

**CITIZEN'S GUIDE
TO
THE PHILADELPHIA BUDGET**
Fourth Edition

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**WHAT'S COVERED IN
THE CITIZENS' GUIDE**

The *Citizens' Guide* is intended to give a short, non-technical introduction to the Philadelphia budget process, and serve as a directory to the city budget documents. Our aim is to help citizens to become better informed so that they can knowledgeably and confidently participate in the budget process.

Budgets are documents that conform to technical legal and accounting standards. In addition, the writing and designing of budgets is the work of finance specialists, who tend to use a technical vocabulary. To help overcome the semantic barriers to a general reader's understanding of the budget, the *Citizens' Guide* defines the most important terms and concepts that are used. The *Citizens' Guide* also explains the format of the budget, how to read the summaries and detail sheets, and where to find information. *Terms defined in the glossary appear in italics in the text.*

After that, the whole inches-thick set of three ordinances and four volumes of information will become less of a mystery, and more of a . . . challenge.

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***WHY THE BUDGET IS
YOUR BUSINESS***

As citizens and taxpayers, we have the right to participate in decisions about how city dollars are spent. The Philadelphia budget is the city's legal spending plan for our tax dollars. The budget indicates a set of priorities for spending. It is important that citizens understand what those priorities are, and to inform their elected officials if they agree or disagree. The budget process in Philadelphia gives citizens an opportunity to be present at all hearings on the budget, and to testify before the City Council themselves. A better understanding of the budget allows the citizen to ask relevant questions and provide meaningful input into the process.

WHAT'S IN THE PHILADELPHIA CITY BUDGET

What are budgets?

Budgets are financial plans. A budget shows both the amount of money that may be spent and the sources of funding to pay for proposed spending. Philadelphia's budgets are legal documents, enacted as local law by action of the City Council and the Mayor. The legal document of the Operating Budget is fairly short--an ordinance that comprises about 45 pages of the City Council *Appendix to the Journal* (contains the full text of some legislation, and documents that are supplementary to legislation). The Capital Budget is some 70 pages, and the Capital Program is 200 pages.

As required by 1991 legislation (discussed later), the city also prepares a five-year financial plan. This document has over 300 pages.

For informational purposes only, the city also provides three thick volumes of information, one an overview of the budget with detail on revenues, and two for expenditures. (A stack of the volumes measures 4 and 1/2 inches, and weighs in at over 10 pounds.) Using these volumes, the reader can trace personnel costs from the smallest level of detail--pay for individual positions--up through the cost of labor for an entire division, department, and finally, city-wide.

The budget documents also show the reader spending by governmental unit (e.g., the Streets Department) and by type of expense (e.g., Personal Services). The budget also permits the reader to compare three year's worth of financial data--last year's actuals, this year's estimates, and the request for the next year. PEL considers the Philadelphia budget detail to be admirably systematic and in many ways superior to the budgets of other large municipalities because the presentation is so much more complete.

By studying the budget documents in detail, readers can judge for themselves how the pieces of the pie have been divided. Priorities and how they have changed over time can be traced by dollar and labor force share.

What city services and functions are included in the budget?

The main branches of the city government are the legislative (City Council), executive (Mayor and administration), and judicial (Municipal and Common Pleas Courts). The city budget tells how much each may spend.

Philadelphia has a mayor-council form of government. The voters elect the Mayor and the 17 members of the legislative body, the City Council. The executive branch is headed by the Mayor, who appoints four principal cabinet members: the managing director, director of finance, city representative, and city solicitor. In turn, they appoint the heads of 14 departments. Several city agencies are headed by boards or commissions. An example is the Fairmount Park Commission. A number of other offices are headed by persons directly elected by the voters. Examples are the City Controller and the Sheriff. In addition, local courts and related agencies, while technically part of the state government, are included in the city budget. In all, there are some 55 different agencies in the Philadelphia city budget.

What the city budget does not include

Philadelphia has two major government units with taxing power: the City and the School District. They have separate budgets. Some governmental functions are also performed by *authorities*, such as the Parking Authority, Housing Authority, and Redevelopment Authority. Like the School District, Philadelphia's authorities adopt their own budgets. Authority budgets, however, do not include tax revenues, since authorities do not have taxing power. Authorities may also be involved in financing some city construction projects, as discussed later in the section on debt limits. (Information on the finances of the school district and some of the authorities is included in the city's financial report, which comes out about six months after the end of the city fiscal year.)

BASICS OF PHILADELPHIA BUDGETING

What is the fiscal year?

