



CITY OF PHILADELPHIA ANNUAL BUDGET

City Council - Process Overview

INTRODUCTION

○ City of Philadelphia

- 6th most populous city in the Nation (1,580,863 residents)
- Largest city in the Commonwealth of Pennsylvania
- Philadelphia is the economic & cultural center of Metro Philadelphia
- Metro Philadelphia – Delaware Valley - population of 6.1 million



GOVERNING LAW

Philadelphia Home Rule Charter

Key Sections Governing Budget Process

- Section 2-202
- Section 2-300 through 2-303
- Section 4-101
- Section 8-100 through 8-103

- Philadelphia Home Rule Charter
 - www.amlegal.com/codes/client/philadelphia_pa/



GOVERNING LAW

Philadelphia Home Rule Charter (4-101: Finance)

- Not less than 90 days prior to end of fiscal year the Mayor must submit to Council his proposed operating budget & budget message for upcoming fiscal year
- Budget must include estimate of revenues from all sources
- Mayor must recommend measures he or she believes are needed to balance budget
- Mayor must also submit a six-year capital program



GOVERNING LAW

Philadelphia Home Rule Charter (2-300: Annual Operating Budget)

- Council considers operating budget once received from Mayor
- Consideration is done in the form of public hearings
- Charter states that Council must pass operating budget at least 30 days prior to end of current fiscal year



GOVERNING LAW

Philadelphia Home Rule Charter (2-300: Annual Operating Budget) (*continued*)

- Budget appropriations must be made in lump-sum and according to specified classes
- Council may not change Mayor's estimates of revenue, surplus or deficit
- After final passage, Council has authority to amend budget (transfer ordinance)
 - *Note- any changes in appropriations during final four months of the fiscal year require recommendation from the Mayor*



GOVERNING LAW

Philadelphia Home Rule Charter (2-302: Balancing the Budget)

- Upon passing operating budget ordinance, Council must enact revenue measures that are, in the opinion of the Mayor, sufficient to balance the budget
- The Mayor shall determine amounts to be generated by any new sources of revenue or increases in existing rates
- Budget ordinance shall not be effective unless Council passes balanced budget



GOVERNING LAW

Philadelphia Home Rule Charter (2-202: Submission of Ordinances to Mayor)

- The Mayor may disapprove or reduce individual budget ordinance line items (except for appropriations to Controller, Personnel Director & Ethics Board)
 - **Line Item Veto**
- Council can override the disapproval of individual budget ordinance line items by a super-majority, 2/3 vote



GOVERNING LAW

Philadelphia Home Rule Charter (8-102: Estimate of Current Expenditures by Departments, Boards and Commissions)

- Council cannot require Mayor to spend amounts appropriated
- Departments must submit to Mayor for his or her approval estimates of amounts of money required for each activity or function performed by department
 - If Mayor does not approve, estimates must be revised per his or her direction



GOVERNING LAW

2-303. The Capital Program and Capital Budget

- Prior to the passage of the annual operating budget ordinance, the Council shall adopt a capital program and a capital budget
 - **Capital budget** - shows detailed capital expenditures to be made during next fiscal year
 - **Capital program** – six year blueprint of proposed capital needs of city - includes capital budget



GOVERNING LAW

2-303: (The Capital Program and Capital Budget) **(continued)**

- The capital program is prepared by City Planning Commission & Mayor submits it to Council
- Council may delete projects from the capital program but shall not amend the capital program until it has requested through the Mayor the recommendations of the City Planning Commission
- Council shall not be bound by such recommendations and may act without them if they are not received within thirty days from the date they were requested





CITY OF PHILADELPHIA BUDGET REVIEW PROCESS

BUDGET REVIEW PROCESS

- Mayor transmits a budget which constitutes proposed spending for the upcoming fiscal year
- Mayor also transmits revenue measures sufficient to fund proposed spending
- Mayor additionally transmits:
 - Six-Year Capital Program
 - Five Year Plan
 - Any other legislation required to balance budget
- All documents are in the form of an ordinance, except the Five Year Plan (which is a resolution)



BUDGET REVIEW PROCESS

- Council receives ordinances and begins reviewing proposed expenditures
- The review process includes:
 - Public hearings involving departments and agencies which are seeking funding for the ensuing fiscal year
 - Public testimonies to solicit citizen input on funding priorities
 - Consideration from Councilmembers and their staff



