Office of the President – Finance and Budget Team

Analysis of the Quarterly City Managers Report

Fiscal Year 2024 Q2

Published March 11, 2024

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Analysis of the Quarterly City Managers Report

Fiscal Year 2024 Quarter 2

Executive Summary:

The Quarterly City Managers Report for the Period Ending December 31, 2023, provides a comprehensive assessment of the City of Philadelphia's financial and management performance. The report aims to provide an overview of the City's progress in implementing the goals of the current year regarding the City's Five-Year Financial plan. The report covers General Fund revenues and obligations, overtime, service delivery, leave usage, and overall city-wide performance. A link to the full report can be found here.

Big Picture:

- The City projects ending FY24 with a General Fund Balance of $504 million (8.5% of revenues) $24 million less than budgeted and $177 million less than the estimate in the Q1 QCMR. At 8.5% of revenues, the City successfully meets its internal target of 6-8% of revenues (this is due in part to the one-time American Rescue Plan Act (ARPA) that will be spent by the end of 2024). However, this is well below the Government Finance Officers Association (GFOA) recommendation of 17% (or two months' worth) of spending.

- General Fund revenues for FY24 are projected to be $5.94 billion, $68 million less than budgeted over the Five-Year plan and $1 million lower than the Q1 projection, driven by collection declines in the Real Estate Transfer Tax and Business Income & Receipts Tax revenues.

- General Fund obligations for FY24 are projected to be $6.45 billion, $262 million more than budgeted, largely due to additional funding for urgent needs and one-time costs that was added in the Fall transfer ordinance and proposed investments in the Spring transfer ordinance.

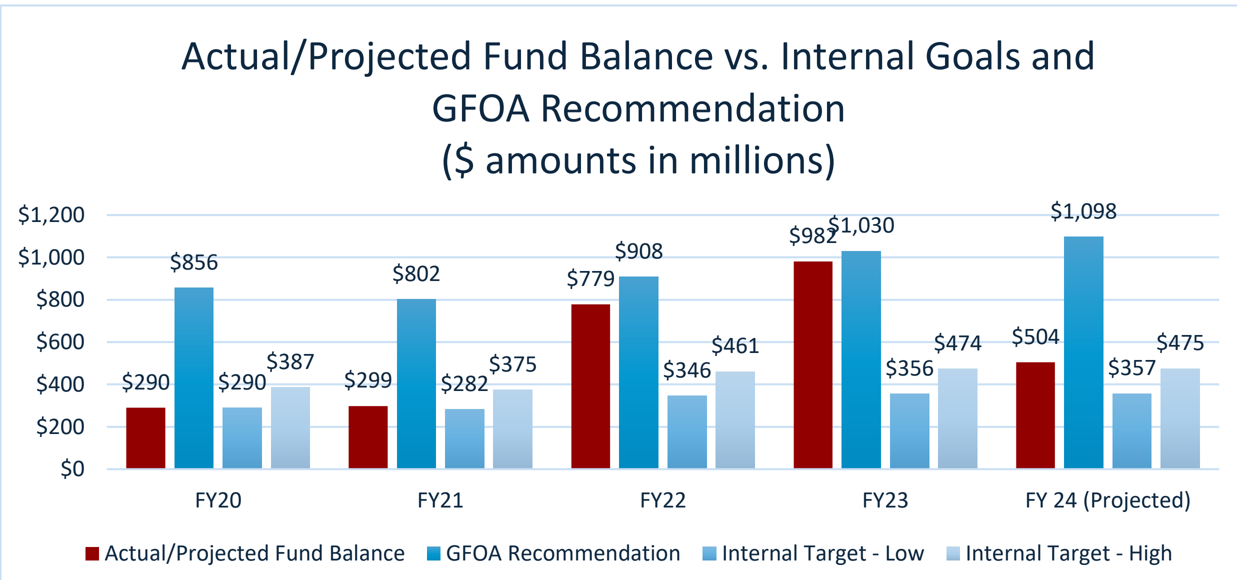
- Overtime costs are projected to increase by $32 million in FY24 compared to FY23, offset by vacancy savings. The City continues to have hiring and retention challenges, with 18% of full-time positions still unfilled. Some departments including Fire, Free Library, Police, Prisons, Parks and Recreation, Public Health, the Sheriff, and Streets) continue to have triple digit vacancies.

