



“IN THE KNOW:” BEHIND THE BUDGET DOOR

Mayor Nutter is in a political box over the city budget – and a powerful but little-known state agency is watching closely as he tries to get out.

In the next few weeks, the mayor must decide whether to fight – risking yet another political defeat – by rejecting City Council’s version of the budget. Or he could accept Council’s budget despite doubts about whether the city will have enough money to deal with emergencies, and even whether the recently passed property tax hike might be blocked by a judge.

Whichever path he chooses, he knows he has to answer to five unelected members of a state agency, picked by leaders in Harrisburg, that monitors and approves the city’s budget plan. The board is known by the blandly bureaucratic title of the “Pennsylvania Intergovernmental Cooperation Authority.”

The board, usually called “PICA,” has make-or-break power over the city’s budget – it can force the mayor and City Council to make dramatic changes, even to the point of forcing them to raise new taxes or make deep spending cuts.

- May 25, 2010

Wait! Why does a state agency get to decide what the city can do with its budget?

It goes back in 1991, when Philadelphia was verging on bankruptcy because of many years of high spending and bad budgeting. The state didn’t want to see the city go broke, but also didn’t want state taxpayers paying for Philly’s mess. The city’s credit was worthless, however, so it couldn’t borrow money to save itself. The state set up PICA as an independent way to raise money to fix the mess.

How did PICA save us from bankruptcy? And why does it get to review the budget?

By selling bonds – in effect taking out loans – in its own name and giving the money to the city. The bonds are guaranteed by giving PICA control of a portion of the city’s wage tax money every year. The state gave PICA sweeping power to review city budgets as a way to assure the people who bought the bonds that the city wouldn’t bumble its way into another mess and be unable to pay back the loans.



But that was 20 years ago. Why is PICA is still around?

State law says PICA will be around as long as it takes to pay off those bonds. Of the \$1.1 billion PICA borrowed to save the city, about \$530 million is still left to be paid off. That will happen in 2023. PICA then has six months to shut down.

If PICA is so important, why haven't I heard about it before?

PICA doesn't get in the news much, partly because its work is quite technical. But you may very well hear about it this year. The agency's chairman is being unusually vocal about his doubts about Council's budget plan, which suggests that this may be one of the few times in history that PICA uses its considerable power to force the city to change course. That's why we're even talking about this otherwise obscure agency right now.

So what is the chairman saying?

Chairman James Eisenhower has been telling reporters he's worried about two things. Most seriously, he says, the property tax hike passed by council might be subject to a court challenge (for an explanation of why that might happen, click [here](#)). He's also worried that Council might not have built in enough money to deal with emergencies (we'll talk about that in a moment).

Is this property tax issue enough to get PICA to reject the city's budget?

Too early to tell, but the fact the chairman is talking about it openly means this is something the city needs to take seriously. It's perfectly possible, of course, that PICA will pass the city's budget plan but just attach a warning note, telling the city to think about an alternative plan in case a court does happen to strike down the tax hike. PICA has done this kind of thing before.

And what is this about the financial cushion being too small?

This could be a very big deal, actually. Every budget needs some extra money built in to deal with emergencies – like a series of surprise snowstorms, or another economic downturn that hurts tax revenue. The chairman of PICA, and the mayor and his financial staff, are worried that the \$42 million “extra” in Council's budget won't be enough for unexpected costs.

But \$42 million is a lot. Isn't that plenty?

Not necessarily – just cleaning up the snow storms this winter cost about \$19 million, way more than anyone had planned for. Some experts say a city of Philadelphia's size should keep a



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cushion of at least \$200 million. The mayor lobbied to keep about \$64 million in the bank, but City Council refused to let him tax sugary drinks, which would have raised more than \$20 million. Now the mayor has proposed about \$20 million in service cuts to bring the total cushion back up, but it's not clear yet whether it will be enough to satisfy PICA.

Are there other reasons for having extra money in the budget?

Yes, there's another big one: the city is still working on contracts with three unions that represent city employees. Last year, a state-mandated arbitration panel forced the city to give police officers raises in their new contract, so it is possible that the remaining three unions may get the same deal. All that extra money would have to come out of the city's reserve.

