City Council Finance and Budget Team

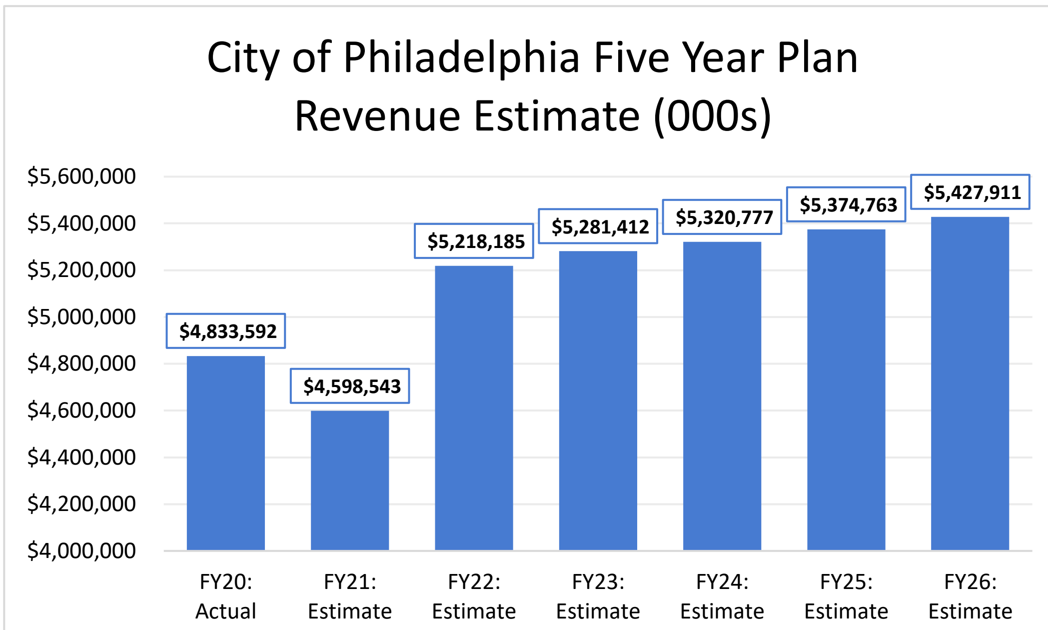
FY22 Budget Facts

Introduction

The following report is an internal assessment of the Administration's proposed FY22-26 Five-Year Plan (5YP), including analyses on: proposed changes to expenditures and revenues, budgetary trends for the City of Philadelphia and the School District, and information regarding federal funding that the City of Philadelphia has received or is expected to receive. This report does not offer any recommendations for funding, but instead attempts to inform Council on the latest budgetary trends, budget proposals, and potential impacts to certain constituents based on preliminary information received from the Administration in the City's proposed 5YP, data from the School District, and information from the Federal government regarding COVID-19 federal funding.

Section 1: General Fund Revenue Projections

Five-Year Plan Projections



Overall General Fund revenue is projected to jump 13% from FY21 to FY22, due to the influx of federal stimulus dollars as well as the re-opening of the economy. From FY22 to FY26, projections estimate a slight but steady increase in revenue. American Rescue Plan revenue is allocated across FY21-25. Although the Mayor's proposed budget includes expanded investments in programs and infrastructure, there is **no planned tax increase** in FY22.

The FY22-26 revenue projections assume the following tax rate reductions, which are expected to cost the city an estimated **$186.3 million in Wage Tax and $157.1 million in BIRT revenue loss**, for a total of $343 million over the Five-Year Plan.

Wage tax reduction:

- Decrease in **residential wage tax rate** from 3.8712% in FY21 to 3.8245% in FY26.
- Decrease in **non-residential wage tax** rate from 3.5019% in FY21 to 3.4065% in FY26.