BUDGET REVIEW PROCESS

- Council considers all input from departments, agencies & members of the community on spending priorities
- Council then makes changes, if any
- Council votes on operating and capital budget ordinances that grant spending authorization to the Mayor
- The same process applies to revenue measures and six-year Capital Program





CITY OF PHILADELPHIA OPERATING BUDGET

Fiscal Year 2020

FISCAL YEAR 2020 OPERATING BUDGET: TIMELINE

- **Nov - Dec**: First Budget Calls for department cost estimates
- **Early January**: Proposed funding levels sent to departments; requests for changes due by the end of the month
- **Early February**: Budget Hearings Schedule released. Q2 Manager Report released; provides final FY19 Budget projections before FY20 Budget is proposed
- **Early March**: Mayor delivers Proposed Operating Budget address; Transmittal letter sent to Mayor and Council
- **Late March**: City Council Budget hearings begin
- **April – May**: Hearings continue; School District hearings begin
- **May – June**: Departments are called back and amendments to Budget are made. Q3 Report is released. City Council passes Budget after at-least two Readings.



CITY OF PHILADELPHIA FISCAL YEAR 2020 OPERATING BUDGET

City of Philadelphia Budget in Brief

- <http://phlcouncil.com/budget2020/>



CITY OF PHILADELPHIA FISCAL YEAR 2020 OPERATING BUDGET

- Budget in Brief provides the following:
 - Proposed expenditures by aggregate amounts and certain classifications
 - Proposed expenditure by Department or Agency
 - Proposed expenditure by funding source, e.g., General Fund, Water Fund, Grants Revenue Fund, Aviation Fund



CITY OF PHILADELPHIA FISCAL YEAR 2020 OPERATING BUDGET

Fiscal Year 2020 General Fund Obligations

- \$5.025 Billion (Adopted)
- *See Budget in Brief*



CITY OF PHILADELPHIA FISCAL YEAR 2020 OPERATING BUDGET

Fiscal Year 2020 General Fund Revenues

- \$4.918 Billion (Adopted)
- *See Budget in Brief*



CITY OF PHILADELPHIA FISCAL YEAR 2020 OPERATING BUDGET

Classification Codes

- These are used to determine the manner in which the budget is recorded, presented and reported.

- The City has multiple classification codes and include the following:
 - 100 – Personnel
 - 200 – Purchase of Services
 - 300 – Materials and Supplies
 - 400 – Equipment



CITY OF PHILADELPHIA FISCAL YEAR 2020 OPERATING BUDGET

Sample Department Budget – Commerce (Section 19, Pages 1-54)

- <https://www.phila.gov/finance/pdfs/budgetdetail/Mayor's%20FY%202020%20Operating%20Budget%20Detail%20-%20Book%201.pdf>



CITY OF PHILADELPHIA FISCAL YEAR 2020 CAPITAL BUDGET

- FY20 Capital Budget = \$2.742 Billion (\$177.2 Million in New Loans)
- Adopted FY20 – FY25 Capital Program = \$10.85 Billion
- <http://phlcouncil.com/budget2020/>



TECHNICAL CONSIDERATIONS

- Adopted Budget vs. Target Budget vs. Current Projection
 - **Adopted Budget** – budget approved by Council; fixed and “official” representation
 - **Target Budget** – budget submitted by departments following the approval of the Five-Year Plan; moving target, can be re-adjusted half way through fiscal year
 - **Current Projection** – reflects actual “mathematical” representation of what is occurring in real time; always moving in theory; not a directed, management spending plan



TECHNICAL CONSIDERATIONS

○ Modified Accrual Accounting

- Revenues recognized as available if they are expected to be collected within 60 days of the end of the current fiscal year
- Expenditures are recorded when liabilities are incurred (as is the case with full accrual accounting)
- Debt service expenditures are recorded only when payment is due

○ Encumbrances vs. Expenditure

- Encumbrance – a reserved obligation to expend funds in the form of purchase orders, contracts, or salaries; represents a commitment, but not an expenditure; can be liquidated if not “spent” at end of the fiscal year
- Expenditure – payment of cash or cash-equivalent for goods or services incurred; represents an actual transfer of cash



DEBT MANAGEMENT POLICIES

○ Debt Ceiling

- Constitutional Limit of the City's outstanding general obligation (GO) debt is 13.5% of immediately preceding ten-year average of assessed value of taxable real property, with debt greater than 3% having to get voter approval

