



City Council of Philadelphia

Finance and Budget Team:
City and School District Fiscal Year 2020
Mid-Year Update



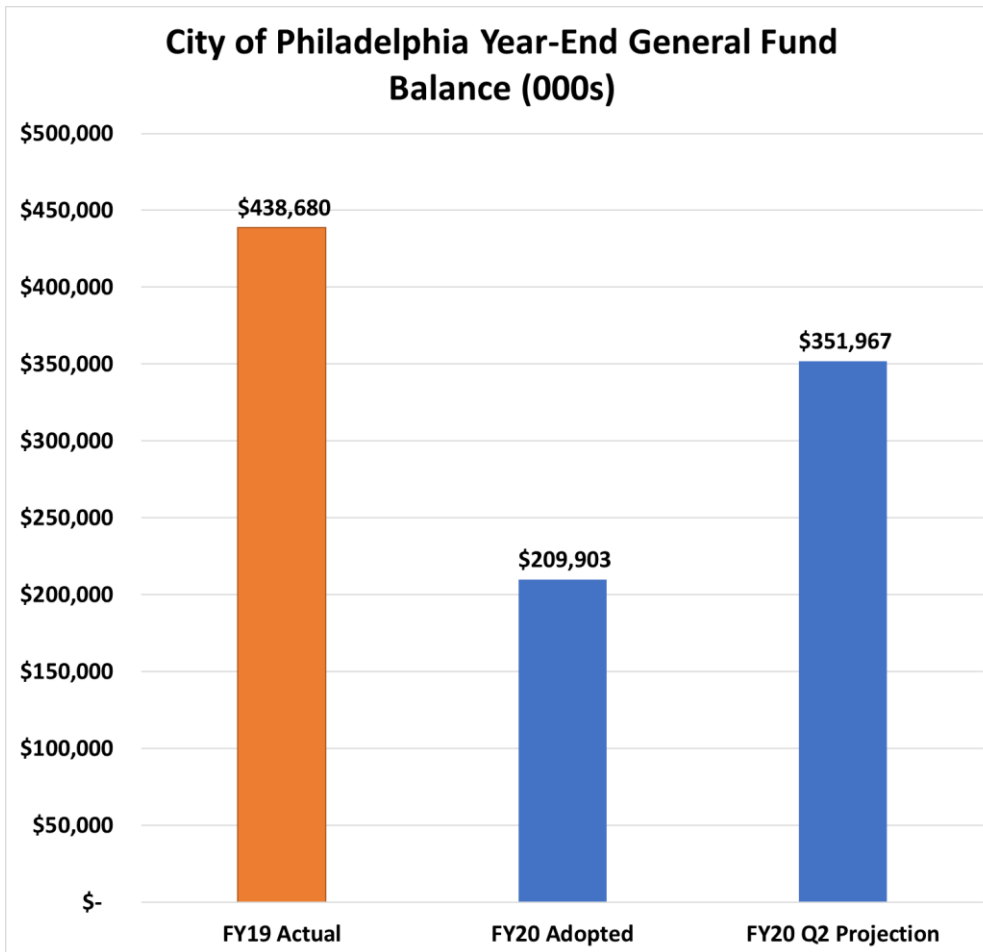
Finance and Budget Team:

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Following the close of each quarter of the fiscal year (FY) – 9/30 (Q1), 12/31 (Q2), 3/31 (Q3), and 6/30 (Q4) – the City of Philadelphia and the School District of Philadelphia separately release a quarterly financial report. Both the City’s report¹ and the School District’s report² – the sources of our data – **highlight continuing positive trends as we approach the FY21 Budget Hearing Process.**

On February 18th, the Director of Finance released the *Quarterly City Managers Report for the Period Ending December 31st, 2020*. This report is used to inform the FY20 projections included in the Mayor’s proposed FY21-24 Five-Year Plan, which is scheduled to be released on March 5th, 2020.