	FY22-25 Five-Year Plan: Proposed Tax Reductions				
	Resident Wage Tax	Non-Resident	Revenue Loss - Wage Tax	BIRT - Net Income Tax Rate	Revenue Loss
2021	3.8712%	3.5019%	$0	6.20%	$0
2022	3.8398%	3.4201%	$29.5m	6.10%	$5.7m
2023	3.8360%	3.4167%	$33.2m	6.00%	$11.8m
2024	3.8322%	3.4133%	$36.9m	5.75%	$28.2m
2025	3.8283%	3.4099%	$41.1m	5.50%	$46.1m
2026	3.8245%	3.4065%	$45.5m	5.25%	$65.2m

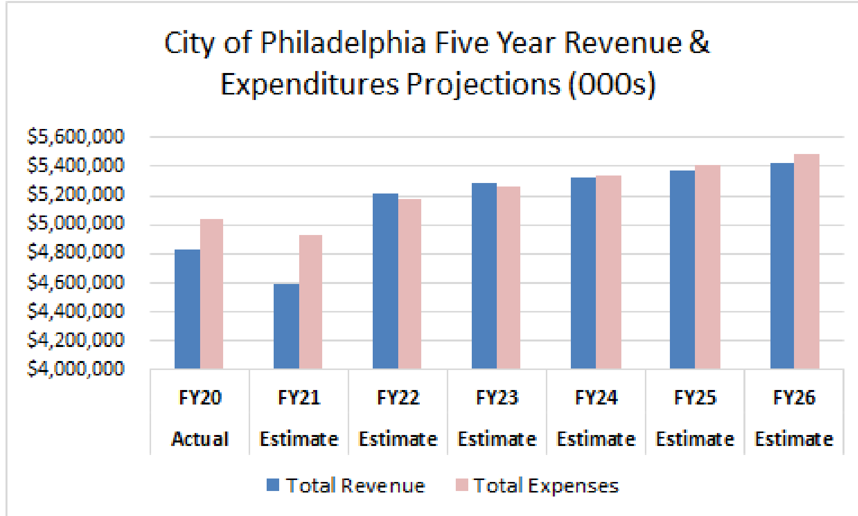
BIRT tax rate reduction:

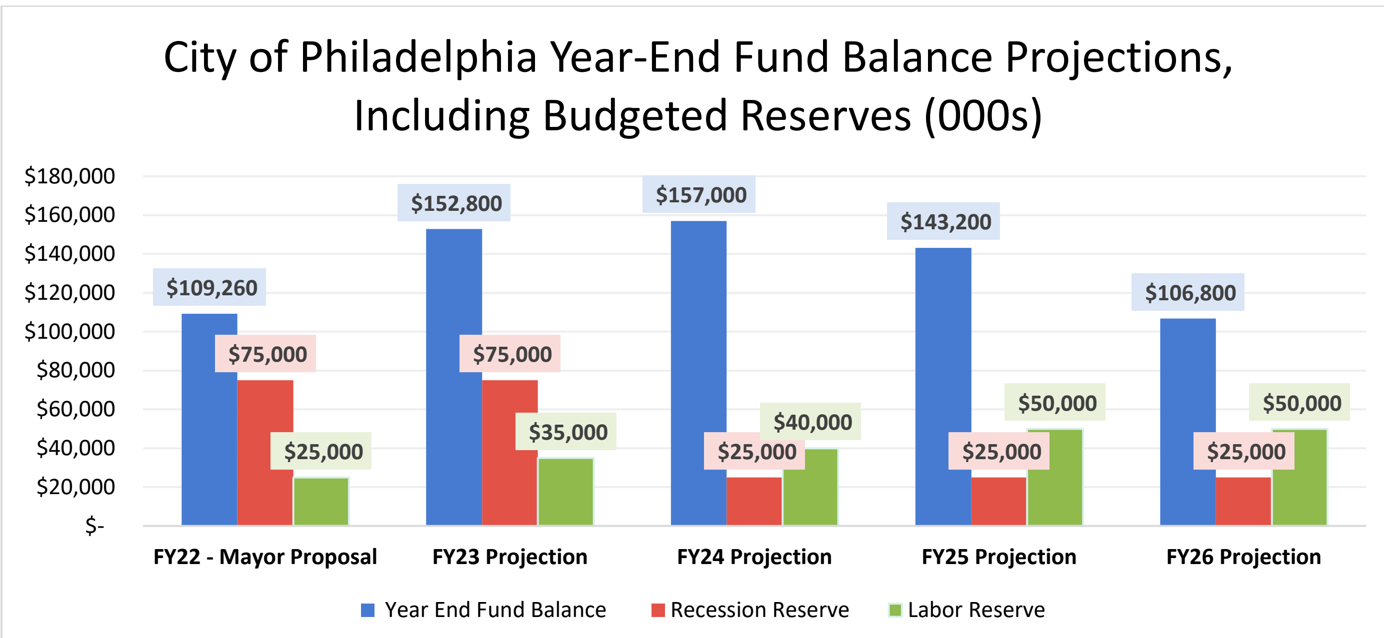
- Decrease in BIRT from 6.2% in FY22 to 5.25% in FY26.