	Debt Ceiling	Total Debt	Debt Margin	Total Base
FY16	\$5.45B	\$1.84B	\$3.61B	\$98.2B
FY17	\$6.63B	\$1.95B	\$4.67B	\$99.3B
FY18	\$8.00B	\$2.05B	\$5.95B	\$114.5B

Debt Ceiling and Margin ([2018 Comprehensive Annual Financial Report \(page 224\)](#))

○ Credit Rating Agencies

- Ratio: Tax Supported Debt Service (plus Long Term Obligations) as a Percentage of Total General Fund Expenditures (15% max)
- Types and amount of debt and other long-term liabilities
 - Pension Fund Liabilities
- Growth of City, other economic indicators
- Projected Fund Balances
- Cash flow cushion and/or flexibility
- Ability to control (and management) of spending



PENSION FUND

- **Latest Actuarial Report:**

- <https://www.phila.gov/pensions/PDF/2018%20%20Actuarial%20Valuation.pdf>

- **\$11.5B Total Actuarial Liability as of close FY18**

- Unfunded Actuarial Liability = \$6.1B
 - Total Actuarial Assets = \$5.4B
 - Approximately 47% Funded (80% is generally considered to be actuarially fully funded)

- **FY19 – assumed rate of return was dropped to 7.6%**

- **FY18 Return of 9% – Net of Fees**

- **Current projections – 80% funded by 2030** (if sales tax projections hold true)

- **Municipal Minimum Obligation (MMO)** is projected to increase from \$656M in FY18 to \$668m in FY19.

- **FY19: \$45.2m from Sales Tax** (\$20m increase)



PENSION FUND REFORM

Steps taken to address the pension challenge:

- **Increased City employee contributions** from current and new employees;
- Established **stacked-hybrid plans** (Plan 16) for new employees (capping defined benefit at \$65k);
- Implemented **Revenue Recognition Policy (RRP)**, which ensures that all additional distributions to the Fund above the Minimum Municipal Obligation (MMO) are not calculated in the MMO – allowing for said additional revenues to more directly attack the unfunded liability;
 - In FY18, the Fund was **net cash flow positive** (i.e., contributions *less* investment income was greater than benefit payments), which allows assets to grow without the impediment of benefit payments. Allows for investment income to more directly lower unfunded liability;
- **Lowered assumed rate of return** to 7.55% (for FY20);

All of these changes (plus others) have improved the Fund's Risk Profile and contributed to the long-term solvency of the Fund



PROGRAM BASED BUDGETING

- Program-Based Budgeting (PILOT Year – FY17)
- Expanded to 12 additional departments in FY19
 - Funds will be allocated at the program level, with all indirect costs included, as well as revenues attributable to the program, in the allocation
 - Information will be used to determine the “return on investment” of funding each program
 - **New in FY20: Art Museum, Aviation, Board of Building Standards, Board of Ethics, BRT, City Commissioners, Community Empowerment and Opportunity, Human Services, Inspector General, L&I Review Board, Planning and Development, Office of Property Assessment**

Example – Commerce Department

Performance Measures	FY16 Actual	FY17 Estimate	FY18 Target
Number of businesses assisted	5,404	5,875	6,178
Number of commercial corridors supported	26	30	30
Number of jobs created or retained	11,493	14,148	14,700





OTHER MATTERS FOR CONSIDERATION

PENNSYLVANIA INTERGOVERNMENTAL COOPERATION AUTHORITY (PICA)

- PICA was established in the early 1990s to help the City avert bankruptcy by, among other things, borrowing money on the City's behalf
- The City is obligated to provide to PICA annually a Five-Year Financial Plan (including the current FY) that is subject to PICA's approval
- PICA may withhold net PICA Tax revenues if City fails to provide a Five-Year Plan meeting PICA's approval



SCHOOL DISTRICT OF PHILADELPHIA (SDP)

- Council does not have the authority to approve or disapprove the School District's Budget - a power vested in the newly elected School Board
- Council holds hearings on SDP budget
- Council has the authority to authorize SDP to impose certain taxes, including:
 - School District portion of the Real Estate Tax
 - Business Use & Occupancy Tax
 - Other School District Taxes (liquor by the drink)
 - Any new funding to the District
- Council also appropriates certain non-tax revenues to the School District
- **Intergovernmental Cooperation Agreement**
 - Must submit Quarterly Reports to City Council