When will we know whether PICA will accept the city budget plan?

Not until after the mayor and City Council approve their final budget (the deadline is June 30). Once the mayor accepts the final version (or City Council overturns his veto and forces him to accept its version), PICA has 30 days to consider it, which means no later than the end of July. (The new fiscal year starts July 1, but for technical reasons PICA can approve or disapprove the budget plan even after the normal budget deadline).

Has PICA ever rejected a budget plan before?

Only twice – once in 1992 and then again last year. In 2009, PICA rejected Philadelphia's budget plan when it wasn't clear if the General Assembly would allow the city to raise the sales tax and delay pension payments, two pieces of legislation the city needed in order to balance the budget. The mayor reluctantly came up with a new plan by drastic cuts in city services.

But city services didn't get cut. What happened?

The city was saved in September (more than two months after the city's budget deadline) when the General Assembly finally agreed to the budget-balancing changes. PICA then went back and approved the city's original budget plan with only a few small changes.

What happens when PICA rejects a budget?

The city has 20 days to come up with a new budget plan, figuring out a way to come up with enough spending cuts or new revenue to meet PICA's objections. So if PICA decides the property tax increase is too risky, or if a court blocks the tax hike before PICA acts, the city will have to raise or cut at least \$88 million to replace the loss of that anticipated revenue.



If the city's financial cushion really is too small and the city runs out of money during the year, can PICA do anything?

Yes. This is one of PICA's most important powers. Even after it approves the budget plan, PICA reviews the city's finances at least once per quarter - every three months. If tax revenues or spending looks like they will be way out of line with the official budget, PICA can force the city to make immediate changes, either by cutting spending or finding new ways to raise revenue.

Has PICA ever forced the city to make changes mid-year like that?

Yes, in mid-2009 when the quickly declining economy made it look like the city's budget would be almost \$90 million off the mark by the end of the fiscal year. PICA forced the city to plan for higher taxes and spending cuts to bring the budget back into balance. PICA did the same thing only once before, in the early 90s when the city was still trying to recover from its near-bankruptcy.

Can the city ignore PICA when it demands changes?

That would be a very bad idea. About \$280 million of the city's revenue, a bit more than 6 percent of all money the city gets, is funneled through PICA's bank accounts. If the city doesn't do what PICA demands, then the authority can cut off that money.

I sometimes hear about a "five-year plan." Does that have something to do with PICA?

Yes. Technically speaking, PICA doesn't accept or reject the annual budget – it looks at each year's budget as part of a five-year spending plan that the state requires the city to maintain. This is because back in 1991, when the city was in financial trouble, the problem was that city officials had spent years covering up their reckless spending by making unrealistic estimates of how much the tax revenue would grow in the future. The idea is that having a five-year plan will help prevent that kind of budget gimmickry.

So is PICA a good thing? Has it made the budget process better?

It certainly did save the city from financial ruin in 1991. And city officials generally say that PICA's oversight – particularly the five-year plan requirement – has helped navigate several ugly recessions, including in 2001 and the recent one in 2008-09.



But city government is still bloated and inefficient. How come PICA hasn't fixed that?

This is one of the interesting aspects of PICA. Its job under state law is to say whether the city's budget is going to be balanced over the next five years – in effect to say how much the city can spend. PICA officials say they are reluctant to go too far in dictating policy because their legal mandate isn't to change the way Philadelphia government works, or to say whether city officials are spending money wisely or foolishly.

Who are the members of the PICA board? Who appoints them?

There are five members, one appointed by the governor and one each by the Republican and Democratic leaders in the State Senate and House. They serve for two years. The state's Budget Secretary and the city's Finance Director are listed as members of the board, but they don't get a vote when it is time to decide whether to approve the city's budget.

Who are the people on the PICA board now?

Besides Eisenhower the voting members are: Bill Leonard, a lawyer appointed by the Democratic Speaker of the House; Michael Karp, a developer and former Board of Education member, appointed by the Republican leader in the House; Joseph DiAngelo, dean of the business school at St. Joseph's University, appointed by the Republican leader in the State Senate; and Wadud Ahmad, a lawyer, appointed by the Democratic leader in the State Senate.