Overall General Fund Revenue & Expenditures Projections

From FY20 to FY26, the operating deficit is expected to narrow from -$202.9 million to -$55.9 million, which is overall a positive 72% change from FY20 to FY26.

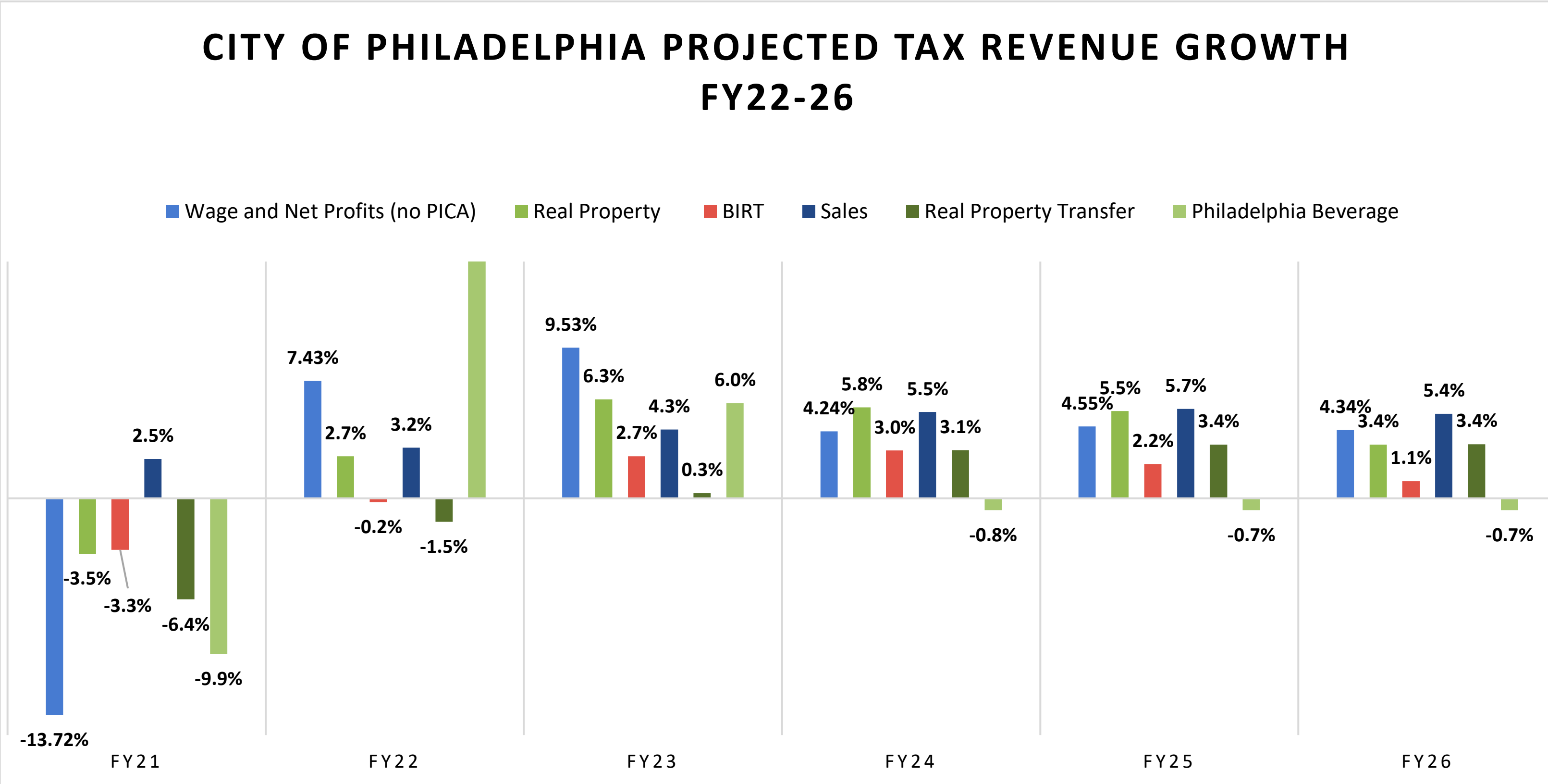
In FY22, total revenue is projected to be $5.22 billion and that amount is expected to steadily increase to $5.43 billion in FY26. On the other hand, expenditures in FY22 are estimated at $5.18 billion and slightly increase year-over year to $5.48 billion by FY26.