- Key service delivery metrics show rebounds from COVID-19 impacts in areas like dependent placements at the Department of Human Services and census at the Philadelphia Juvenile Justice Center.

Fund Balance

The City is forecasted to conclude the fiscal year with a fund balance of $504.3 million. This figure is $24.3 million below what was initially approved in the budget and $177 million below the projection made in the Q1 QCMR. Additionally, at 8.5% of reserves, the projected fund balance meets the City's internal target of at least 6-8% but falls short of the Government Finance Officers Association (GFOA) recommendation of 17% as illustrated in **Figure 1**. The approved FY24-28 Five-Year Plan had initially forecasted that the city would end FY23 with a fund balance of $683 million. However, due to non-recurring savings primarily from hiring difficulties and delays in program implementations, along with revenues exceeding expectations from interest earnings, Wage Tax, and funds from other governments, the unaudited fund balance for FY23 is $981 million.

Figure 1[1]



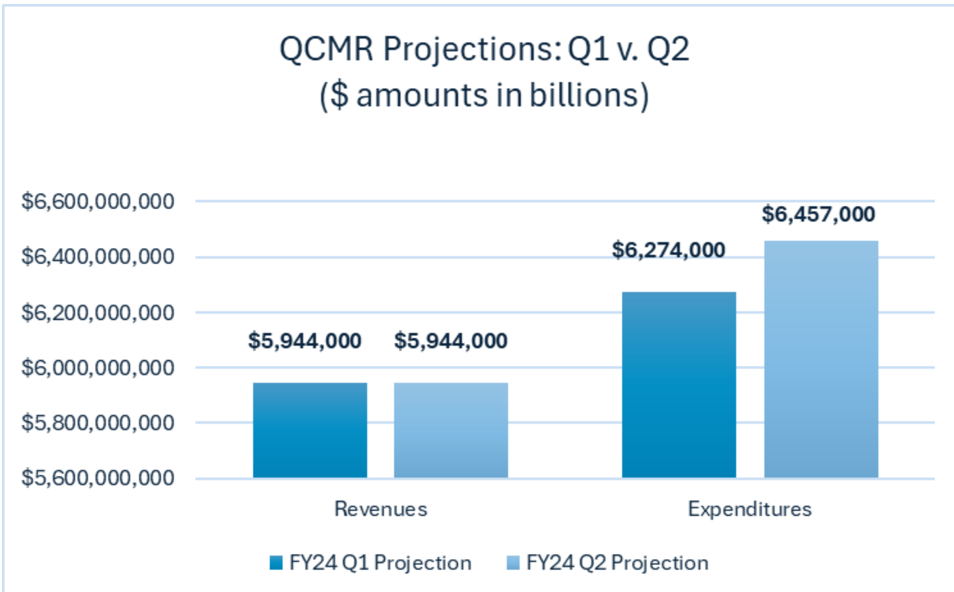
Revenues

In Q2, the City collected close to $1.1 billion in revenue. The current projection for the year-end total revenue is $5.94 billion, which is $68.4 million less than the amount budgeted, and is unchanged from

[1] Quarterly City Managers Report FY2024 Q2

the FY24 Q1 projection as demonstrated in **Figure 2**. **The shortfall is attributed to a decrease in projected tax collections by $81.1 million and a decrease in projected revenue from local non-tax sources by $29.8 million. However, there is an offsetting increase of $44.6 million in projected revenue from other governments.**

Figure 2[2]



The FY24 year-end revenue projection is $103.3 million (1.7%) lower than the unaudited actuals of FY23. The decrease is primarily due to lower tax projections for Real Estate Transfer Tax (RTT) and Business Income & Receipts Tax (BIRT), which is partially balanced by a projected increase in Wage Tax revenue. For FY24, the original budget projected a 30% decline in RTT revenue compared to the FY23 base. The FY24 target budget projected RTT revenue of $381.3 million (decline of 30%) from the FY23 base of $543.3. The current FY24 projection is $395.9 million, a decline of 26.42% from the FY23 base, which represents a $13.6 million improvement over the target budget projection.