Philadelphia's *fiscal year* starts on July 1 and ends June 30. The charter requires Philadelphia to enact its budgets for the next year 30 days before the end of the current fiscal year.

Why are there two city budgets?

Philadelphia has two budgets, the *operating budget* and the *capital budget*. The segregation of information satisfies a sensible charter requirement to separately lay out what will be consumed in a short period of time (operations), and what will be a more long-term investment (capital).

The **capital budget** covers spending for purchases of land and major construction items with useful life of more than five years. The capital budget is supplemented by a *capital program* which shows projects planned for the next six years.

In the capital budget, bond issues may be used to pay for proposed projects, as long as Philadelphia does not exceed its *debt limit* (see "Why's and wherefore's of borrowing"). In addition to city funds, part of the cost of capital projects may be paid from grants from other governments.

The **operating budget** covers the ongoing spending needs of city government, purchases of equipment and construction with life of less than five years, and the interest and principal on debt used to finance the capital budget.

The operating budget must be balanced, that is, estimated revenue must match proposed outgo. Borrowing is not permitted to balance the budget. (See "Why's and wherefore's of borrowing.")

The city also has a five-year financial plan. This is mandated by 1991 legislation establishing the Pennsylvania Intergovernmental Cooperation Authority (PICA). The city must submit a new financial plan to PICA 100 days before the start of the fiscal year. PICA then has 20 days to approve or disapprove the plan

The yearly time frame for budget consideration

Under the charter's timetable, the Mayor presents the proposed budgets 90 days before the end of the fiscal year or by the end of March. But the new PICA requirements have accelerated the timetable. In order that the Mayor can submit an approved budget and plan to PICA 100 days before the end of the fiscal year (March 23), the Mayor must present the proposed budget and plan to Council in the latter part of January. For example, the Mayor presented the proposed FY94 budget to Council on January 21, 1993.

City Council considers the budget, meeting as a Committee of the Whole. The Committee of the Whole has about seven weeks to consider the budgets before it must place the budget bills on "first reading" on the Council "calendar." The voting process provides that bills are to be read aloud, in order to alert the public, and the Council members, that legislation has been placed on the legislative agenda, called the calendar. The Chief Clerk of Council reads the bills at two separate sessions of Council. The Council President verbally acknowledges each bill and agrees to its placement on the calendar.

Usually amendments to bills are made in committee prior to placement on first reading, because time does not permit amendment to take place during Council session. According to the Charter, all bills must "lay over" for five days before final passage, in order to avoid overly hasty enactment. If amendments are to be considered, they must be made in time to provide the five-day layover period before "second reading." "Second reading" and "final passage" of the budget bills is required by the end of May, usually occurring at the last regular Thursday Council session in May (at least 30 days before the start of the new fiscal year on July 1).

Public hearings--When can the public hear and be heard?

About two weeks after the Mayor has presented the proposed budget, the City Council, sitting as the Committee of the Whole, begins public hearings. The term "public hearing" refers to the long-standing practice of ensuring citizens the right to "hear" and "be heard" on pending legislation. A hearing is a tried and true, if not fool-proof, method of preventing secrecy in the decision-making process, along with the requirement that all meeting of Council be open to the public

Hearings are held in the City Council Chamber in City Hall (room 400). The public must be given five days' notice of hearings--advertisements must be placed in the major newspapers. The hearings begin with testimony from administrative departments, and extend throughout the month on a schedule that can be obtained from Council. The Director of Finance and heads of city departments appear to explain their budgets and answer questions of the members of Council. The general public may attend the presentations by city agencies, but may not ask questions. The public has an opportunity to present views on the budget at times which are scheduled throughout the public hearing period. A telephone call to the office of the Council President (215) 686-3424 will enable interested citizens to reserve a place on the schedule for public testimony.

Enactment and amendment

A majority vote of Council is needed for enactment of budgets.

Once a budget bill has been passed by Council, the Mayor has three choices: sign the budget bill as passed, veto the whole bill, or veto or reduce any item. Council may over-ride a veto by a two-thirds vote. In this case, the bill passes, and becomes a legally binding *ordinance* without the Mayor's approval

Once passed, the operating budget cannot be increased except in emergencies (even if more income becomes available than originally estimated). However, amounts appropriated in the budget may be moved around (for example, from one department to another), by amendments to the budget ordinance, known as "transfer ordinances." Each transfer ordinance requires a full legislative hearing process.

