

## Roadmap to the Philadelphia Budget Process

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Tags: [budget](#)

The City of Philadelphia's budget allocates billions of dollars annually to pay for City services and infrastructure. While the sheer size of the annual budget may seem overwhelming for citizens, the choices made in the budget process are felt in our daily lives. How the money is divided expresses the priorities of the City, which programs we pursue, and who we tax and how much. In any given year, there are far more requests for funding than there are resources available. How those requests are formulated, evaluated, and prioritized influences whether the City meets the needs of its citizens.



More than a simple listing of the money collected by the City and how it will be spent, Philadelphia's budget and related documents catalogue the City's policy decisions and provides the legal authority and financial resources to implement those decisions. Without a budget agreed upon by the Mayor and City Council, the City cannot spend money. The assumptions used and priorities selected can change and can be important indicators of what Philadelphia taxpayers want for the community. For citizens, this boils down to deciding what we are going to pay (in taxes and fees) and what we will receive in return (in the form of programs and facilities).

### What is Philadelphia's Budget?

The City of Philadelphia's annual spending plan actually consists of several budgets that direct allocation of revenues for the vast array of services and facilities that its residents utilize, such as trash collection, the Philadelphia International Airport, and the courts.

The most crucial distinction to understand is that of the "Operating" versus the "Capital" budget. The Operating Budget is the financial plan for day-to-day expenses, while the Capital Budget directs spending for land acquisition and items (such as new City facilities) that have a useful life of five years or more. Each budget serves as the plan for one year, July 1 through June 30, of spending. Additionally, financial plans over longer timeframes are created for both the Operating and Capital budgets.

A number of public services and facilities are not included in the City of Philadelphia budget. Governmental functions that are not within the scope of the City budget include the Philadelphia School District and various authorities, including the Redevelopment Authority, the Parking Authority, and the Housing Authority. Although each adopts its own budget, there are financial relationships between the City and those entities. For example, the City makes a contribution to the School District but receives funds from the Parking Authority.

### The Operating Budget: Part 1 - How Does the City Keep Track of its Money?

Operating budget monies are divided into separate funds, by source and use, based in part upon legal requirements. The largest fund is the General Fund, a governmental fund that covers the bulk of the day-to-day costs associated with providing services, including police protection, sanitation, and libraries. Money from the General Fund is used also to support the internal service agencies, such as the law and personnel departments, that assist the service agencies in fulfilling their mission.

Other fund types include Special Purpose Funds and Business-Type Funds. Special Purpose Funds, which are dedicated for a specific use, include the Special Gasoline Tax Fund, which supports Streets Department services, and the Community Development Fund. Business-type Funds generate sufficient revenue through service charges to wholly support operations without additional subsidy from City tax dollars. Examples include the Water, Aviation, and Commercial and Industrial Development funds.

#### Guide to the Operating Funds

The City of Philadelphia maintains 12 operating funds to support day-to-day activities. Each fund accounts for different revenue sources and uses. For example, revenue from the Hotel Tax is dedicated to funding tourism and marketing efforts, so the money is held in the Hotel Tax Fund. The largest of the funds is the General Fund, which supports most basic City services, such as fire and police protection.

FUND	USE	SOURCE	FY 2007 (as approved by Council)
General	Supports basic City services, such as police protection and garbage collection.	Taxes, fees and fines, transfers from federal, state and other governments.	\$3.7 billion
Grants Revenue	Supports wide array of programs but is restricted to accomplishing objectives determined by grantor agencies.	Grants from government and other sources. May require matching local funds.	\$1.1 billion
HealthChoices Behavioral Health	Supports provision of behavioral healthcare	Funded by the Commonwealth of Pennsylvania.	\$805.7 million
Water	Supports water and wastewater management.	Funded through water fees.	\$543.0 million
Aviation	Supports operations at Philadelphia's airports.	Funded primarily by the airlines using airport facilities.	\$337.2 million
Water Residual	Serves as the debt service reserve fund for the Water Department.	Funded by Water Department revenues.	\$146.5 million
		The majority of the funds come from	