The FY24 actual BIRT revenue was $673.3 million, which is a decrease of $17.5 million from the FY23 projection made in the QCMR for FY23 Q4. The FY23 to FY24 base growth rate for BIRT is currently estimated at negative 5.22% indicating an expected decline in revenue. The tax rate for BIRT in FY23 was 1.415 mills on gross receipts and 5.99% of net income.

The tax rate for BIRT in FY24 is projected to remain at 1.415 mills on gross receipts but will decrease slightly to 5.81% of net income.

[2] Quarterly City Managers Report FY2024 Q2

During FY24 Q2, the current Wage Tax collections are $768 million, about $18 million higher than projected which compares to $742 million this time last year FY23 Q2 (which was $10 million higher than projected at the time).

The City plans to draw down all its American Rescue Plan Act (ARPA) funds by the end of calendar year 2024, as required by federal law, with $391 million budgeted for expenditure in FY24.

Obligations

The report projects $262 million more in spending than the adopted budget for FY24, raising the overall projected obligations to $6.5 billion. The increase reflects additional funding for urgent needs, one-time costs, and proposed investments to support the Mayor's objectives for the city. The following items have led to an increase in spending: City Council, Commerce – Economic Stimulus, Finance, Finance – Indemnities, Finance – Recession Reserve, Finance – Community College of Philadelphia, Fire, Parks and Rec, Police, and Streets).

Citywide Performance

Service Delivery

In Q2, service delivery showed improvement from COVID-19 disruptions, yet hiring and retention challenges impacted various city departments, including Police, Public Health, and Public Property. The FY24 Budget aims to address these issues with targeted investments in recruitment and retention, especially for critical public safety roles. The Police Department reported a decrease in homicides, shooting, violent crimes, and burglaries in FY24 Q2 compared to the previous year, alongside an improvement in the homicide clearance rate, surpassing 60%. The Department of Human Services observed a continued decline in dependent placements, while the Philadelphia Juvenile Justice Center saw a reduction in its population in the first half of FY24.

Staffing Levels

The City, like many other employers nationwide, is facing difficulties in hiring and keeping staff. By December 2023, there were 20,599 full-time positions filled within the General Fund, which is 4,603 less than expected for the FY24 budget and 672 (3%) fewer than the previous fiscal year, when the count of General Fund positions had been 21,271. During the close of December 2022 there were 20,947 filled full-time, General Fund positions, fewer than the 21,055 that were filled at the end of FY22 and 4,542 fewer than were budgeted for FY23. During FY24 Q1, there were 20,638 filled full-time General Fund positions. This represents 4,547 fewer positions filled than had been anticipated in the FY24 Adopted Budget and marks a decrease of 633 positions from the end of FY23 when the count of full-time General Fund positions had been 21,271.

A part of this decline is due to the creation of the City's Transportation Fund, which shifted some employees from the General Fund. Currently, about 18% of General Fund full-time roles are vacant, with significant shortages in departments like Fire, Free Library, Police, Prisons, Parks and Recreation, Public Health, the Sheriff, and Streets. These vacancies can negatively affect service levels. The FY24 Budget aims to address these issues with targeted recruitment and retention efforts, especially for public safety roles and other positions that are difficult to fill.

Leave Usage

In FY24 Q1, the median rate of time that departments were unavailable increased to 15.2% up from 14.4% in FY23 Q1. This indicates a slight rise in departmental unavailability. However, it's noteworthy that the time Police Uniform officers spent Injured on Duty (IOD) has decreased compared to the same period in FY23. This improvement is attributed to the positive impact of changes in medical care provided through the Heart and Lung provider panel.