Role of PICA

State legislation established the Pennsylvania Intergovernmental Cooperation Authority (PICA) in 1991. The five members of PICA's board are appointed by state officials. In accordance with the act, PICA and the City entered into an intergovernmental cooperation agreement, and the city developed and submitted a five-year plan to PICA for approval. The PICA act provides for the issuance by PICA, at the request of the city, of bonds for deficit reduction and to finance a limited range of capital projects.

PICA has the task of approving the city's financial plan, and then monitoring compliance with the plan. The city must provide quarterly finance reports; if PICA finds a deviation of more than one percent from the plan, the city must provide monthly financial reports.

The income side--What are the main sources of revenue?

The Mayor's estimates of income for the operating budget are legally binding on City Council, and cannot be changed by them legislatively. The city obtains income for the operating budget from three main sources: (1) *taxes*; (2) payments from other governments; and (3) local fees, charges, and other non-tax revenues (see discussion of *funds* below).

In most budget seasons, City Council prepares a bill for each tax, leaving the rate of taxation blank. These bills are introduced so that the rate may be preserved or changed, as determined by Council. The Mayor also submits taxation bills with suggested rates when the need for an increase is foreseen or decreases are proposed. Council must provide adequate tax revenue to pay for the budget, but the members are not bound by the Mayor's specific suggestions. Council may, and does change the rate of taxes at will.

The city of Philadelphia has wide taxing powers. Under a 1932 state law (the Sterling Act), the city has power to tax any item without limit on the tax rate, as long as the state does not tax the same item. If the state does tax an item, the city may also tax the item, but only after obtaining specific permission by state law. An example is taxation of corporate net income by the city as part of the Business Privilege Tax. Before the city could enact this new tax in 1984, the state had to pass a law giving the city permission, because the state already taxes corporate net income. Another example is the 1 percent city sales tax imposed in 1991.

Table 1 shows the taxes imposed by the city in FY93, and estimated income from each. The tax producing the largest revenues by far is the wage tax, with a rate of 4.96 percent on residents and 4.3125 percent on non residents. There is a limitation on city taxing powers: the city cannot increase the wage tax on non residents over 4.3125 percent unless the tax on residents exceeds 5.75 percent. In that event, the rate on non residents is limited to three-quarters of the rate on residents.

Payments from other governments--mainly state and federal, but also local governments--are important revenue elements. Because the state and federal budget cycles do not synchronize with Philadelphia's, the administration must anticipate a level of contribution from the state and federal government in advance of submitting the revenue estimate for the budget to City Council. The Council must accept the Mayor's estimate.

Table 1: Philadelphia City Government Taxes

Tax	Items Taxed	1993 Rate (Percent)	1993 Est. Revenues (Millions)	Percent of Total
Wage & Earnings	Salary, commission	4.96*	\$808.1	52.8
Real Estate	Assessed value of property	3.74	336.0	22.0
Business Privilege	Net income	6.50	203.1	13.3
	Gross receipts total	0.325		
Sales	Items subject to state tax	1.00	80.0	5.2
Real property transfer	Sale price	3.92	42.0	2.7
Parking lot	Gross receipts	15.00	22.7	1.5
Net profits	Unincorporated business profits	4.96	14.6	1.0
Personal property	Specified intangibles	0.40	16.9	1.1
	Admissions	5.00	5.6	0.4
Other	Various		0.3	0.0
Total			\$1,529.3	100.0

* The non-resident rate is 4.3125 percent.

The outgo side--How is it divided up?

The operating budget ordinance *appropriates* moneys (authorizes spending) for the city's 55 governmental units (departments, boards, etc.). Each appropriation for a governmental unit is in the form of *lump sums* that covers various *objects of expense* such as equipment. The budget detail gives additional information about the objects of expense, such as numbers of employees, overtime. Definitions of the objects of expense, and city-wide totals, are found in Table 2.

The largest object of expense by far is personal services, or pay for the "service" of using employee time. The city's "lump-sum" budgeting may be contrasted with *line-item* budgeting which would show, for example, the pay rates of individual classes of employees on separate lines. Before the Home Rule Charter went into effect in 1952, the city budgets appropriated moneys by line items. The Charter eliminated this provision as a way of restraining Council from making management decisions, such as the number of persons to be employed or number of vehicles to purchase.

The Mayor has the responsibility to see that the city does not incur a deficit in its operating budget. If income begins to fall below the estimates, the Mayor has the power to curtail expenditures of city agencies to bring them into line with the developing revenue situation. To do this, mayors have generally put a "freeze" on new hiring and the letting of new contracts.

In the *capital budget*, appropriations are made to city *agencies* for each separate project, such as a park, library, or police station.