Year-End Fund Balance, Including Budgeted Reserves

The Mayoral proposal projects a fund balance of $109M for FY22, which is just 2% of budgeted revenues. The Government Finance Officers Association recommends 17%, while the City of Philadelphia has a goal of 6-8%. Although 2% is well below the City's goal, the FY22 budget also includes $75M in re-opening and recession reserve funds in the event of additional recovery costs or as a buffer if the City's revenue is less than expected. The FY22 budget also includes $25M of labor reserve funds for new union contracts. It is important to note that unused reserve funds from FY22 will carry forward to the following year's reserve.



FY22 Tax Projections

As stated above, the Mayor's proposed FY22 budget does not include any tax increases. In FY21, every stream of tax revenue decreased, apart from Sales Tax revenue which is projected to have increased slightly by the end of this fiscal year.

The FY22 tax revenue projection shows a growth in overall tax revenue, but not quite reaching pre-pandemic levels. The Wage and Net Profits tax revenue is projected to increase by 7.43% in FY22.

Please see below for the percentage change in the remaining tax categories for FY22, compared to FY21 (projected):

- Real property tax: **2.7%**
- BIRT: **-.02%**
- Sales: **3.2%**
- Real Property Transfer: **-1.5%**
- Parking: **9.6%**
- Beverage: **15.1%**

Federal Grant Revenue Summary:

CARES Act, Coronavirus Relief Fund (CRF)

The largest grant that the City of Philadelphia received via the CARES Act, signed in late March 2020, is a $276 million Coronavirus Relief Fund allocation (CRF). The City has fully allocated this funding as shown below:

- **Public Health and Safety Personnel:** 38% of total funds was allocated to public health and safety employee personnel costs. $29 million was used for FY20 while the remaining $76 million was used to reimburse the General Fund for personnel costs related to the pandemic for the first half of FY21. The City reimbursed the General Fund with this allocation to free up General Fund dollars for other COVID-19 related expenses.
- **Economic Recovery and Housing:** 28% of the CRF allocation was used towards economic recovery and housing. The City allocated more than $44 million for small business relief and over $31 million for housing-related programs.
- **Public Health and Medical:** 22% of the CRF funds were allocated for public health and medical expenses. The City received other large public health grants to cover these costs, such as FEMA Public Assistance, and therefore did not need to allocate more CRF funds for this purpose.
- The remaining 12% of allocation comprises of distance learning (1%), telework for public employees (2%), TRAN (short-term borrowing) costs (4%), FEMA local match (2%), and “other” (3%).

Consolidated Appropriations Act, 2021

In the Consolidated Appropriations Act of 2021, signed in December of 2020, the US Treasury provided $238 million in funding for the City of Philadelphia. Please see the breakdown below:

- **$104 million** in “Emergency Rental Assistance Program” (ERAP) funding. Of the $104 million, $47 million was allocated directly to Philadelphia while $57 million came from the Pennsylvania allocation. Originally, these dollars were to be spent by December 31st, 2021 but the ARP extended this deadline to September 30th, 2022.
- **$29 million** for PHL Airport
- **$91 million** in COVID testing
- **$14 million** for vaccinations

This act also extended the timeframe for CRF recipients to spend down their allocation by one year, to December 31st, 2021.

