



City Council of Philadelphia

Finance and Budget Team:
City and School District of Philadelphia
Fiscal Year 2023 Q3 Update



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Section 1: City of Philadelphia: Q3 QCMR

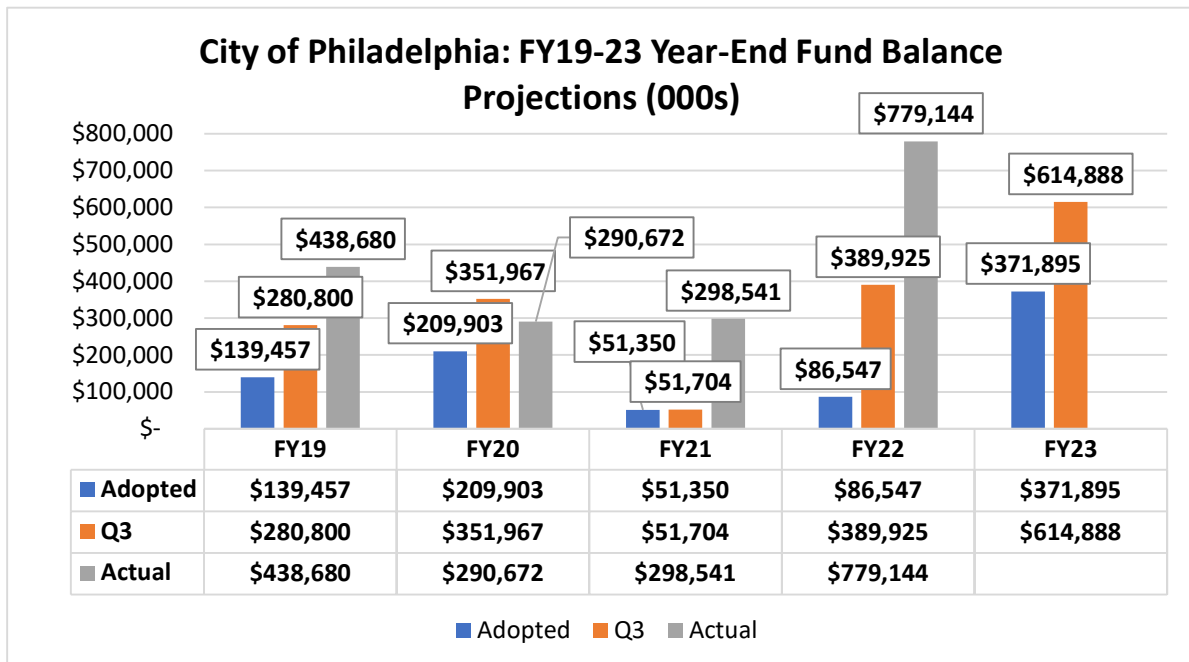
The City of Philadelphia released its Q3 Quarterly City Managers Report for the period ending March 31st, 2023 on May 15th, 2023. This section details the City's financial standing at the end of the third quarter, while providing an update to year-end revenue and expenditure projections.

Year-End Fund Balance:

The General Fund balance projection has **decreased to \$614.9 million, which is \$45.9 million lower than the Q2 projection.** Even with this decrease, the year-end fund balance projection is \$242.7 million above the FY23 Adopted Budget projection.

The \$614.9 million year-end fund balance projection represents approximately 10.4% of revenues, above the City's goal of 6-8% of revenues. However, the Government Finance Officers Association (GFOA) recommends a fund balance of 17%, or two months, of spending.