Overtime

The FY24 Q2 overtime spending reached $74.3 million, marking a $5.8 million increase (8.4%) compared to the same period in the previous year. Also, the City projects that FY24 overtime costs will be nearly $282 million, which is an increase of roughly $32 million over FY23. This increase in overtime spending is attributed to several factors, including addressing staff shortages due to vacancies and leave usage, which have been exacerbated by an unusually tight labor market. Additionally, the need to cover for staff on leave, fill vacant positions, and meet increased service demands has further driven overtime spending beyond initial estimates. The report underscores the significance of overtime as a critical tool for delivering services in FY24, as city managers navigate the challenges of staffing and operational demands. However, Class 100 spending is projected to increase by $2M compared to the Q1 projections due to higher personnel costs across various departments. **Class 100 spending has continuously hovered around $200 million with FY23 moving close to $250 million as demonstrated in Figure 3.**

Figure 3[3]

Class 100 Overtime ($ amounts in millions)				
FY20 Actual	*FY21 Actual*	*FY22 Actual*	*FY23 Unaudited Actual*	*FY24 Projected*
$208,034,045.00	$185,591,876.00	$215,014,701.00	$249,647,862.00	$281, 872, 790

[3] Quarterly City Managers Report FY2024 Q2

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Analysis of the School District of Philadelphia's Quarterly School Managers Report

Fiscal Year 2024 Quarter 2

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Analysis of the School District of Philadelphia's Quarterly School Managers Report

Fiscal Year 2024 Quarter 2

Executive Summary:

The School District of Philadelphia's Quarterly School Managers Report for the period ended December 31, 2023, provides a detailed overview of the District's financial and management status, including revenues, expenditures, cash flow, personnel, and supplementary materials. Overall, the School District of Philadelphia projects a surplus for FY24, with a positive ending fund balance of $747.9 million. A link to the full report can be found here.

Big Picture:

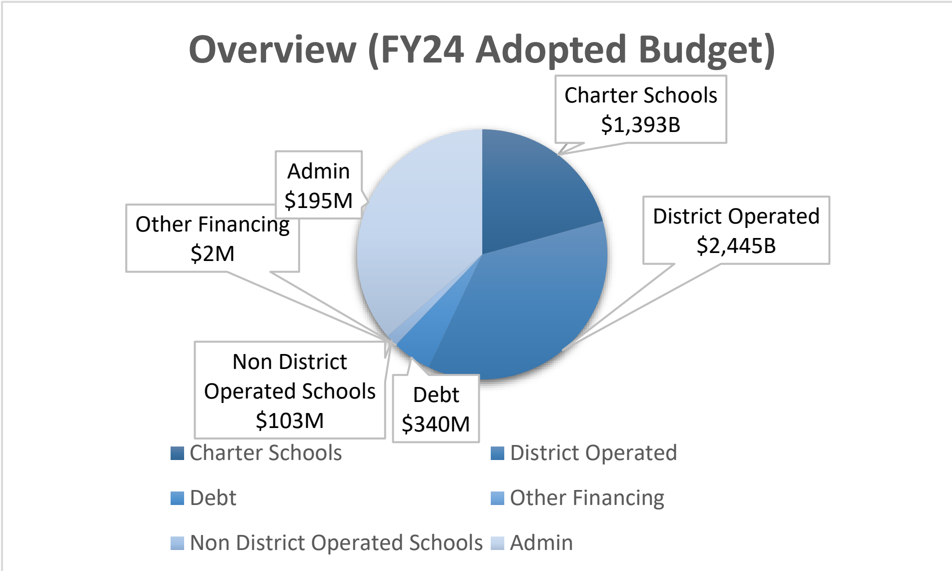
- The School District projects operating and Federal Relief Act revenues of $4.55 billion and expenditures of $4.47 billion, resulting in a projected surplus of $74.4 million.
- Year-to-date local tax revenues have increased by $29.8 million in FY24 compared to FY23 while local non-tax revenues decreased by $455.8 billion. State revenues have increased by $25.3 million year-over-year.
- Non-personnel expenditures increased by $132.4 million in FY24 compared to FY23 largely due to a $123.4 million increase in charter school expenses from higher tuition rates and a $21.3 million increase in central curriculum purchases using Federal Relief funds.
- Salaries increased by $5.1 million in FY24 vs FY23 due to contractual increases from collective bargaining agreements settled in FY22. Benefits increased by $2 million, driven by salary increases partially offset by a lower state contribution rate.