Ah, so PICA is appointed by politicians. It's just another political board, right?

In theory, PICA is non-partisan and neutral. But this is the real world and the people on PICA's Board live in the political culture (the city's Finance Director, Rob Dubow, for example, is the former Executive Director of PICA, and Chairman Eisenhower is a Democrat who once ran for Attorney General and has served on the transition teams for Mayor Nutter and Governor Rendell). Eisenhower says, however, that he has not gotten pressure from the governor, who appointed him.

Isn't it a conflict of interest to have the city's Finance Director on the board overseeing the budget he helps to create?

Perhaps, but since he doesn't get to vote, he can't force PICA to accept his budget plan.



Has PICA ever based a decision on politics?

It's hard to tell. To its credit, PICA was pretty tough on the city in 2009. But then again, some critics say, PICA has let some important financial things pass. For example, it has been warning the city for years that its pension system is in big trouble (a detailed explanation is available by clicking [here](#)). But PICA has never actually forced the city to fix it, although it has the theoretical power to do so.

When PICA expires in 2023, will the city be able to go back to doing budgets however it likes?

Yes, unless the state legislature extends PICA's life or creates some other fiscal oversight agency in the meantime. Some think it makes sense to create some kind of independent city budget office to keep government from going back to the disastrous old way of doing budgets.

Does any other place have anything like PICA?

There are a few. Pittsburgh has a similar state agency that oversees the budget. There's been some talk lately about creating a "control board" in New York to oversee the state budget. And in the 1990s, Washington D.C. was teetering close to bankruptcy so Congress created the "Financial Responsibility and Management Assistance Authority," known as the Control Board, which was modeled partly on PICA.

Does PICA do anything besides oversee the budget process?

Yes. It puts out a variety of useful reports on important financial issues, such as the pension plan problems. Its quarterly and annual reports are a goldmine of information for politicians and members of the public interested in budget issues. PICA has also just begun reviewing the budget and progress of the Pennsylvania Convention Center expansion.

Do these PICA reports do any good?

Sometimes, but since PICA has only rarely used its power to disapprove the city's budget plan, its warnings have often gone unheeded. In addition to the pension issue, for example, PICA was warning as early as 2005 that the city was relying too heavily on tax revenue generated by the housing bubble, but the city didn't plan for the day when property values would stop rising.



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How much does PICA cost to run? And who's paying for that?

Actually, PICA costs nothing to taxpayers. The five board members are unpaid and the total administrative cost is only around \$1 million, paid for with interest on PICA's bank accounts.

Who is paying off all those bonds PICA sold to save the city from bankruptcy in 1991?

You are, and so is everyone who works in Philadelphia. A portion of the city's wage tax is designated to pay off the loans. Last year, that cost about \$70 million out of more than \$1 billion in wage taxes collected.

Do I have any say with PICA or their decisions?

Not directly, in the sense that you cannot vote for the members as you can for mayor or City Council. But PICA's meetings are open to the public, and members are thinking about holding public hearings on various issues (which they are allowed to do but haven't done). They meet every month, usually in the third week of the month, at their Center City office.

Information, the meeting schedule, and a wealth of interesting reports on city budget issues, are available on PICA's website: [Pennsylvania Intergovernmental Cooperation Authority, www.picapa.org](http://www.picapa.org)

Wow, this was a lot of information. Did I really need to know all that?

Why don't you tell us? We like these "In the Know" features to be short, but sometimes there is a lot to say. If you liked this edition, or even if you didn't like it, drop us a line and let us know. Email us at info@seventy.org.

This is the fourth installment in the special series of budget "IN THE KNOW" features we plan to release over the next few weeks. The Committee of Seventy will put out future editions as new issues arise and the budget process develops. Our first edition is a primer on the larger process and it is available here: ["In the Know:" What You Must Know About the City Budget](#). The second, a look at the way other cities are meeting the budget crisis, is available here: ["In The Know:" Government Can Get Creative](#). The third, about the proposed property tax hike, is available here: ["In the Know:" Tax Hikes Top the Agenda](#).

And to read our Open Letter to the Mayor and City Council, calling for real change in the city budget process, please click [here](#).