Community Development	Supports community and economic development activities.	the Federal Government's Community Development Block Grant.	\$136.0 million
Hotel Room Tax	Supports tourism and marketing activities.	Funded by a tax on hotel rooms.	\$43.1 million
Special Gasoline Tax	Supports Streets Department projects.	Funded by the Commonwealth of Pennsylvania.	\$20.8 million
Housing Trust Fund	Supports production of affordable housing	Fees on deed recording and other sources.	\$20.0 million
Car Rental Tax	Supports repayment of bonds issued for construction of sports stadiums.	Funded by a tax on car rentals.	\$5.0 million
County Liquid Fuels Tax	Supports Streets Department bridge and road projects.	Funded by the Commonwealth of Pennsylvania.	\$5.0 million

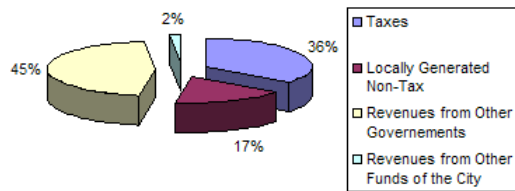
Source: FY 2007 Mayor's Operating Budget in Brief

**The Operating Budget: Part 2 - Where the Money Comes From**

The money to fund the City's day-to-day operations comes from a variety of sources, including taxes, fees, and fines, and transfers from other levels of government, such as the federal and state governments. There are also transfers of money between funds.

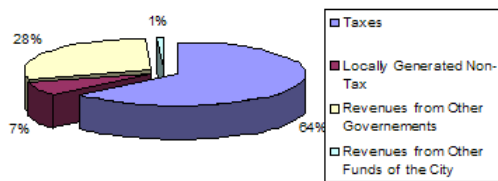
The largest portion (almost half) of the City's total operating revenues comes from other government entities including the federal government, the Commonwealth of Pennsylvania, and the Philadelphia Parking Authority. The General Fund typically garners the most attention during the budget process because it represents the majority of the Operating Funds, supports basic services, and involves local tax dollars. Nearly two-thirds of General Fund revenues come from such local taxes as the Wage, Real Estate, and Business Privilege Taxes.

**FY 2007 Operating Revenues (All Funds) by Source**  
(Estimate) \$6.5 Billion



Source: FY 2007 Mayor's Operating Budget in Brief

**FY 2007 General Fund Revenues (Estimate)**  
\$3.6 billion



**The Operating Budget: Part 3 - Where the Money Goes**

The annual budget ordinance for the Operating Budget Funds authorizes the City's obligations (or spending) for the coming fiscal year. Within each fund, spending is first broken down by department (such as Police or Recreation) and then by the type or class of spending.

The classes of spending are broad and provide limited insight into how exactly the funds will be spent. Each class is identified by a three-digit number. Within each class, further distinctions are made to identify types of spending. For example, within the category "Purchase of Services – Class 200," architectural services are coded as Class 257, while Legal Services are codes as Class 252. The more specific categories are for informational and record keeping purposes and are not used in the budget ordinance. Only the three-digit class codes are used in the budget ordinance, meaning that the Mayor need only propose broad spending patterns rather than specific initiatives. Typically, nearly two-thirds of city expenditures are in Class 100, the code for employee salaries and benefits.

The City categorizes the money it spends in the following manner:

CLASS	USE	EXAMPLES OF SPENDING	FY 2007 (gen' fund)

100	Personal Services	Employee wages & benefits	\$2,171,663,000
200	Purchase of Services	Contracts for services, such as legal, healthcare, and advertising	\$1,148,053,000
300 & 400	Materials, Supplies & Equipment	Office Supplies, Uniforms, and Small Tools	\$82,762,000
500	Contributions, Indemnities	Court Settlements	\$110,782,000
700	Debt Service	Loan repayments for City building projects	\$105,214
800 & 900	Transfers, Advances, and Miscellaneous	Payments between funds	\$60,505,000
Source: FY 2007 Mayor's Operating Budget in Brief			

**The Capital Budget and the Capital Program**

The Capital Budget authorizes spending on land purchases, major construction, and other projects or items with a long-term useful life. The Capital Program outlines how the City will invest in its physical environment for the coming six years. Typical capital projects include renovations of playgrounds and upgrades of communications technology for the Police and Fire Departments.

Revenues from a variety of sources fund the Capital Budget. Unlike the Operating Budget, it is permissible for the City to borrow money to be repaid over several years for projects, so long as the City doesn't have outstanding debt above the limit prescribed by the Pennsylvania Constitution. Money can be borrowed for projects that will generate revenues to repay the debt. State and federal funds, as well as private money, are also used to finance the City's capital projects.