STAFF CONSIDERATIONS

- **Finance and Budget Team** analyzes budget and other related documents (Operating and Capital)
 - Track historical spend variances
 - Track historical revenue trends
 - Funding/Reserve policies
 - Statistical analysis
 - forecasting 'check' for revenue
 - Financial impact analysis
 - City's debt management and credit
 - Ratio analysis
 - Pensions

- **Reports and Analyses can be found on Council's website here: <http://phlcouncil.com/finance-budget-team/>**



SCHOOL DISTRICT: FISCAL HIGHLIGHTS

- School District began FY19 with a \$169.4 million Fund Balance, which is projected to decline to \$160.64 million by the start of FY20
- School District is now ‘investment-grade’ (Baa3), leaving ‘junk’ status for the first time since 1977
- Charter School Expenditures are projected to grow \$416.2 million annually over the course of the current Five Year Plan
 - Charter School Expenditures
 - FY19: \$950.3 million (Q3 Report)
 - FY24: \$1.36 billion (FY20-24 Financial Plan)

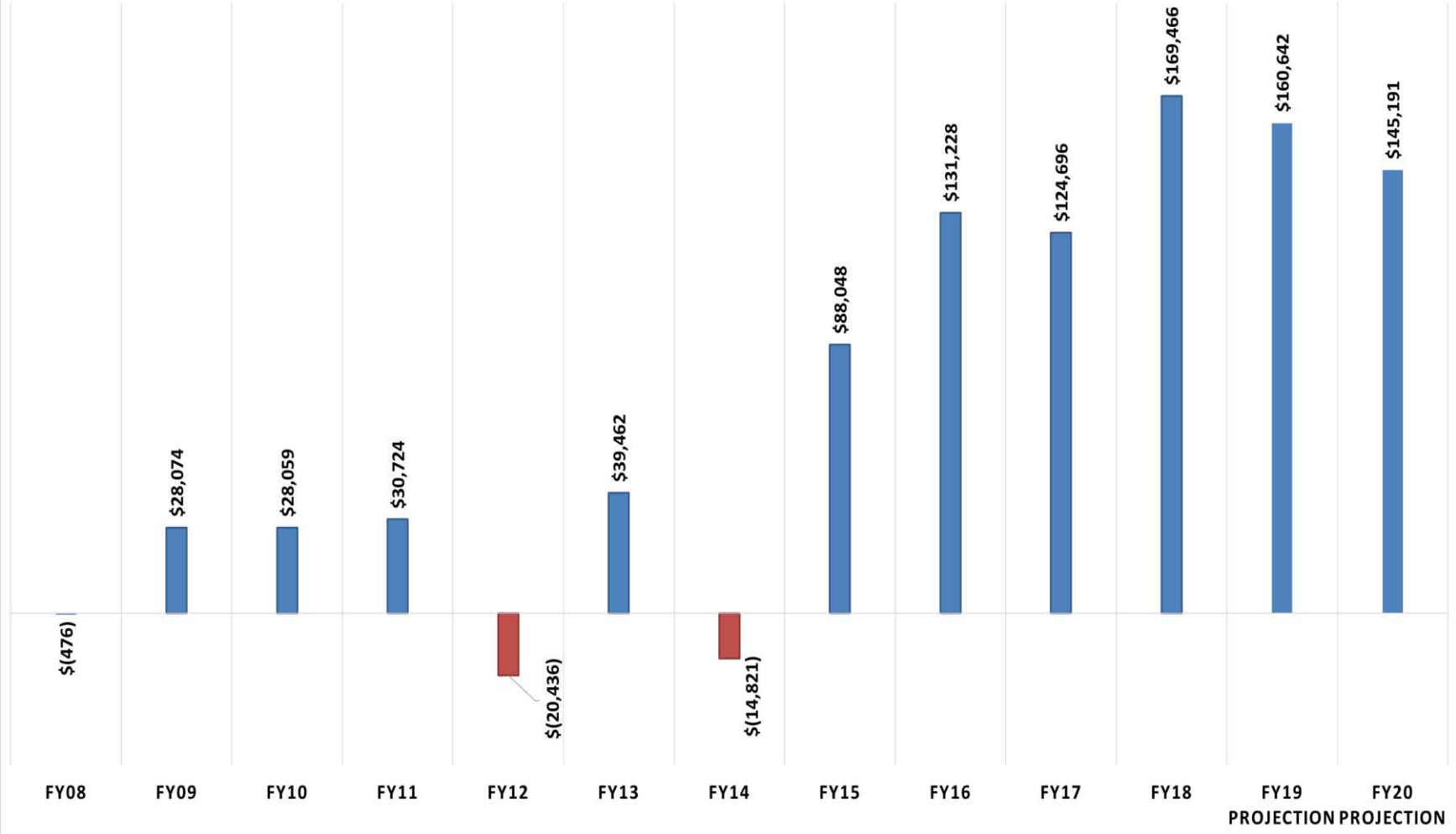


SCHOOL DISTRICT: FISCAL TRENDS

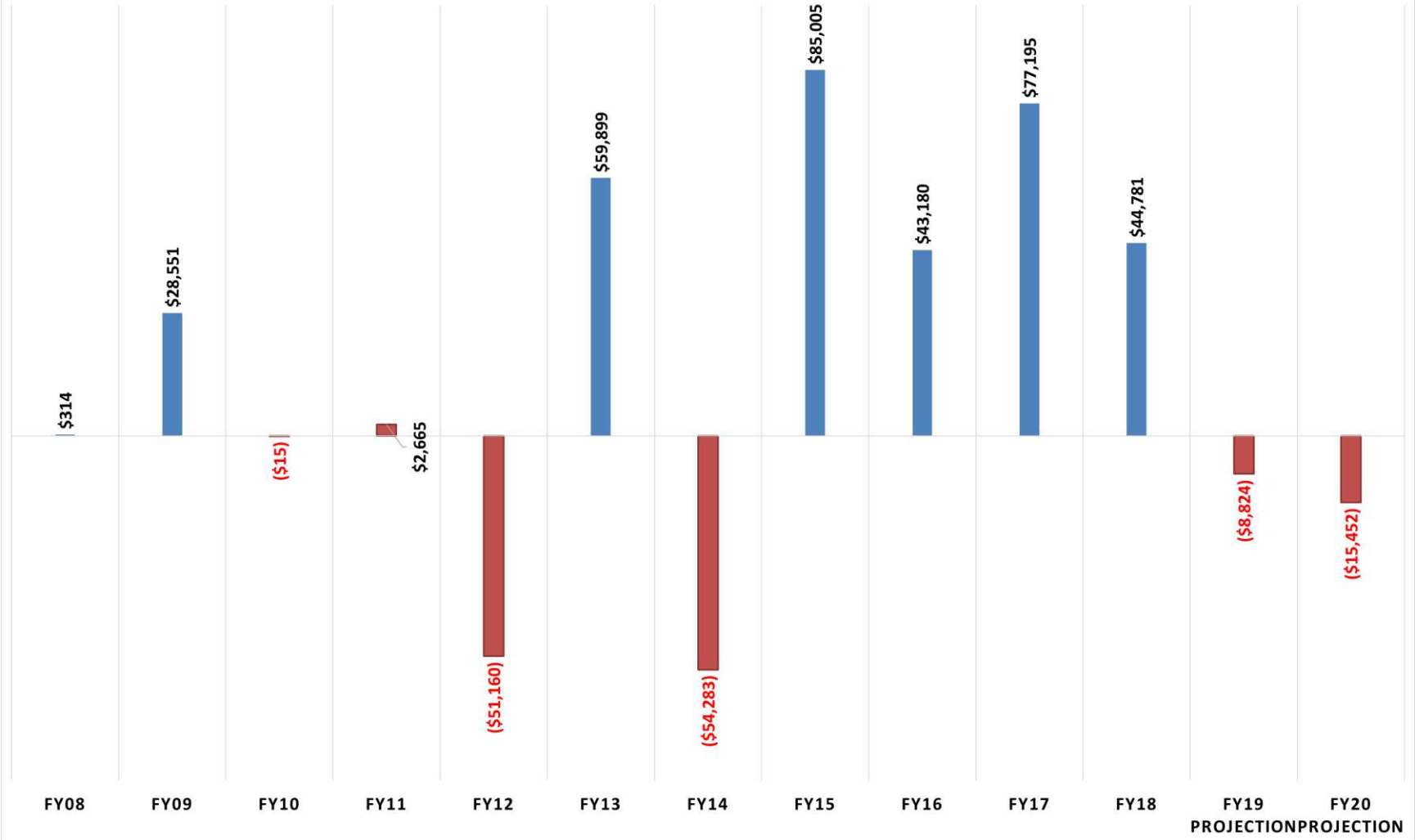
- July 2018 – City of Philadelphia regained control of the School District of Philadelphia from the School Reform Commission
 - Local control gives the City more discretion over long-term spending and policy goals
- **Growth in the City's contributions to the School District have significantly outpaced the State's contributions.**