The Year-End Fund Balance Projection:

The District is projected to end FY24 with a positive ending fund balance of $747.9 million, which is a $57.3 million increase from the FY24 Adopted Operating and Federal Relief Act ending fund balance of $690.6 million. **An overview of the FY24 Adopted Budget is included below in Figure 1 on page 3.**

- The projected year-end fund balance of $747.9 million as of December 31, 2023, represents a $58.7 million increase from September 30, 2023, primarily due to an increase in the prior year's fund balance, an increase in projected revenue from the City of Philadelphia, and a reduction in the projected expense. More specifics are elaborated upon below.

Figure 1[1]



Year Over Year Comparison - Revenues:

The report also includes a year-over-year comparison of revenues **specifically of second quarter year to date revenues of FY22 to FY24 which are demonstrated below in Figure 2.** The chart includes information including how Local Tax Revenue is higher by $29.8 million compared to FY23, primarily due to a $14.8 million increase in Real Estate Tax and a $15 million increase in Business Income and Receipts tax.

Figure 2[2]

	FY24 YTD December 31 Revenues	FY23 YTD December 31 Revenues	FY22 YTD December 31 Revenues
Local Tax Revenue	290,826,025	261,020,300	259,825,489
Local Non Tax Revenue	95,004,530	150,801,396	130,257,412
State Revenue	831,057,326	805,733,570	723,109,043
Federal Revenue	8,418,388	6,188,519	8,255,677
Federal Relief Revenue	164,299,204	159,983,085	99,540,382
Other Financing Sources	2,219,592	0	0
Total Operating & Federal Relief Act Revenues	**1,391,825,065**	**1,383,726,870**	**1,220,988,003**

[1] Quarterly School Managers Report FY2024 Q2
[2] Quarterly School Managers Report FY2024 Q2

Revenue Projections:

The report anticipates operating and Federal Relief Act revenues and sources totaling approximately $4.55 billion.

Key Adjustments to Projected Revenues

Local Tax Revenue: There is a projected increase of $13.2 million in Local Tax Revenue. The increase is attributable to the following:

- A $7.4 million increase in Business Use and Occupancy Tax
- A net $3.9 million increase in Real Estate Tax
- A $2.2 million increase in School Income Tax
- These increases are slightly offset by a $1.1 million reduction in Liquor Sales Tax and a net $0.8 million increase in all other Local Taxes.

Local Non-Tax Revenue: There is a projected increase of $10.3 million in Local Non-Tax Revenue which are proceeds that are generated from sources other than taxes. Most of this increase was driven by interest income from higher interest rates. However, year over year, local non-tax revenue for FY24 is $95,004,530 compared to FY23 of $150, 801, 396. This difference is caused by a decrease in grants from the City, another form of local non-tax revenue. Another example of non-tax revenue include miscellaneous non tax revenue, which could be fees, charges for services, or revenues from district owned properties.

- A net $7.0 million increase in Interest
- A $2.6 million increase in Miscellaneous Non-Tax
- A net increase of $0.7 million in all other Local -Non-Tax Revenue.

State Revenue: The projections show a $5.9 million reduction in State Revenue due to:

- A $3.1 million reduction in projected retirement and social security reimbursements
- A $41.2 million reduction in Transportation reimbursement.
- A net $1.6 million reduction in all other State Revenue.