**Where Do I Find Budget Documents?**

The interested citizen may consult several government publications to navigate the City's budget. These documents are the legal framework for demonstrating the City's priorities.

*The Appropriation Ordinances*

These bills, which must be approved by City Council, set the maximum annual spending limit for each City department and are broken down by the type of expenditure. There are separate bills for each fund (once passed, bills are referred to as ordinances). There are no descriptions of the programs that will be undertaken or the outcomes that are expected. Once passed, the Appropriation Ordinances set the spending limit by class and department for the Operating Budget. A separate Capital Budget Ordinance is also passed.

*The Operating Budget in Brief*

The Operating Budget in Brief provides a narrative description of the City's economic condition, discusses revenue sources and fund balance, and highlights assorted programs and initiatives for each operating fund. The Operating Budget in Brief also includes explanatory charts and tables showing how the City raises and spends money and has summary schedules for each fund's revenues and obligations, and of the Appropriations Ordinances.

*The Operating Budget Detail*

This document breaks out information on the City's expenditures in further detail, such as spending by unit within a department, but those details are not legally binding. Narrative descriptions of divisions within departments are included, as well as information about the number and pay of employees.

*The Five-Year Financial Plan*

In addition to budgets for the coming fiscal year, the City must prepare a financial plan that outlines revenues and expenditures for five years. The Pennsylvania Intergovernmental Cooperation Authority (PICA), the state appointed financial overseer for the City, must approve this plan. If the City fails to present a plan that PICA deems reasonable, state funding for the City may be withheld. The FY 2007-2011 Five-Year Financial Plan for the General Fund projected about \$19 billion in public spending over the life of the Plan.

*The Capital Budget and Capital Program*

The Capital Budget, which covers the upcoming fiscal year, and the Capital Program, which covers the coming six years, list projects, such as repairing a bridge or paving streets, by department and identifies the source of funding for each.

**Roles and Responsibilities: Who Does What?**

*The Mayor*

As the Chief Executive Officer of the City, the Mayor is responsible for setting the revenue estimate and drafting a proposal to outline how to spend the money. The Mayor's estimate of how much money the City will take in, plus any funds left over from the prior year, is the maximum that can be spent to provide services in a given year. If the estimate is too high, services may have to be cut to compensate for the shortfall. If the estimate is too low, opportunities to cut taxes or improve services will be missed. The process begins as City departments prepare and submit their budget requests for the coming year. Against the backdrop of projected revenue collections, the Mayor reviews the requests and allocates funding among the departments.

Each budget bill (there is a separate bill for each fund) includes the total amount to be spent in the coming fiscal year, broken down by department (Police, Fire, Law, etc.) and general category of spending (materials, personnel costs, contracts, and so on). Although not required by law, the Mayor typically provides City Council with more detailed breakdowns and explanations, but those details are not legally binding. At least 90 days before the beginning of each fiscal year, the Mayor presents the proposed budget to City Council for

consideration. Once Council approves a budget, which may or may not have been amended since the Mayor's original proposal, the Mayor can choose to sign the bills, allow them to become law without his signature, or veto them.

#### *City Council*

Upon receipt of the Mayor's proposed budgets, City Council holds several weeks of hearings so that the Administration and City departments can offer testimony on the amount and purpose of City spending and answer questions from City Council members. Department heads and other City officials explain how much money will be spent and any changes to programs and initiatives. The general public also has the opportunity to hear and be heard at the budget hearings.

City Council is able to make alterations to the Mayor's proposed budget — but with some limitations. The Council is able to transfer funds among governmental units (the City's departments, boards, and commissions) and major categories of spending, but is not able to make more specific changes. For example, City Council can increase the amount of money appropriated to buy equipment for a given department, but it cannot stipulate what type of equipment should be bought. Furthermore, Council's amendments to the budget cannot cause the total amount of spending to exceed the Mayor's revenue estimate. Council cannot change the Mayor's revenue estimate nor propose spending above an amount that would unbalance the budget. Doing so is a violation of Philadelphia's Home Rule Charter, the legal document setting out the framework for the governance of the City of Philadelphia.