Table 2: General Fund Spending by Objects of Expense

Object of Expenditure	1993 Estimated Amount (Millions)	Percent
Personal Services	\$875	38
Employee benefits	417	18
Subtotal	\$1,292	56
Purchase of services	693	30
Debt service	127	6
Contributions, indemnities	68	3
Materials, supplies, equipment	77	3
Payments to other funds; Other	37	2
Subtotal	\$1,002	44
Total	\$2,294	100

* Definitions for the categories in this table are as follows:

Personal services: payroll;

Employee benefits: pensions, employee insurance;

Purchase of services: contracts, leases, rent, payments for care of individuals;

Debt service: interest and principal on loans;

Contributions: city payments to nonprofit agencies or other governments;

Indemnities: payments on claims against city;

Payments to other funds: for example, payment to water fund for water and sewer services for city buildings.

OPERATING BUDGET FUNDS

Philadelphia's operating budget is divided into a number of parts, called *funds*. The present fund structure is based in part on legal requirements for accountability, and on part on judgments by city officials as to a useful way to divide the budget according to customs of *accounting*. Accountability to the public is a major theme in government financial reporting.

"Accounting" is a way of conveniently grouping expenditures so that the reader can judge the relative costs of activities and whether money is spent according to plan.

There are two basic types of funds: the *enterprise funds* and the governmental funds. The enterprise funds are self-supporting, matching expenditures from their own non-tax sources of revenue, such as service charges and fees. Philadelphia has three enterprise funds: the water fund, for the water and sewer functions; the aviation fund for the airport function; and the convention and civic center fund (to be merged into the *General Fund* in FY94).

Most other city functions are financed through what are called "governmental" funds. The basic governmental fund is the *General Fund*. It is financed through taxes, local non-tax revenues, and some payments from the federal, state, or local governments. Other governmental type funds are financed entirely by grants. The funds include the Grants Revenue Fund, the Community Development Fund, the Liquid Fuels Tax Fund, and the Special Gasoline Tax Fund. The only other fund financed from tax revenues is the tiny Hotel Room Rental Tax Fund. Table 3 lists the funds and their income sources in FY92.

Table 3: Revenues of Funds Used in the Philadelphia Operating Budget

Fiscal 1992 Revenues* (Millions)				
Governmental Funds	Taxes	Local Non-Tax	Other Governments	Total
General Fund	\$1,481	\$98	\$568	\$2,147
Grants Revenue Fund	0	7	184	191
Community Development Fund	0	3	56	59
Special Gasoline Tax Fund	0	1	15	16
County Liquid Fuels Tax Fund	0	0	4	4
Hotel Room Rental Tax Fund	8	0	0	8
Subtotal	\$1,489	\$108	\$828	\$2,425
Enterprise Funds				
Water Fund	0	\$324	\$5	\$329
Aviation Fund	0	109	0	109
Convention & Civic Center	0	9	0	9
Subtotal	\$0	\$441	\$5	\$446
Total, all funds	\$1,489	\$550	\$833	\$2,871

* Excluding inter fund payments.

** Local non-tax revenue include service charges, fines, interest earnings, and sale of property.

***Budget decisions--General
Fund***

A basic budget decision is how to strike the best balance between spending and the local sources of income: taxes or service charges. Such a decision has to be made in setting the level of spending in the General Fund and the enterprise funds. In the budgetary process, the greatest focus of attention is the General Fund, since this fund involves local taxes. There is also much concern on the best way to distribute the available resources among the many functions competing for tax funds.

In order to evaluate the city's priorities in terms of the budget, the citizen will want to know what percentages of the budget are devoted to various programs. (See Table 4.)

Table 4: Functions Included in the General Fund

Function	FY83 Percent Distribution	FY93 Percent Distribution
Crime prevention	15.6	12.9
General management	12.5	12.9
Judicial and prisons	10.7	9.2
Services to property	9.7	9.9
Health	8.6	7.7
General welfare	8.4	13.5
Transportation	5.3	3.4
Culture and recreation	4.2	3.0
Economic development	0.5	1.4
Subtotal	75.4	74.0
Employee benefits (all functions)	16.7	18.7
Debt service (all functions)	7.9	7.3
Subtotal	24.6	26.0
Total	100.0	100.0

Budget decisions--Enterprise funds

Two enterprise funds, the Water Fund and the Aviation Fund, support themselves by means of service charges. Decisions have to be made as to the level of spending and its impact on the level of charges. Under Philadelphia's charter, water and sewer rates are set by the Water Commissioner, not by City Council. Before changing rates, the Water Department holds public hearings, to obtain the views of consumers and others.