SCHOOL DISTRICT OF PHILADELPHIA: YEAR-END OPERATING FUND BALANCE FROM FY08 TO FY20 (AMOUNTS IN THOUSANDS)

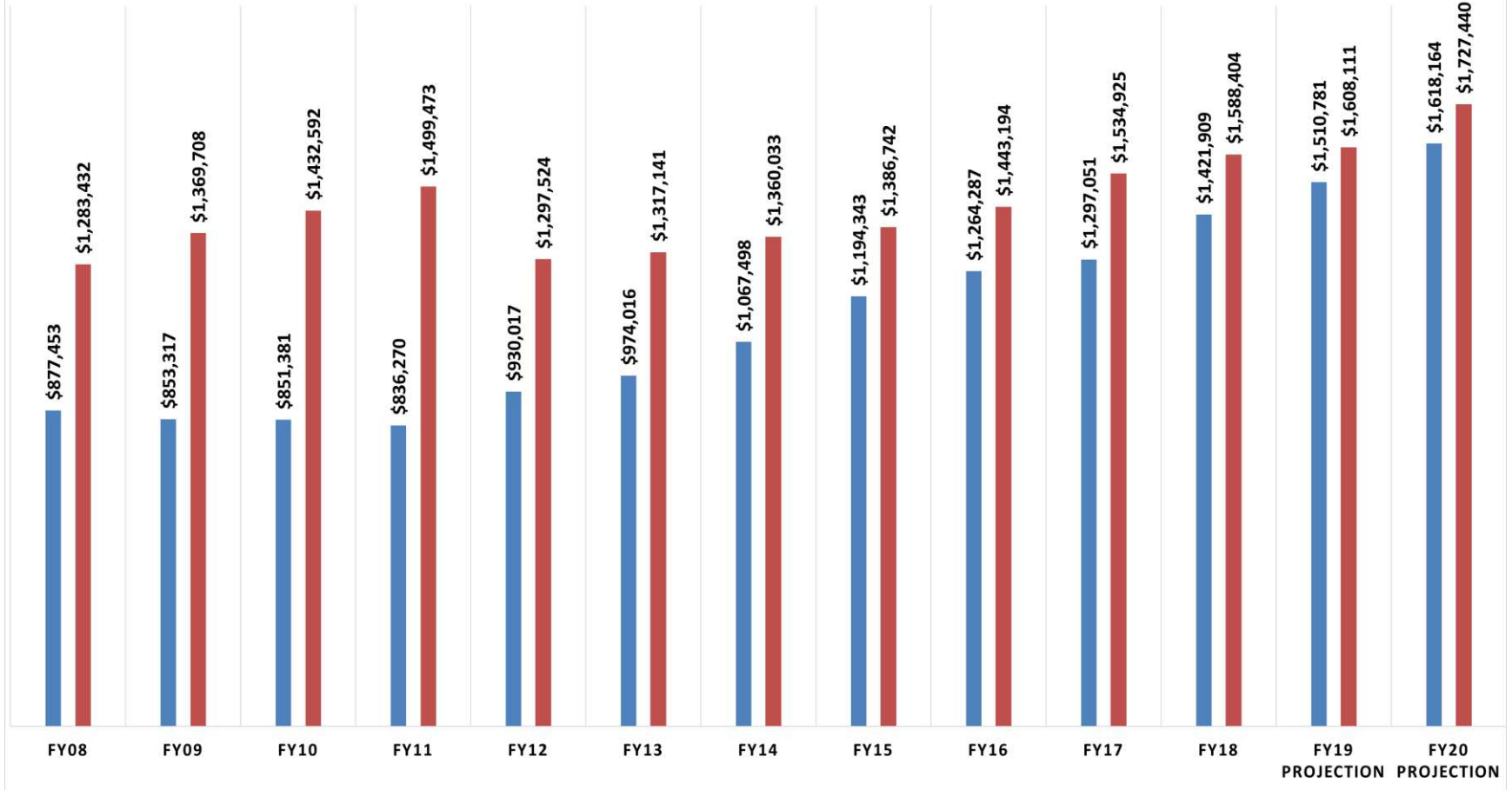


SCHOOL DISTRICT OF PHILADELPHIA: OPERATING SURPLUS (DEFICIT) FROM FY08 TO FY20, AFTER ADJUSTMENTS (AMOUNTS IN THOUSANDS)