Once the hearings have ended, the budget bills are placed on the Council calendar. The bills, with any amendments by City Council, must be publicly read aloud twice at separate Council sessions before a vote is called. This procedure is intended to ensure that proper time has been given to the consideration of the bills and that the public has been adequately informed about the impending vote.

#### *Pennsylvania Intergovernmental Cooperation Authority*

Philadelphia's on-going financial troubles found the City teetering on the brink of bankruptcy in 1991. It did not have enough money to pay its bills and was unable to borrow funds through traditional means. State legislation created the Pennsylvania Intergovernmental Cooperation Authority (PICA) to borrow money on the City's behalf to meet pressing needs and to oversee the City finances to prevent future fiscal disasters. To ensure financial stability, PICA must approve a five-year financial plan annually and monitor compliance. If the City fails to offer a sound comprehensive plan based on reasonable assumptions of how much money will be available to fund services and what the costs of those services are likely to be, funds that would normally flow to the City from the state are jeopardized. PICA's Board, which is appointed by state officials, reviews and votes on the City's five-year financial plan after City Council approves the annual operating budget.

#### *The Public*

The public has the opportunity to participate in the budget process at hearings held by the City Council. The hearings occur after the Mayor has presented the budget but before Council makes any changes and approves the budget ordinances. Members of the public can testify about the budget over the course of several days.

#### *The City Controller*

As the auditor for the City of Philadelphia, the City Controller pre-audits any expenditures of the City, meaning that no money can be spent without the Controller's approval. The Controller also certifies the calculation of the City's debt limit, a necessary step before any funds are borrowed, and provides PICA with an opinion on the reasonableness of assumptions employed in the Five-Year Financial Plan.

### **Annual Development and Approval Timeline**

The Home Rule Charter and the legislation creating PICA set target dates for certain actions in the budget process. While in recent years these target dates have not been strictly adhered to, the stages in the budget process remain sequential.

Fall — Departments formulate budget requests for the coming year.

Winter — The Mayor presents his proposed budget to City Council.

Spring/Summer — City Council holds hearing and makes any changes to the budget.

Summer — Council approves the budget, and PICA reviews and approves the Five-Year Financial Plan.

The budget process sequence is as follows:

1. Departments prepare budget requests.
2. Mayor sets the revenue estimate.
3. Mayor balances requests against available resources to develop the budget.
4. City administration testifies before City Council about the budget.
5. The public testifies before City Council.
6. Council may make changes to the budget.
7. Council approves the budget.
8. Mayor presents Five-Year Financial Plan to the Pennsylvania Intergovernmental Cooperation Authority (PICA).
9. PICA reviews and approves the Five-Year Financial Plan.

### **Rules and Requirements**

Although the Mayor has broad discretion in the formulation of the City's budget, the Philadelphia Home Rule Charter and other legal and accounting requirements dictate several hard and fast rules to which the budget must conform. While the assumptions used to calculate how much money the City has to spend and the priorities that drive spending decisions can change annually, certain requirements must be met in order for the budget to be valid.

#### *Key Requirements:*

The budget must be balanced. The City cannot spend more money than it has in a given year. Unlike the Federal Government, the City of Philadelphia is forbidden from running a deficit from year to year.

The Mayor sets the estimate for how much money the City will collect. City Council cannot allocate more than this amount to be spent.

To prevent Council from micromanaging City government, the Philadelphia City Charter gives the Mayor (rather than City Council) broad power to manage City operations. By budgeting in lump sums, i.e. \$X for salaries in the Fire Department, City Council is not able to micromanage programs or initiatives.

Certain key functions are each guaranteed a certain level of funding. For example, the Civil Service Commission and the Auditing Department must receive adequate resources to fulfill their missions. Other mandatory expenses include the repayment of loans taken out by the City.

The budget can be amended to transfer money between departments and spending categories with City Council's approval, but the total amount spent in a year cannot be increased.

#### **Assumptions and Priorities: How Decisions are Made**

In addition to following the rules laid out in the City Charter and other legal requirements, the process of creating the City's annual budget is shaped by the priorities and assumptions made by the Mayor and other stakeholders.

The Mayor is responsible for developing an estimate of how much money the City will spend in the coming year. To make this estimate, certain assumptions about the future must be made. As discussed in Section 3, Philadelphia's revenues come from a variety of sources, including local taxes, fees and fines, and transfers from the state and federal government. Many factors impact how much money is collected from each source, and only some of those factors can be controlled directly by the choices made by the Mayor and City Council.