Budget decisions--Grant funds

By definition, the various grant funds are financed by moneys from other governments. No decision has to be made during the budget process as to the level of spending for grant funds, since that is determined by the sums available. Spending in these funds is geared to revenues; if revenues are less than estimated, spending is reduced; if revenues are higher for a given program than anticipated, the budget includes "contingent grant funds" (see below), which can be transferred to give spending power.

Contingent grant funds

The Philadelphia Charter does not permit spending to be increased above the legal budget level, even if income is more than estimated. However, the amount of grants which will become available is often not known when the budget is passed. To allow for possible additional grants, Philadelphia's budgets usually include several hundred millions of spending authorization in the grants funds contingent on extra grant moneys coming in.

Mandatory and discretionary expenditures

In making budget decisions, the city's discretion is often severely limited by mandatory items, also referred to as the "structural costs" of government. These include interest and principal payments on outstanding debt, spending mandated by the grantor (if grant funds are involved), and in some cases, spending mandated by court decisions or consent agreements. Pay and benefits of employees may also be set, if the budget is for a year included in a multi-year contract. Therefore, the budget decisions revolve around items which are discretionary, such as numbers of employees, equipment purchases, new programs, and changes in programs

WHY'S AND WHEREFORE'S OF BORROWING

Upon adoption, the city's operating budget must be balanced: estimated revenues equal projected spending, as adjusted for carryover surplus or deficit. Borrowing cannot be used to balance the budget. The reasoning behind this prohibition is to prevent postponing of payment for consumables into future years--the idea is to "pay as you go."

On a temporary basis, the PICA act permits borrowing for operating purposes. In 1992, PICA granted the City \$225 million to fund accumulated deficits through FY92. Also, the PICA act permits funding further operating deficits through the end of 1994. The budget for FY93 included an \$8 million deficit to be funded by a PICA grant, financed by borrowing. To pay the principal and interest on its bonds, PICA receives a portion of the city wage, earnings, and net profits tax.

Borrowing for the Operating Budget: Short-term borrowing

The city regularly borrows to help finance the operating budget, but only on a short-term basis, and only when matching revenues can be anticipated. For example, in November 1992, the city borrowed \$100 million, to be repaid by the following June. This borrowing involved short-term loans to meet cash flow needs. All of the short-term loan is repaid by the end of the budget year.

Borrowing for the Capital Budget: Long-term borrowing

The city pays its share of the cost of capital projects by issuing *bonds*, often with a duration of 25 or more years. In FY92, the city issued \$89 million of bonds for capital projects in the Water Fund. Each year, the Operating Budget includes *debt service*, namely interest and principal payments on the bonds.

The fiscal crisis prevented the City from issuing bonds at advantageous terms in 1992. Therefore, the City asked PICA to provide moneys for some capital projects. PICA has power to finance emergency capital projects or projects necessary to achieve savings and balanced budgets under an approved financial plan.

Constitutional debt limit

The state constitution limits the amount of city debt for capital projects which are tax supported. The limit is 13.5 percent of the previous ten years' assessment of taxable real estate. The purpose of debt limits is to prevent the government from issuing too much debt, unfairly overburdening future taxpayers. Philadelphia, however, is the only local government in Pennsylvania with a debt limit related to the assessment of taxable real estate. All other local governments in Pennsylvania have debt limits tied to some multiple of the government's revenues in recent years.

Of the 13.5 percent limit, the first 3 percent can be authorized by City Council, and the remaining 10.5 percent requires voter approval. Requests for voter approval can appear either on primary or general election ballots. As of 1992, under the 13.5 percent debt limit, the city is able to issue about \$50 million of new tax supported debt annually.

The debt limit does not apply to issuing bonds for self-supporting projects, which are projects which are financed from service charges, rather than taxes. An example of a self-supporting project is a water system improvement, financed from water services charges. Nor does the debt limit apply to debt issued by the various authorities that do not have taxing power, such as the Parking Authority.

Authority debt, however, is widely viewed as a way of getting around the constitutional debt limit for tax supported projects. There are many projects which the city is unable to undertake because they would require more borrowing power than the \$50 million or so now available annually under the debt limit. The technique used currently is to have projects undertaken by an authority which does not have taxing power, and has no legal debt limit. To supply revenue to support the authority's bond issue, the authority negotiates a long-term lease with the city. The lease is payable by the city from General Fund revenue. A project that will use authority funding is the proposed criminal justice center.