FEMA

The Administration has **requested reimbursement for $34.4 million in actual and estimated costs** and is preparing additional requests for reimbursement related to other eligible work. The City will receive reimbursement from FEMA Public Assistance for eligible emergency protective measures required due to the pandemic. These measures include standing up temporary medical facilities, non-congregate emergency sheltering, certain personal protective equipment, certain cleaning and disinfection activities, and administration and distribution of vaccines. The City has submitted the following projects for FEMA reimbursement: Vaccine Sites (Convention Center & Department of Health, SEPTA CCT Services, Medical Surge Site, and Isolation & Quarantine Sites).

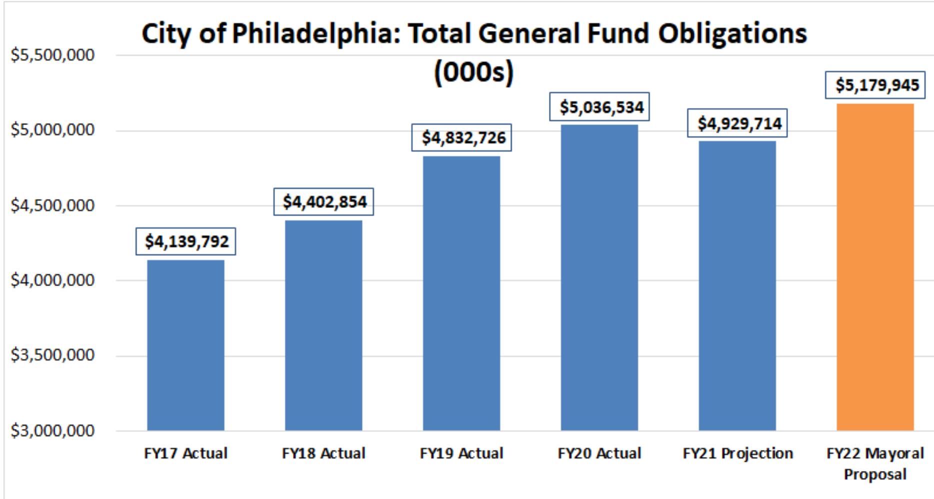
American Rescue Plan: Summary

The American Rescue Plan provides $130 billion for local governments, **of which Philadelphia will receive $1.42 billion ("Coronavirus Local Fiscal Recovery Fund")** to continue to support the public health response and lay the foundation for a strong and equitable economic recovery. These dollars can be used to address revenue losses experienced during the pandemic. The Administration is projecting an additional $25 million of interest earnings from investing the $1.42 billion of ARP funds.

American Rescue Plan Funding	Dollar amount
Philadelphia City Government	$1.42 billion
Philadelphia School District	$1.1 billion
Transit Funding for SEPTA	$667 million*
Philadelphia Airport	$115 million*
Community College of Philadelphia	$55 million
Testing, Surveillance, and Safe Reopening of Schools	$48 million
Homelessness & Housing Instability	$42 million
Vaccine Related Activity	$14 million
NE Philadelphia Airport	$148 thousand*
Note: Numbers with an "*" indicate that the dollar amount is a non-federal estimate and is subject to change.	

Without this critical influx of federal grant revenue, the City was projected to face a $450 million budget deficit in FY22, which could have resulted in decreased service levels, more layoffs, or an increase in taxes.

Section 2: General Fund Obligations



Overall pattern of General Fund Obligations

Total General Fund obligations are projected to increase by 5% from FY21 to FY22, or from $4.9 billion to $5.1 billion.

Proposed investments

The Mayor's proposed budget includes expanded or restored investments in various programs and infrastructure. It also includes marginal Wage and BIRT Tax cuts over five years and **does not include any tax increases** in FY22. Most notably, the 5YP includes the following investments over the course of the Plan:

Re-opening the Economy

- Streets, Storefronts, etc.
  - Paving: $132M in FY22, a $100M increase in order to pave 115 miles
  - $500K for Storefront Improvement Grants/Security
  - Sustained funding for Taking Care of Business Commercial Corridor Cleaning enforcement and return/start of street sweeping
  - Restored funding for L&I Demolitions
- Tax Relief
  - Wage Tax (3.87% --> 3.82%) & BIRT Reductions (6.1% --> 5.25%) over five years
- Education
  - Increased investment for Community College
  - $255 million for the Philadelphia School District
  - 700 new slots in PreK for a total of 4,000 slots in FY22
- Economic Development
  - $2.99M for the Office of Workforce Development
  - $3.1M for Neighborhood Commercial Corridors for capital projects
- Operations Transformation
  - $5M for City departments to transition to new ways of working.