Federal COVID-19 Relief Revenue: There is a $19.6 million decrease in Federal Covid-19 Relief Revenue, which is attributed to the timing of when Federal Relief Funds will be spent and consequently when Federal Relief Reimbursement is recognized. This shift still impacts the District's financial projections for FY24, leading to adjustments in projected revenues and expenditures. Specifically, there have been revisions in FY24 projected revenues, including increases in local tac revenue, local non-tax revenue, and other financing sources as well as reductions in state revenue and federal COVID-19 relief revenue due to the timing of fund utilization. On the expenditure side, adjustments include reductions in various expense categories such as district-operated schools, debt service, charter schools, and administrative expenses. These changes reflect the District's proactive approach to managing its finances amidst the expiration of COVID-19 Federal Relief Funding and the need to address potential structural deficits in the coming years.

Other Financing Sources: The district expects a $7.7 million increase in Other Financing Sources due to:

- A projected increase in the administrative costs received from categorical funds. These funds are designated to for specific purposes or programs (as opposed to being available for general use). The categorical funds are crucial for supporting targeted educational initiatives and administrative costs associated with these programs. Examples of categorical funds include ARPA ESSER 3, Title I Basic, and Pre-Kindergarten Head Start Basic.
- A premium received as part of the District's annual temporary borrowing. The District borrows to manage cash flow needs and to ensure that the district has sufficient funds to cover operational expenses throughout the fiscal year. The District receives funds at a premium which is offered to investors as an incentive for purchasing the notes and is not uncommon in the issuance of debt instruments.

Year Over Year Comparison – Expenditures:

The District has seen significant year-over-year increases in expenditures. As demonstrated in Figure 3, Salaries have seen the biggest increase, most recently with a move upward of $5.1 million in FY24 year-to-date compared to FY23, primarily due to contractual increases from collective bargaining agreements settled in FY22. Salaries increased by $16.5 million in FY23 compared to FY22.

Figure 3[3]

	FY24 YTD December 31 Expenditures	FY23 YTD December 31 Expenditures	FY22 YTD December 31 Expenditures
Salaries	454,027,044	448,932,618	429,772,118
Benefits	295,476,518	293,512,250	327,755,786
Non-Personnel Services	1,108,160,605	975,741,253	1,093,735,630
Total Operating & Federal Relief Act Expenditures	**1,857,664,167**	**1,718,186,121**	**1,851,263,534**

Expenditure Projections:

The report outlines a notable reduction in costs for District-Operated schools, debt service, and charter school expenses, with an increase in other non-district school expenses and undistributed budgetary adjustments. The expenditure adjustments for FY24 include a $48 million reduction in District Operated schools' expenses, a $2.5 million decrease in debt service expenses, and an $8.2 million reduction in charter school expenses. The $48 million reduction is attributable to several factors. A significant portion of this reduction, $21.1 million, is due to a correction that shifted Transportation Service expenses to the Services to Non-Public Schools Transportation budget line. Additionally, $20.2 million was reduced from

[3] Quarterly School Managers Report FY2024 Q2

the Additional Support reserve lines, which are now reflected in the appropriate budget lines. The remaining $6.7 million reduction encompasses all other District Operated schools' expenditures.

Regarding the debt service, the $2.5 million reduction is broken down into a $2.2 million reduction in Short Term Debt Service and a $0.3 million reduction in Long Term Debt Service. This overall reduction contributes to the decrease in the District's financial obligations related to the debt. Also, the $8.2 million reduction in charter school expenses consists of a $4.4 million decrease in charter tuition and a $3.8 million reduction in charter transportation expenses. These reductions are primarily due to lower enrollment than anticipated in Renaissance, Cyber, and Non-Philadelphia Charter Schools.

Conversely, there is a $22.5 million increase in Other Non-District Operated Schools expense. This increase is primarily due to the correction that shifted Transportation expense from District Operated Schools to Other Non-District Operated Schools.

Issues and Risks:

The District anticipates ending FY24 with a substantial fund balance. However, a significant portion of the revenue, particularly from COVID-19 Federal Relief Funding, is set to expire on September 30, 2024. This expiration is expected to lead to an unprecedented fiscal cliff.

Additionally, the District is working on strategies to reduce projected structural deficits in the coming years. This involves retaining some level of fund balance revenue to cover the transition and any future funding gaps, should an increase in funding not become available.