final Fund Balance by an average of \$73 million per fiscal year, for an aggregate total of \$365 million.
- The last three fiscal years saw an average growth of 2.6% in Revenues and 3.7% in Expenditures. Annual Expenditures were \$60 million higher than Revenues on average, largely due to rising fixed costs and overtime costs.
- Actual Expenditures from FY12 to FY16 ended, on average, \$56 million lower than projected in the Q3 City Managers Report for each year.
- Revenues from FY12 to FY16 ended, on average, \$9 million higher than projected in the Q3 City Managers Report for each year.
- Fund Balances as adopted in the Operating Budget have under-projected the actual final Fund Balance by an aggregate total of \$540 million from FY12 to FY16, averaging \$108 million per fiscal year.

General Fund Analysis

| General Fund Balance | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | | |
|--------------------------------|-----------|----------|----------|----------|----------|----------|--------------|-----------|
| Adopted | \$ 42.6 | \$ 60.6 | \$ 81.3 | \$ 86.5 | \$ 68.4 | \$ 69.3 | | |
| Q3 Projection | \$ 5.1 | \$ 66.9 | \$ 140.9 | \$ 119.8 | \$ 142.4 | \$ 70.2 | | |
| Actual | \$ 0.1 | \$ 146.8 | \$ 256.9 | \$ 202.1 | \$ 151.5 | \$ 148.3 | 5Yr. Average | 5 Yr. Sum |
| Difference: Actual & Q3 | \$ (5.0) | \$ 79.8 | \$ 116.0 | \$ 82.4 | \$ 9.1 | \$ 78.1 | \$ 73.1 | \$ 365.4 |
| % Difference | -98% | 119% | 82% | 69% | 6% | 111% | 78% | |
| Difference: Actual and Adopted | \$ (42.5) | \$ 86.2 | \$ 175.6 | \$ 115.6 | \$ 83.2 | \$ 79.0 | \$ 107.9 | \$ 539.5 |
| % Difference | -99.78% | 142.25% | 215.90% | 133.65% | 121.64% | 113.92% | 145% | |

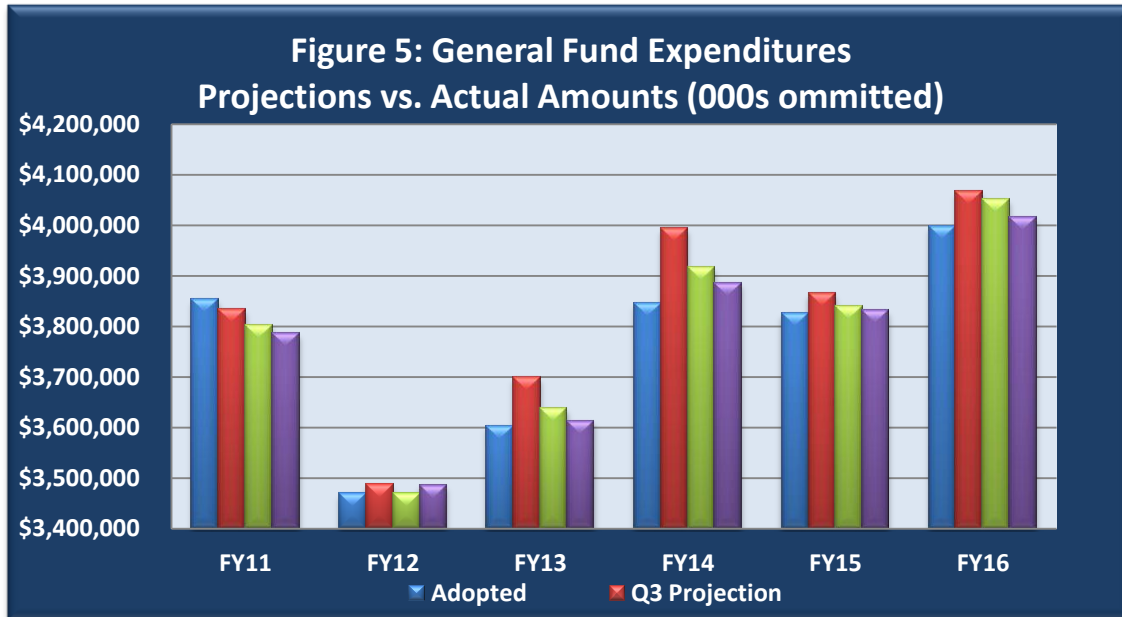


General Fund Ratio and Budget Analysis



General Fund Expenditure and Revenue Analysis

| Expenditures | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | | |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|----------------|
| Adopted | \$ 3,853,096.0 | \$ 3,470,095.0 | \$ 3,603,867.0 | \$ 3,845,403.0 | \$ 3,824,565.0 | \$ 3,998,103.0 | | |
| Q3 Projection | \$ 3,834,050.0 | \$ 3,487,470.0 | \$ 3,699,129.0 | \$ 3,993,471.0 | \$ 3,865,556.0 | \$ 4,067,098.0 | | |
| Actual | \$ 3,785,293.0 | \$ 3,484,875.0 | \$ 3,613,266.0 | \$ 3,886,564.0 | \$ 3,831,515.0 | \$ 4,015,795.0 | 5Yr. Average | 5 Yr. Sum |
| Difference: Actual - Q3 | \$ (48,757.0) | \$ (2,595.0) | \$ (85,863.0) | \$ (106,907.0) | \$ (34,041.0) | \$ (51,303.0) | \$ (56,141.8) | \$ (280,709.0) |
| % Difference | -1.27% | -0.07% | -2.32% | -2.68% | -0.88% | -1.26% | -1.44% | |
| Difference: Actual - Adopted | \$ (67,803.0) | \$ 14,780.0 | \$ 9,399.0 | \$ 41,161.0 | \$ 6,950.0 | \$ 17,692.0 | \$ 17,996.4 | \$ 89,982.0 |
| % Difference | -1.76% | 0.43% | 0.26% | 1.07% | 0.18% | 0.44% | 0.48% | |



| Revenues | FY11 | FY12 | FY13 | FY14 | FY15 | FY16 | | |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|
| Adopted | \$ 3,909,143.0 | \$ 3,502,721.0 | \$ 3,567,721.0 | \$ 3,723,585.0 | \$ 3,725,833.0 | \$ 3,905,141.0 | | |
| Q3 Projection | \$ 3,928,717.0 | \$ 3,531,651.0 | \$ 3,675,564.0 | \$ 3,836,962.0 | \$ 3,789,737.0 | \$ 3,966,741.0 | | |
| Actual | \$ 3,860,294.0 | \$ 3,591,353.0 | \$ 3,697,989.0 | \$ 3,805,649.0 | \$ 3,759,767.0 | \$ 3,988,967.0 | 5Yr. Average | 5 Yr. Sum |
| Difference: Actual & Q3 | \$ (68,423.0) | \$ 59,702.0 | \$ 22,425.0 | \$ (31,313.0) | \$ (29,970.0) | \$ 22,226.0 | \$ 8,614.0 | \$ 43,070.0 |
| % Difference | -1.74% | 1.69% | 0.61% | -0.82% | -0.79% | 0.56% | 0.25% | |
| Difference: Actual and Adopted | \$ (48,849.0) | \$ 88,632.0 | \$ 130,268.0 | \$ 82,064.0 | \$ 33,934.0 | \$ 83,826.0 | \$ 83,744.8 | \$ 418,724.0 |
| % Difference | -1.25% | 2.53% | 3.65% | 2.20% | 0.91% | 2.15% | 2.29% | |