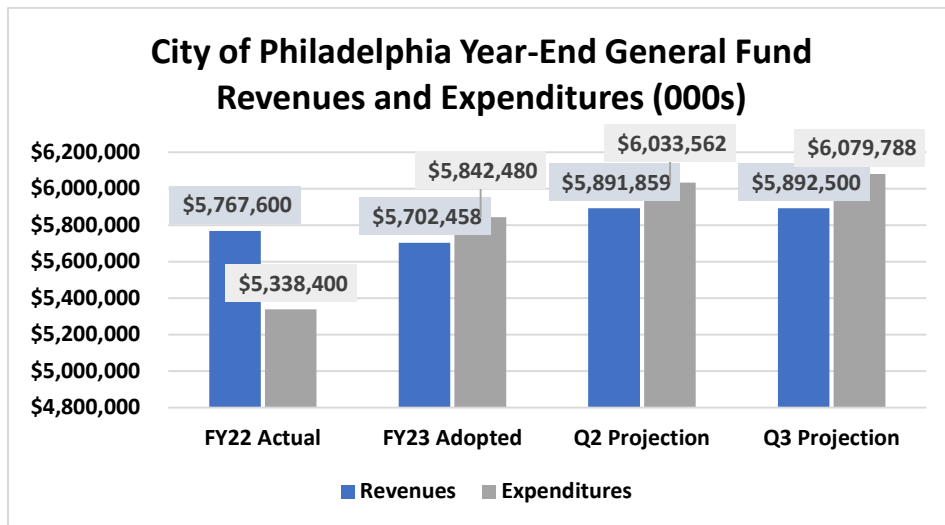
\$335 million of the American Rescue Plan Act (ARPA) funds were allocated for this fiscal year, which helped bolster the year-end fund balance. ARPA funds must be spent by the end of calendar year 2024 as required by federal law.



Revenues:

General Fund tax revenue projections are **consistent with last quarter's projection (+0.6 million) of \$5.9 billion**. This represents an increase of \$190 million over the Adopted Budget, primarily driven by better-than-expected Wage and Business tax revenue. While tight labor market and rising labor costs have contributed to the growth in wage tax revenue, the slowing real estate market was evident by decreases in the Real Estate Transfer tax.

Compared to the Adopted Budget, Wage tax revenue has been adjusted upwards by \$83 million and Business Income & Receipts by \$98 million.



Expenditures:

General Fund expenditures are projected to end FY23 at \$6.1 billion – **\$237 million more in spending than the FY23 Adopted Budget**. The additional spending reflects investments approved by City Council via the FY23 Mid-Year Transfer Ordinance. Investments include contributions to cultural organizations, capital investments, and a payment to the budget stabilization reserve fund. Additionally, exempt wage increases, FOP civilizational and Local 159 supplemental labor award increased the Class 100 projection above the Adopted Budget.

Personnel:

The City continues to struggle with staff vacancies and retention, with approximately **4,500 unfilled positions (~18% vacancy) of the anticipated staffing levels from the FY23 Adopted Budget**. At the end of the third quarter, there were 20,921 filled positions which is a decrease of 277 filled positions compared to March 2022. Departments with significant staffing issues include the Department of Prisons, Police, MDO, Fire, Free Library, Public Health, and Sheriff.

Overtime has been utilized to combat the labor shortages in key departments and ensure the delivery of services. The increase in overtime costs has mostly been offset by reduced salary costs from staff vacancies. Compared to FY22, **the City's overtime costs are projected to increase by \$43.5 million, or 20.2%**.

Section 2: School District of Philadelphia Q3 School Manager Report

The School District of Philadelphia released its *Q3 Quarterly School Manager Report for the Period ending March 31, 2023* on May 15th, 2023. This report, which includes final year-end projections prior to adoption of the FY24 budget, includes the following points of information:

The FY23 Year-End Fund Balance projection has been updated to \$651.9 million, an \$85.3 million increase above the adopted budget. This change in the Fund Balance is driven by an increase in local non-tax revenues and a decrease in expenditures tied to Governor Wolf’s proposed budget.

Revenues:

Relative to the adopted budget, **revenue projections have been reduced by approximately \$267 million.** The largest portion of this reduction is in State revenues, which have been adjusted by -\$250.6 million. Note, this is not due to a decline in State tax revenues: when the FY23 budget was finalized, it contained revenue estimates from Governor Wolf’s budget proposal, which significantly increased local education funding. The State’s adopted budget did not include many of the proposed local education revenues.