For example, the City taxes the wages of its residents and non-residents who work in the City. To determine how much money the City could raise from this source in the coming year, a projection is made about the total wages of residents and non-resident workers. If the Mayor assumes that the total wages will be the same from year to year, then the amount of money collected would only vary as a result of a change in tax rate. But the Mayor could also assume that wages will either grow or decline, which would change the total amount of taxes collected even if the tax rate remained the same.

Once the assumptions are used to determine how much the City will spend in the coming year, how it will be spent must be settled. Given the City's limited resources and endless needs, spending initiatives must be prioritized. The Mayor's initial budget proposal reflects what he or she believes are the priorities, and any changes to the budget by City Council reflect a differing set of priorities.

#### **Measuring Performance**

Understanding who sets the annual revenue estimate and what lump sum budgeting entails are but the first steps in gaining familiarity with Philadelphia's budget process. It is also essential that taxpayers can gauge what our government is doing and whether citizens are getting a good value for the tax dollars they pay. Although the budget documents reveal very little about government performance, the City of Philadelphia produces several publications to help taxpayers learn how their money is being used and how their government is performing.

The City's Five-Year Financial Plan includes key performance measures for select departments, highlights past performance, and sets targets for the future. For example, the most recent plan includes how many baseball fields were renovated in each of the past five years and makes a projection for how many will be renovated in the coming year. Also, every three months the Mayor releases the Quarterly City Manager's Report (QCMR). The QCMR tracks actual revenue collections and spending trends against the initial assumptions in the annual budget and provides updates on various initiatives. In addition, the annual Mayor's Report on City Services includes the results of a poll of city services satisfaction and other performance measures for each department.

#### **How to Learn More and Have Your Say**

Where can I find....

*Income, spending, surplus or deficit?* A citywide overview of the whole operating budget is shown in the Operating Budget in Brief and the Five-Year Financial Plan.

*Budget information for the next five years?* Income, spending, deficit or surplus information can be found in the Five-Year Financial Plan, along with descriptions of city government activity and performance measures.

*Information about the City's infrastructure projects?* The City's Capital Budget and Program contains budget information for long-term investments. The Philadelphia City Planning Commission produces it.

*Overview of the General Fund?* A summary is the Proposed Operating Budget in Brief and the Five-Year Financial Plan gives the basic information.

*How much money each tax will raise?* Tax yields are shown in the Operating Budget in Brief.

*How much revenue comes from non-tax sources?* Details on the proposed sources of income are in the Proposed Operating in Brief schedules for each fund.

*How much will each department get?* The budget bill (formally called the Proposed Appropriation Ordinance) shows the amount recommended for each department. It is reproduced in the Proposed Operating Budget in Brief.

*Spending for divisions of departments?* For larger departments, the Operating Budget Detail has information on divisions or functions.

*Number of city employees proposed?* Summary figures are shown in the Proposed Operating Budget in Brief. The Budget Detail contains

figures for individual departments and divisions, including comparisons with the current and prior years.

*Size of the payroll?* This is shown citywide, by fund and by department, in the Proposed Operating Budget in Brief and by department and divisions in the Budget Detail.

*Overtime pay?* Shown by department in the Budget Detail. There are no citywide summaries.

*Employee benefits such as pensions and insurance?* Information on benefits can be found on a citywide basis and fund basis in the Budget Detail. These benefits are not shown by department for the General Fund.

*Performance Measures?* Performance measure can be found in the Five-Year Financial Plan and Quarterly City Manager Reports.

How Can I...

*Get a copy of the Budget in Brief?* Limited copies may be available from the Budget Bureau (215.686.6146). Information may also be posted on the city's website (<http://www.phila.gov/reports/reports2.html#budget>) and in local libraries.

*Hear Directly From the Administration about the Budget?* You can attend public hearings. Approximately two weeks after the Mayor has presented the proposed budget City Council holds hearings. The hearings begin with testimony from administrative departments. Department heads explain their budget and answer questions from City Council. However, the general public may not ask questions. The public must be given 5 days notice of the hearings. Advertisements are printed in local papers and a schedule can be obtained from City Council (Office of the Chief Clerk – 215.686.3410).

