In the Know: The Battle of the Budget

On March 4, 2010, Mayor Michael Nutter will make his Annual Budget Address to the city.

Between now and the July 1 start of Fiscal Year 2011, Mayor Nutter and City Council will have tough decisions to make. Philadelphians may not be bombarded with dire warnings of health center closings and massive job layoffs, but the city’s financial struggles are far from over.

Over the next several months, the Committee of Seventy will publish a series of Q&As to highlight issues that will surface during the budget discussions. Some will be new. Others, as Yogi Berra might say, will feel like déjà vue all over again.

Last year, it seemed as if Philadelphia was constantly on the verge of shutting down. Is this going to happen again?

The national economic downturn hit Philadelphia like a ton of bricks in the fall of 2008. The budget the city was then operating under (Fiscal Year 2009) had to be recalculated to fit the reality of declining revenues that could not support expenses. Barring some new catastrophe, last year’s doomsday predictions shouldn’t happen this year. But this doesn’t mean the city has completely bounced back from the recession.

It also seemed that Mayor Nutter and City Council were at war over last year’s budget. Is this going to happen again?

The mayor and City Council did have some major disagreements about how to close the enormous gap between revenues and expenses. The mayor first proposed increasing property taxes for two years. City Council said “no way” and the proposal disappeared. This year, the mayor appears to be reaching out to City Council members in advance (by meeting privately with them in their districts, for example) to try to avoid later problems. He also is not likely to ask them to give up their city cars or take themselves out of a controversial city pension plan, as he did last year.

When do the budget talks start?

Budget talks never really end. Philadelphia is legally required to prepare an annual operating budget – essentially what it costs to run Philadelphia – and also a five-year financial plan. It’s a

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1 This Q&A is current as of February 4, 2010.
huge undertaking, especially when outside events like the collapse of the economy make coming up with accurate numbers very difficult.

**How big is the city’s budget?**

Philadelphia’s current operating budget (Fiscal Year 2010) is around $3.7 billion.

**Will it be the same in Fiscal Year 2011?**

It will roughly be in the same ballpark. But there are a number of unknowns. Perhaps the biggest open question is the outcome of the city’s negotiations with three of the four unions representing its employees – especially on matters related to salaries, pensions and health care.

Only the contract with the Fraternal Order of Police – which represents current and retired police officers and sheriff’s deputies – has been settled. (A separate Q&A will talk about the FOP contract and its impact on the budget.)

**When does the process “officially” kick off?**

The process formally gets underway when Mayor Nutter unveils his Fiscal Year 2011 budget and the Fiscal Year 2011-2015 Five-Year Plan – which he is obligated to do at least 90 days before June 30, 2010. The Fiscal Year 2011 budget covers the period from July 1, 2010 to June 30, 2011. The Mayor’s Annual Budget Address, which he gives each year in City Council’s chambers, is scheduled for March 4, 2010.

**What will he say during the Budget Address?**

The Mayor will talk about how the administration will raise and spend money over the next fiscal year. He will highlight the major initiatives that are planned and how much they will cost. If last year is any guide, he will talk about the budget cuts that he believes must be made in order to make ends meet.

**What do you mean by “make ends meet?”**

There’s nothing official yet, but there is talk about a $31 million budget shortfall by June 30, 2010 – the end of the current fiscal year. That means the mayor and City Council will either have to make emergency cuts between now and then or come up with some way to pay off the deficit next year, or both.
Why does the city still have a deficit?

Many reasons contribute to a deficit. For example, revenues are lower than expected, health care costs for city employees are increasing, the city’s debts, and the amount of interest it has to pay on those debts, continue to rise. Compared to last year, when the mayor announced the deficit grew to $2.4 billion, $31 million is good news.

After last year’s financial crisis, shouldn’t the city be better prepared?

City departments and agencies have cut some costs and top officials (including the mayor) have reduced their salaries. But major structural changes to make government more efficient and cost less didn’t happen, as they did in most private sector companies struggling to survive the recession. Department and agency heads have instructed to reduce their budgets by 7.5% for Fiscal Year 2011. This is on top of any cuts to close the $31 million projected deficit.

And I thought coming up with a personal budget was hard.

Creating and sticking to a budget is hard for everyone. But the city’s budget has to take into consideration the needs of the 1,540,351 people (as of December 2009) who live here. Complicating things is that, by law, the mayor’s budget must be balanced - the amount of spending cannot exceed the expected revenue.

How is the budget put together?

Every budget has the total amount of spending broken down by city department and by specific needs (such as equipment, salaries) within each of the departments. The total budget is put together after each department submits their own budget request. Because the budget must balanced, the mayor also has to estimate how much revenue will be coming in from taxes, fees collected by various departments, federal and state government and other sources.

Does the public play a role in the mayor’s budget?