Since the passage of the FY23 budget, forecasts for municipal tax and non-tax revenues have increased overall by \$26.9 million. The Real Estate tax projection was revised by -\$31 million, representing the largest variation. Note: this revision is due to the tax relief bills passed by Council in June of 2022. However, revenues from the Real Estate tax are still projected to be \$138.7 million above the total collected in FY22. Additionally, the District has positively updated projections for Liquor Sales (\$16m), School Income (\$10.9m), Ride Sharing (\$3.2m), PPA (\$7.6m) and Gaming (\$1.2m).

School District of Philadelphia Tax and Non-Tax Revenue Projections: Adopted vs. Q3 Projection			
Tax and Non-Tax Source	Original Projection	Updated Projection	Difference
Real Estate Tax - Current and Prior Year Repayment	\$ 1,018,088,000	\$ 987,087,000	\$ (31,001,000)
Liquor Sales	\$ 72,376,436	\$ 88,623,304	\$ 16,246,868
School Income Tax	\$ 48,524,083	\$ 59,493,878	\$ 10,969,795
Use and Occupancy	\$ 187,416,447	\$ 184,279,421	\$ (3,137,026)
Cigarette Tax	\$ 58,000,000	\$ 58,000,000	\$ -
Sales Tax	\$ 120,000,000	\$ 120,000,000	\$ -
Ride Sharing	\$ 2,450,000	\$ 5,608,708	\$ 3,158,708
PILOTs	\$ 4,619	\$ 4,619	\$ -
Public Utility Realty Tax	\$ 1,313,021	\$ 1,239,194	\$ (73,827)
Interest on Investments	\$ 300,857	\$ 17,534,240	\$ 17,233,383
City of Philadelphia Grant	\$ 269,953,201	\$ 269,953,201	\$ -
Stadium Agreement	\$ 2,743,500	\$ 2,743,500	\$ -
Voluntary Contributions	\$ 2,448,303	\$ 2,929,303	\$ 481,000
Gaming Revenue	\$ 7,174,387	\$ 8,446,570	\$ 1,272,183
Parking Authority	\$ -	\$ 7,678,100	\$ 7,678,100
Debt Service Fund Interest Earnings	\$ 521,000	\$ 4,593,690	\$ 4,072,690
		Total: Difference	\$ 26,900,874

Expenditures:

Expenditure projections have also been **reduced by \$363 million since the adoption of the FY23 budget.** As with revenues, this significant reduction is related to the adoption of the State budget. The School District set aside expenses that would be put in place if the Governor's budget were to pass as proposed. Once the fiscal year started, these costs, which came to \$412 million in total, were removed from projections.

However, since December there have been additional, material adjustments to expenditure projections:

- **District Operated Schools:** net \$21.2 million reduction in projected expenditures since 12/31/22.
 - **Increases:**
 - \$6.4 million increase in facilities maintenance contracts and supplies.
 - **Decreases:**
 - \$15 million reduction in spending for contracted instructional and extracurricular programs.
 - \$11 million net reduction in personnel costs due to vacancies and delayed hiring.
 - \$1.6 million reduction in all other District Operated Schools expenditures.
- **Charter Schools:** \$3.1 million decrease in expenditures since 12/31/22.
 - **Increases:**
 - \$0.3 million increase in projected charter tuition payments
 - **Decreases:**
 - \$3.4 million reduction in projected transportation costs.
- **Other Adjustments**
 - \$6.8 million reduction in Other Non-District Operated Schools due to:
 - \$4.6 million reduction in projected payments for student in out of district placements and;
 - \$2.2 million projected reduction in transportation for students in non-public schools.
 - \$0.3 million net increase in administrative expenditures
 - \$2 million reduction in Undistributed Budgetary Adjustments