City of Philadelphia: FY20 Q2 Quarterly City Managers Report



Fund Balance

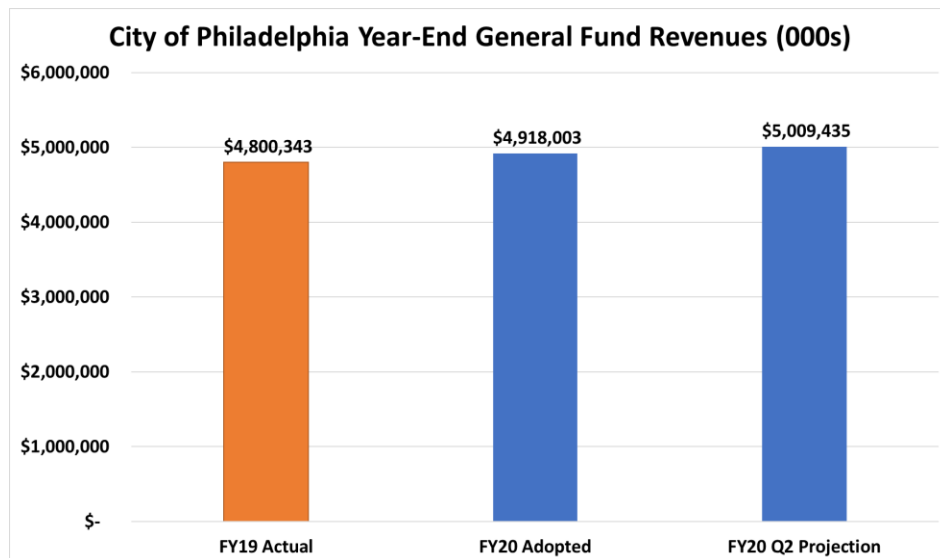
The General Fund balance – the figure representing unappropriated General Fund revenues – is now projected to end FY20 with a balance of \$351.9 million, \$142.1 million above the projection included in the Adopted Budget, but a decline of \$86.7 million from year-end FY19. This projected General Fund balance would represent 7.02% of General Fund revenues – lower than the GFOA recommendation but within the City’s internal targets. Note, the previous few fiscal years have ended with General Fund balances above quarterly projections. FY19’s Q2 report projected a year-end fund balance of \$222.6 million, \$216 million below the year-end actual of \$438.6 million.

¹ City of Philadelphia: Quarterly City Managers Report, For the Period Ending December 31, 2019

² School District of Philadelphia: Quarterly School Manager Report, For the Period Ending December 31, 2019

Revenues

General Fund tax revenues are now projected to end FY20 at \$5 billion — **\$91 million above the figure included in the original Adopted Budget.** This increase in projected revenues is driven by upwardly adjusted projections in two taxes: Wage and Earnings (\$30.7 million) and Business Income and Receipts (\$43.6 million).



The projection for *Locally Generated Non-Tax Revenues* — revenues generated through fees, fines, etc. — has been increased by \$35.1 million, to \$388.4 million. The largest drivers of this increase were the Department of Public Health, which is projected to receive additional fees from “Managed Care” (nursing home) facilities, and the City Treasurer, who is anticipated to generate additional interest due to increased cash balances.

Expenditures

General Fund expenditures are projected to end FY20 at \$5.12 billion — **\$90.3 million above the figure included in the Adopted Budget.** Note: although the latest projection states that FY20 will end with a slight operating deficit (i.e., expenditures higher than revenues), this does not take into account the contingency reserves, which are shown as an expense above the line. **The current projected figure includes the \$55.1 million *Federal Funding Reserve* line-item and \$34.2 million towards the *Budget Stabilization Reserve.*** Additionally, the FY20 budget includes a \$25 million placeholder for an anti-poverty plan — details for this plan have yet to be released.

Overtime expenses continue to exceed the allotted amount. By the end of Q2, which represents the middle of the fiscal year, the City is on pace to surpass budgeted expenditures for overtime. The Adopted Budget included \$166.5 million in overtime expenses. **By the end of Q2, the City had spent \$113.1 million on overtime, 2/3 of the budget through only 1/2 of the year.** Due to this, the Q2 report updated FY20’s projected overtime expenditures to \$199.7 million — a \$33.1 million increase from the Adopted Budget. As highlighted in previous releases, the overwhelming majority of overtime expenditures is driven by public safety: Police, Fire, and Prisons.