*Make My Opinions Known?* The public is allowed to present their views to City Council. Opportunities for public comment are typically scheduled after all city departments have presented. A telephone call to the office of the Council President (215.686.3412) will enable interested citizens to reserve a place on the schedule for public testimony. Citizens can also call or write their elected city officials.

## Glossary

*Amendment* A proposed or enacted addition, deletion, or change in the wording of an ordinance.

*Appropriation Ordinance* Equals the Budget Bill once enacted. The legal document that outlines how the city's money will be spent.

*Appropriations* Funds set aside by legislation for specific agencies or purposes.

*Balanced Budget* A budget in which revenues are equal to or greater than expenditures.

*Budget* Revenue and spending plan. It describes the city's priority for the year in financial terms and is a legal document.

*Budget Process* The manner in which the budget is created and approved.

*Budget Request* Departments prepare proposals outlining anticipated financial needs for the coming year and submit them to the Mayor for consideration.

*Business-type Fund* Funds for activities that generate their own revenue. For example, the Water Fund supports water and sewer operations with Water fees rather than tax dollars.

*Capital Budget* The one-year spending plan for the city's long-term investment rather than day-to-day expenses. This includes funding for roads and buildings.

*Capital Program* A six-year schedule for the city's long-term investments.

*City Controller* Independently elected official who heads the city's Auditing Department. The Auditing Department approves disbursements of city funds and audits city departments.

*City Council* The city's legislative body. Comprising 10 district representatives and 7 at-large members.

*City Services* The services that the local city government provides. Examples include: fire and police protection, recreational facilities and programs, trash removal and streets repair.

*Class of Spending* A systematic classification of the city's expenses, codified by a numbering system.

*Council Calendar* The listing of bills being considered by City Council.

*Fiscal Year* The 12-month period over which the city's spending plan applies. In Philadelphia, the fiscal year begins annually on July 1 and ends the following June 30.

*Five-Year Financial Plan* A plan for revenue and spending for the coming five years that must be submitted to and approved by the City's financial overseer, the Pennsylvania Intergovernmental Cooperation Authority (PICA).

*Funds* The major groups that financial data is classified by. Funds are defined by various criteria including the source of funds and the activities supported. For example, the Aviation Fund supports operations at the city's airports, and the Hotel Tax Fund uses revenues for tourism marketing.

*General Fund* The largest of the city's funds. Revenues come from a variety of sources and support the majority of the city's day-to-day operations.

*Hearings* City Council committee meetings about a specific bill or group of bills. Testimony can be heard from the public and other stakeholders about the subject matter at hand.

*Infrastructure* Primarily the physical assets and systems of the government, including sewer and water systems, buildings, transportation systems and open space.

*Internal Service Agency* City Departments that do not provide a service directly to the public, but that support the agencies that do provide service. Examples include the Finance, Personnel, and Law Departments.

*Lump Sum Budgeting* An appropriation made to an agency or department without being broken out into specific items.

*Mayor* The Mayor is the chief executive of the city and is responsible for overseeing the city's administration of city government.

*Operating Budget* The spending plan for the year for day-to-day expenses. It excludes long-term investments.

*Operating Budget Detail* Document that contains budget information for sub-departmental units and spending within major classes.

*Operating Budget-in-Brief* Document that breaks down spending by department and major class.

*Operating Revenues* Financial resources used to support the city's operating expenses. Sources include taxes, fees, fines, grants, transfers from other governments and surplus funds from prior years.

*Pennsylvania Intergovernmental Cooperation Authority (PICA)* Philadelphia's financial overseer created in 1991 to provide the city with assistance overcoming severe fiscal distress.

*Performance Measures* Quantitative data to describe and assess the nature and impact of government activities. These can be inputs (dollars spent on the police department), outputs (arrests made), or outcomes (reduction in crime).

*Philadelphia Home Rule Charter* Legal documents outlining the powers and duties of the government of the City of Philadelphia under the state constitution. This document specifies the areas in which the city is allowed to govern itself.

*Revenue Estimate* The Mayor's projection of how much money the city will bring in for a fiscal year.

*Revenues* Money collected by the city from a variety of sources to fund operations.

*Transfers from other levels of government* Funding from other governments, such as the Commonwealth of Pennsylvania and the federal government. Often tied to specific programs or activities.

*Useful Life* The period of time that an asset, such as a bridge or building, is expected to be usable.