Public Safety

- Violence Prevention: $18.7M in new funding for anti-violence programs
  - Expand Police Assisted Diversion, Community Crisis Intervention Program, and Group Violence Intervention
  - Expand Roadmap Community Response
  - Targeted Community Investment Grants

    - Transitional Jobs Program
    - Restored services at libraries, parks and rec centers
- Mental Health & Police Reform: $13.2 million in 911 co-responder and mobile units for improved health crisis response ($7.2M to expand the Philadelphia Crisis Line and $6M to fund a 911 triage and "co-responder" program)
- Improved Policing
- Crime Solving
- Fire/EMS
    - Maintain level of fire service by adding about $15M to FY22 Base Budget
    - Additional EMS supplies

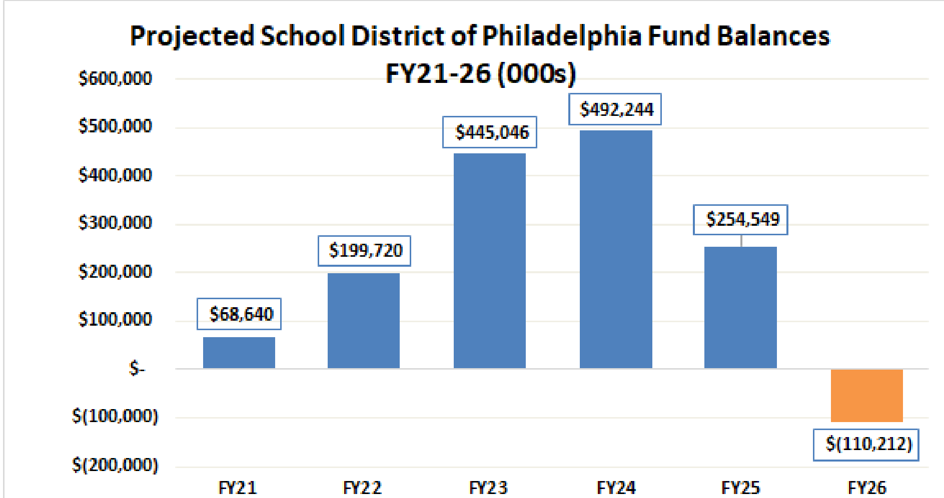
<u>Public Health & Housing</u>

- Improve racial equity in health outcomes
- Sustain shelter beds

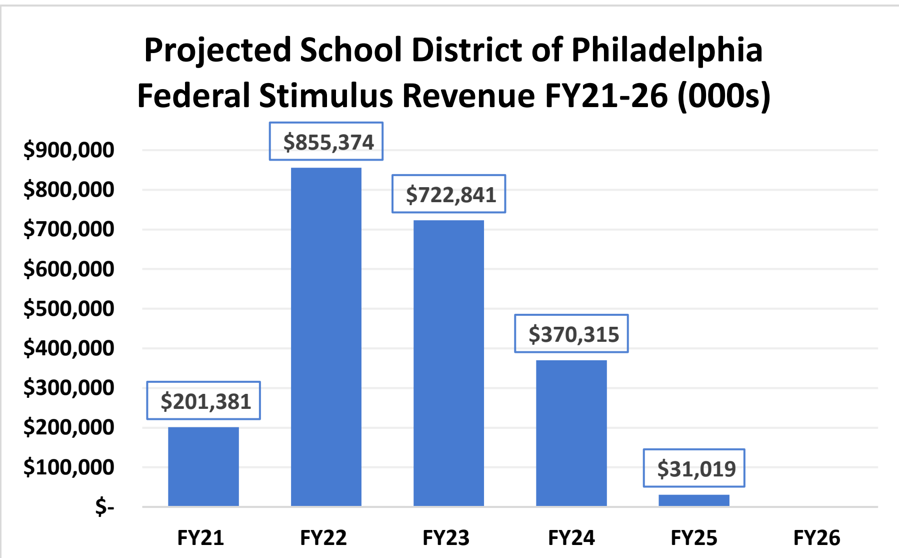
Section 3: School District Summary

Year-End Fund Balances

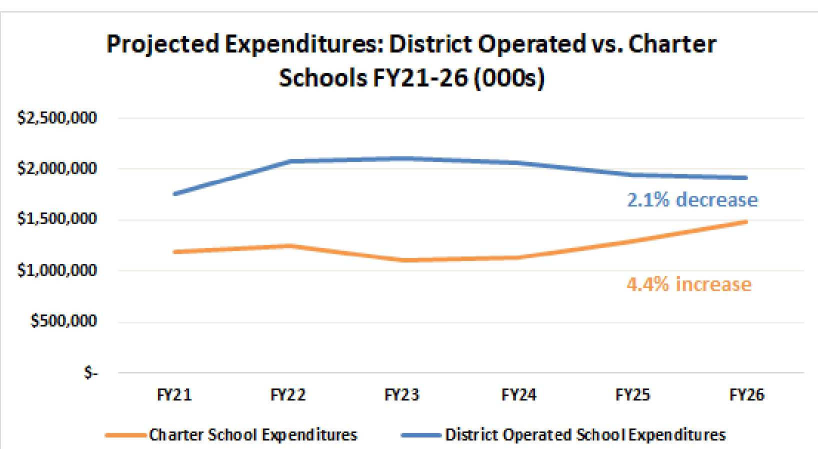
Year-End fund balances are projected to peak in FY24 at $492.2 million, while going negative at the end of FY26 due to current tax revenue and expenditure projections.



The Five-Year financial outlook: **This has dramatically improved due to federal stimulus dollars.**



- $1.95 billion in *Federal Grant Stimulus* revenues projected from FY22 to FY25
- $325 million committed to facility improvements
- These commitments are above-and-beyond existing planned capital investments.
- $350 million committed to "support education recovery and accelerate learning"
- Summer learning, Out of School Time programs, tutoring, etc. $150 million committed to "support the significant social and emotional needs of students"
- Increased investments in social services, counselors, and climate support staff.



School Expenditures: *Charter School* expenditures are projected to increase 4.4% over the Five-Year Plan, compared to a 2.1% decrease in *District Operated Schools*.