Last year, after the mayor announced the city’s five year $2.4 billion budget gap, but before he released his Fiscal Year 2010 budget, he held a series of community forums to get feedback from residents on their priorities and the trade-offs they were willing to make. For example, were they willing to sacrifice certain city services (such as weekly trash collection) in exchange for not laying off police officers or fire fighters? You can read the report at http://www.seventy.org/Downloads/Policy_Reform/The_City_Budget_Tight_Times_Tough_Choice.pdf
If there are no forums, or if I can’t go, who can I talk to about the budget?

You can always contact your district Council member or one of the seven at-large Council members. Contact information is available at http://www.seventy.org/Resources_City_Council.aspx. It’s best to do this as soon as possible before the budget discussions consume everyone working in City Hall.

What role does City Council play?

Every spring, after they get the mayor’s budget, City Council conducts several weeks of budget hearings. All departments and agencies – including the mayor’s office, city departments, commissions, boards and agencies, SEPTA, the court system, independently elected row offices and the School District of Philadelphia – appear before Council to answer questions about their budgets. City Council is the only part of government that does not open its budget for public comment and input.

Can Council change the mayor’s budget?

Council can amend the budget to some extent, but it can’t change the mayor's estimate of next year's revenue or add any spending that would cause the budget to become unbalanced. And while Council does have a say in moving budget money around, (for example, they can direct more funds for public safety), they can’t micromanage how the money should be spent (for example, telling the city how many officers to hire or how many patrol cars to buy).

What happens if the mayor and City Council disagree again?

The mayor has three options if Council doesn’t like his budget:

- Agree to Council’s changes by signing its version of the budget.
- Allow Council’s budget to go into effect without his signature (which is often a signal that he dislikes some part of it, but can't or won't pick a fight with Council).
- Veto Council’s budget within 10 days and ask Council to make changes.

Can Council override the mayor’s veto?

Yes, by a 2/3 vote of its members within seven days of the veto. Council can also pass a new version of the budget to try to win the mayor’s approval.
What’s Council’s deadline for approving the final budget?


What happens if Council and the mayor can’t agree by the start of the new fiscal year?

Technically the operations of government can come to a screeching halt. But this won’t happen. We saw this last year when Philadelphia didn’t officially have a budget until two months after July 1 (the city was waiting for the state’s General Assembly to approve an increase in the sales tax and a two year delay in making $230 million in annual contributions to the employee pension plan). But it’s in everyone’s best interests to come to an agreement as soon as possible.

If Council and the mayor are on the same page, is that the end of the process?

No, the city’s budget and five-year plan have to be approved by the Pennsylvania Intergovernmental Cooperation Authority (PICA). PICA was created by the state in the early 1990s when Philadelphia was in big financial trouble. Its Board is supposed to keep a close eye on the city's spending, revenues, and investments. PICA issues quarterly reports to make sure the city’s balanced budget is on the right track.

So PICA is the city’s independent fiscal watchdog, right?

Not quite. The five members of PICA’s Board are chosen by politicians in Harrisburg and are subject to political influences. Although PICA has the power to lean heavily on the city, it hasn’t always used that power aggressively. For example, some people thought PICA should have pressured the city to appeal the FOP contract, which was awarded by an arbitration panel and will cost the city around $80 million over the next five years.

What happens if PICA doesn’t like what’s in the annual budget or five-year plan?

If PICA finds that the city's budget isn't balanced, or that some element will cause a major problem at some time over the next five years, it can require the city to redraft the budget to fix the problem. If PICA rejects the revised budget, the city has 15 days to fix it. If PICA uncovers an emerging problem (such as a shortfall in anticipated revenues) in one of its quarterly reviews, the city has 30 days to explain the problem or 45 days to fix it.
What happens if the City refuses to make changes?

This would be a bad strategy. PICA holds some of the money the state sends to the city, and it also holds a portion of the wage tax (a tax on wages, commissions and other compensation paid to a city or non-city resident who works for, or provides services to, a city employer). Normally PICA just passes that money on to the city, but they also have the power to withhold it. But now we are getting way ahead of ourselves.

Getting back to the budget. Is the operating budget the only budget the city has to worry about?

No, there are two other important city budgets that we will leave for another day:

- **Capital Budget**: A capital budget typically includes what the city thinks it needs to invest in its physical environment, such as road and building construction, improving the airport and buying and maintaining city property. The Fiscal Year 2010 capital budget is about $2.5 billion.
- **Philadelphia School District**: There is a separate budget for what it will take to run the Philadelphia public schools. The School District’s Fiscal Year 2010 budget is about $3.2 billion.

Stay tuned for more installments of IN THE KNOW. You can always find them at [www.seventy.org](http://www.seventy.org).

In the meantime, please feel free to e-mail your comments, or requests for information on other topics you care about, to [info@seventy.org](mailto:info@seventy.org). We look forward to hearing from you.