SCHOOL DISTRICT: YEAR-OVER-YEAR CHANGES IN REVENUE SOURCE FROM FY08 TO FY20 (AMOUNTS IN THOUSANDS)

Local Tax and Non-Tax Revenue State Revenue



CITY OF PHILADELPHIA: FISCAL TRENDS

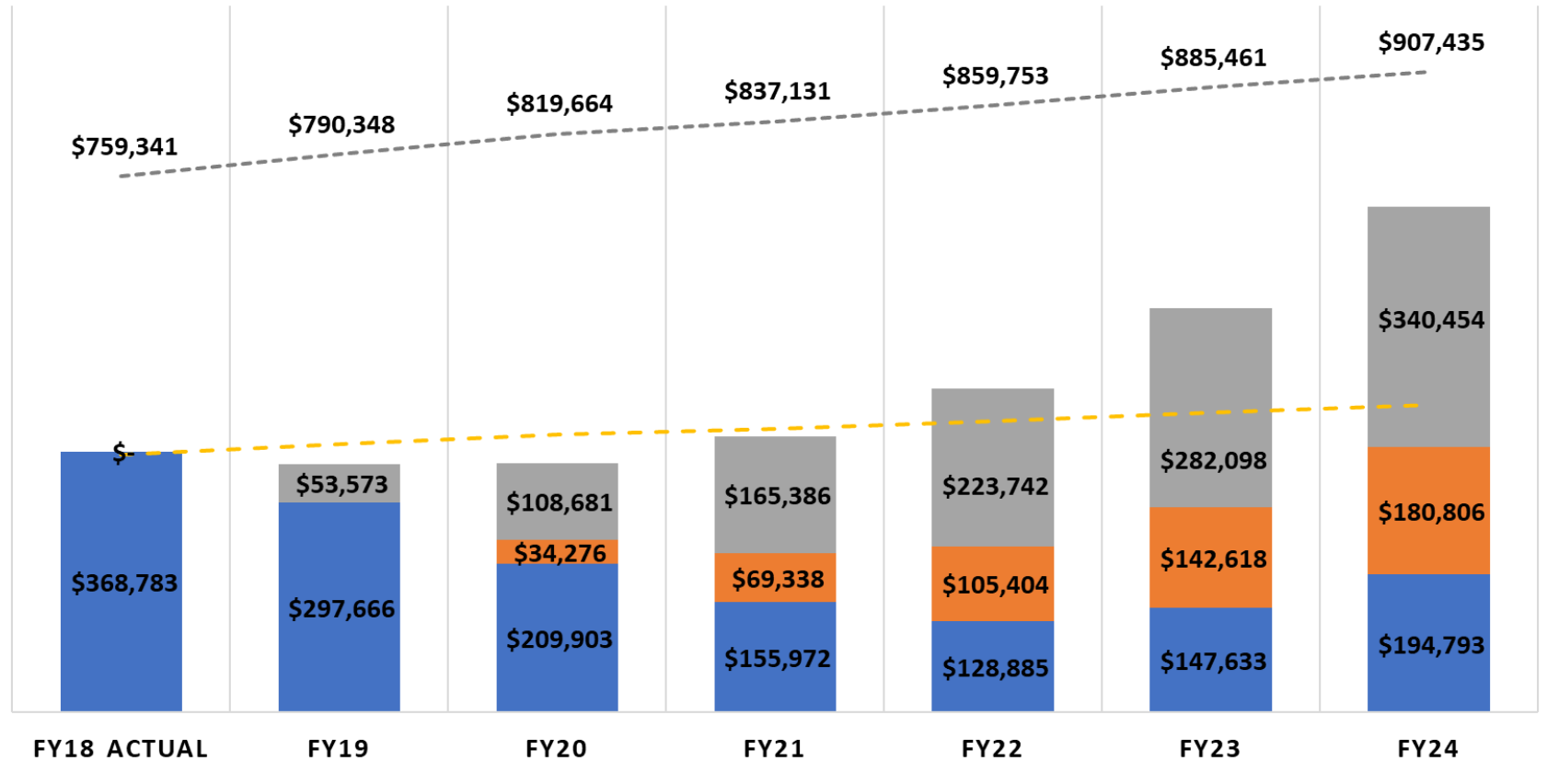
- Fund Balance Concerns
 - PICA amended FY20-24 Five Year Plan (FYP) shows the General Fund Balance dipping to \$128.9 million in FY22.
 - However, the **FY20-24 FYP contains significant levels of reserves: \$140M in Labor Reserves, \$286.8M in Federal Funding Reserves, and over \$180M in the Rainy Day Fund**
 - Credit Rating agencies recommend a Fund Balance that is 16-17% (two months) of annual expenditures
 - FY20: \$804 million is two months of expenditures
- Five Year Projections (as of June, 2019) –
 - **FY18 General Fund Balance was \$368M**
 - **FY19 *estimated* General Fund Balance is \$298M**