Important Links and Resources

PHL Council Budget Center
City Council's page for budget hearing videos, testimonies, and documents.
Link to this year's and last year's budget center: https://phlcouncil.com/budget2022
Reports and analyses: http://phlcouncil.com/finance-budget-team/

Mayor Kenney's Fiscal Year 2020 Budget Links
FY22 Operating and Capital Budget Overview, Five-Year Plan, and Budget-in-Brief
https://www.phila.gov/documents/mayor-kenneys-fiscal-year-2022-budget/

Pennsylvania Intergovernmental Cooperation Authority
PICA is the independent board which provides financial and oversight functions over the City of Philadelphia.
Link: https://picapa.org

School District of Philadelphia: Office of Management and Budget
School District OMB manages and organizes information related to the District's budget -- how resources are collected and allocated to schools.
Link: https://www.philasd.org/budget/services/public-information/

Department of Finance
Responsible for the financial, accounting, and budgeting functions of the executive branch.
Link: https://phila.gov/finance/

City Controller
Independent financial watchdog for the City of Philadelphia.
Link: https://controller.phila.gov

City Treasurer
The mission of the City Treasurer's Office (CTO) is to safeguard City funds, serve as the disbursement agent for all City-related payments, and invest those funds that are in excess of the amount needed to meet daily cash requirements. The CTO also works to improve and maintain the City's credit ratings.
Link: https://www.phila.gov/treasurer/pages/default.aspx

Department of Revenue
Ensures the collection of all revenues due to the City and School District of Philadelphia. Website includes reports detailing the collections of taxes and administration of Council supported programs.
Link: https://www.phila.gov/departments/department-of-revenue/reports/