See next page for School District FY20 – Q2 Update

School District: FY20 Q2 Quarterly School Manager Report

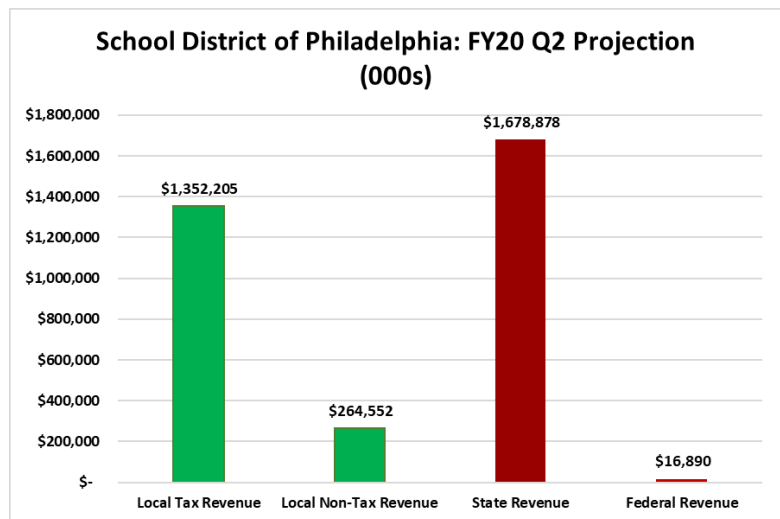
Fund Balance

The Q2 report, which includes changes to projected revenue and expenditures, impact the School District's General Fund balance in a positive way: **the projected year-end fund balance is now \$19.4 million higher (\$171.3 million) than the Adopted budget (\$151.8 million)**. Given these projections, the projected year-end fund balance would represent 5.15% of General Fund revenues.

Revenues

General Fund revenues for the District remain close to the Adopted Budget and have been updated slightly in the Q2 report to reflect collection trends through the midpoint of the fiscal year. **Local Tax Revenue projections have been increased by \$4.1 million, while Non-Tax Revenue projections have been increased by \$15.5 million**. These projected increases are offset by a \$45.5 million projected reduction in revenues from the State of Pennsylvania.

By the end of FY20, the local funding is projected to be \$1.62 billion (48.8%), compared to \$1.68 (50.7%) billion from the State of Pennsylvania and \$16.9 million (0.5%) from the Federal Government. This split, in which the City provides nearly as much revenue as the State of Pennsylvania, is counter to historical trends: for comparison, in FY10, the City provided \$851.4 million in Local Tax and Non-Tax revenues (37.2%) while the State provided \$1.43 billion in revenue (62.5%).



Expenditures

Overall, the Q2 report lowered projected FY20 expenditures by \$26 million, from \$3.382 billion to \$3.356 billion. This is reflective of minor adjustments to expenditure projections in *District Operated Schools* (\$20 million downward adjustment) and *Non-District Operated Schools* (\$5 million downward adjustment).

As highlighted in previous releases by the Finance and Budget Team, the School District of Philadelphia is now considered “Investment Grade” by the credit rating agency Moody’s, leaving “junk” status for the first time since 1977. This upgrade, which was issued in December 2018, was built upon in October, when Fitch Ratings upgraded the City of Philadelphia to BB-plus from BB-minus for the District’s \$530 million borrowing. Although BB-plus is still one step below investment grade, Fitch Ratings analyst Eric Kim stated “*The revenue has materially improved the trajectory of the district's operating performance and supports progress toward structural balance...Following the multi-year phase-in of a sizable increase in local aid beginning in fiscal 2019, Fitch anticipates local revenues will increase at a pace similar to commonwealth aid to the district.*”³ Moody’s cited the permanent dedication of cigarette tax revenues and the commitment of additional city-side revenues as positives for the District’s fiscal outlook.

³ <https://www.bondbuyer.com/news/new-funding-boosts-philadelphia-school-district-rating>

The \$530 million in borrowing from the School District will help fund the District’s long-term capital program through new borrowings and “refunding”⁴. Of the new amount borrowed, \$406.8 million in General Obligation (GO) bonds were issued, with \$30 million issued as “Green Bonds”. General Obligation bonds can be used for any capital eligible expenditure, while Green Bonds are used for energy efficiency projects.

The most pressing capital issue facing the School District of Philadelphia is remediating contaminants, namely lead and asbestos, which are present in many District facilities. Following several troubling incidents, the School District created a webpage (philasd.org/capitalprograms/healthy-schools) to keep the public informed of contaminant related capital projects going on throughout the District.

In addition to the newly issued GO bonds, the District may, if its application is approved, receive some of the additional funding from the State *Redevelopment Assistance Capital Program* (RACP), as proposed in the Governor’s budget. RACP is a grant-based capital program, issued on an application basis, which helps fund projects with significant economic, cultural or historical impact.

In previous fiscal years, School Districts across the state were excluded from RACP eligibility. **Governor Wolf’s proposal – which is meant to remediate contaminants in school facilities – expands eligibility to include School Districts throughout Pennsylvania, with a total of \$1.1 billion in new funding to be made available for school facilities statewide. The Governor’s proposal has not yet been adopted by the General Assembly.**

Conclusion

The Q2 reports highlight the City and School District continued positive trajectories, while also highlighting areas for improvement. As City Council moves forward toward the FY21 budget process, the Finance and Budget Team will continue to analyze and present information provided by the Administration and School District.

⁴ GFOA Definition of Bond Refunding: “Bond refinancings or “refundings” are used by state and local governments most frequently to achieve debt service savings on outstanding bonds. Though less frequent, refunding bonds can also be issued to remove or revise burdensome bond covenants or to restructure debt service payments.”