	Actual	Estimate	Projected				
	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Revenues	\$ 4,556.1	\$ 4,742.1	\$ 4,918.0	\$ 5,022.8	\$ 5,158.5	\$ 5,312.8	\$ 5,444.6
Expenditures	\$ 4,402.9	\$ 4,832.7	\$ 5,025.3	\$ 5,096.2	\$ 5,205.1	\$ 5,313.5	\$ 5,417.0
Adjusted Operating Surplus/(Deficit)	\$ 179.5	\$ (71.1)	\$ (87.8)	\$ (53.9)	\$ (27.1)	\$ 18.7	\$ 47.2
General Fund Balance: June 30	\$ 368.8	\$ 297.7	\$ 209.9	\$ 156.0	\$ 128.9	\$ 147.6	\$ 194.8



FY20-24 FIVE-YEAR PLAN: PROJECTED GENERAL FUND RESERVE BALANCES (000S)

- General Fund Balance
- Federal Funding Reserve
- Budget Stabilization Reserve (Rainy Day Fund)
- - - City Reserve Goal - 8% of Revenues
- - - GFOA Recommendation - Two Months (%) of Revenues



CITY OF PHILADELPHIA: FISCAL TRENDS

- Tax Growth (June 2019 Revenue Report)
 - **The *Wage and Net Profits Tax* (PICA and City) was 10.3% higher in June of 2019 than 2018, and 5.1% higher year-to-date.**
 - The *Amusement Tax* has continued to outpace FY18 revenues, **ending the fiscal year with 24.3% in additional revenue.**
 - The *Realty Transfer Tax* had a strong month of June (\$30.9 million in collections). However, year-to-date collections trail FY18 by 0.8%.
 - June *Beverage Tax* collections were 6.6% lower than June of FY18. Year-to-date, **revenues have declined 0.4%, while the Admin has continued to project 1% annual revenue declines in the Five-Year Plan.**
- Important Credit Rating Ratios (FY18 CAFR)
 - -\$5,780 Net Position per Capita
 - 96.1% Real Estate Collection Rate (One-Year)



LINKS TO FINANCIAL REPORTS

- **Budget 101 Interview (with Council CFO)**
 - <https://soundcloud.com/phlcouncil>
- **FY20 – FY24 Five Year Plan (Adopted)**
 - <https://documentcloud.adobe.com/link/track?uri=urn%3Aaid%3Ascds%3AUS%3A8a9e3014-e348-438f-91c5-d43d7b14d528>
- **Quarterly City Manager Reports**
 - <https://www.phila.gov/finance/reports-Quarterly.html>
- **School District - Quarterly School Manager Reports**
 - <https://www.philasd.org/budget/services/public-information/>



ADDITIONAL RESOURCES

- **City of Philadelphia Home Rule Charter**
- **City of Philadelphia FY20 Budget in Brief**
- **City of Philadelphia Five Year Plan (2020-2024)**
- **City of Philadelphia Six Year Capital Program (2020 – 2025)**
- **City Council Website – BUDGET CENTER**
 - <http://phlcouncil.com/budget2020/>
- **School District Budget Information**
 - <https://www.philasd.org/budget/services/families-and-community/>
 - <https://www.philasd.org/budget/budget-facts/quick-budget-facts/>

