



How Philadelphia and Other Cities Work to Achieve Fiscal Stability

Budget monitoring and long-term planning are key to financial health

Overview

For the three decades since it nearly declared bankruptcy, Philadelphia has kept its fiscal affairs relatively stable, thanks in large part to oversight from the Pennsylvania Intergovernmental Cooperation Authority (PICA), which was created in 1991. The state law that created PICA also required the city government to initiate long-term financial planning and ongoing budget monitoring.

Long-term financial planning, which in Philadelphia covers five years, estimates a city's revenues and expenditures over a multiyear period instead of an annual budget's one-year time frame. This annual exercise helps ensure that a city's fiscal position is fundamentally sound. It also "forces elected officials to always consider the effect of their legislative action on current and future years," said John Hill, a former senior finance official in Detroit and Washington, D.C.¹

Ongoing monitoring, conducted quarterly, tracks how well the Philadelphia city government adheres to its annual budget and helps the city handle fiscal issues that emerge during the year. Put in medical terms, long-term planning is the preventive care that helps a city maintain good health, and budget monitoring is a regular check of its vital signs. Standard & Poor's, which rates the bonds issued by state and local government agencies, and the Government Finance Officers Association endorse both practices.

With PICA scheduled to expire soon, The Pew Charitable Trusts set out to determine whether and how other large U.S. cities use long-term planning and budget monitoring; whether they do so with or without state oversight; and whether the practices are matters of law or of administrative policy. These questions have taken on new urgency because of the fiscal shock caused by the COVID-19 pandemic.

The research evaluated city practices based on public documents from the nation's 30 largest cities plus Pittsburgh (a city that, like Philadelphia, has had recent experience with a Pennsylvania fiscal monitoring agency). And it found that more than half of the cities engage in long-term financial planning in some form, while about two-thirds do regular budget monitoring—both with varying degrees of rigor and detail. All cities with a history of state intervention have made both practices legal requirements, while most of the cities without that history have not. The research did not look at fiscal practices other than long-term financial planning and regular budget monitoring.

Only in Philadelphia, under PICA, are the two practices subject to state agency approval, which would end should the authority expire as scheduled in 2023 or 2024, absent state legislation to keep it going. The goal of this research is to help inform policymakers as they map out Philadelphia's fiscal future—with or without PICA.

Long-term financial planning

Long-term planning forces local governments to align expenditures and revenues over a multiyear period, enabling them to gauge various decisions' impact. It entails estimating revenues using economic analysis to project growth or decline in the tax base and other revenue sources. The process includes expenditure forecasts based on a carryforward of the current budget that also takes known long-term needs and obligations into account.

Creating such a plan and making it public gives residents, businesses, the municipal bond market, the state, and other branches of city government the opportunity to understand and respond to local budget-makers' expectations. Short-sighted solutions that may go unnoticed in a one-year budget may be exposed in the later years of a multiyear plan. As PICA Executive Director Harvey Rice put it at a Philadelphia City Council hearing in July, "If there's a train wreck coming, we're going to see it as early as we can."²

A multiyear plan does not guarantee that a city will cope with every eventuality. But the aim is not so much to predict the future as to position cities to deal with challenges as they arise. Budgeting experts advise that a regularly updated, transparent, and comprehensive process can help cities address problems before they become critical.³

Eighteen of the 31 cities in this study conduct some form of long-term planning or forecasting each year. (See Table 1.)

Table 1

How Cities Approach Long-Term Fiscal Planning and/or Forecasting

Plan or forecast annually	Don't plan or forecast annually
New York; Los Angeles; Houston; Phoenix; Philadelphia; San Antonio; San Diego; San Jose, California; Austin, Texas; Columbus, Ohio; San Francisco; Denver; Washington; El Paso, Texas; Detroit; Portland, Oregon; Oklahoma City; and Pittsburgh	Chicago; Dallas; Jacksonville, Florida; Fort Worth, Texas; Charlotte, North Carolina; Indianapolis; Seattle; Boston; Nashville, Tennessee; Memphis, Tennessee; Las Vegas; Louisville, Kentucky; and Baltimore

Sources: Official websites, documents, and interviews with local officials

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Characteristics of long-term financial plans

Long-term plans for these 18 cities range from three to five years; Philadelphia's five-year plan is among the most comprehensive.

As specified by the PICA Act, the city produces a document annually that covers revenue and expenditure forecasts for five years, as well as employee head counts, with the broad goals of balancing future budgets, preparing for fiscal emergencies, and enhancing the city's credit rating. Expenditures are detailed by department and by expense type. The proposal, which is hundreds of pages long, includes projections of future trends in the tax base, backed by in-depth demographic and economic analysis. This long-term planning is incorporated into Philadelphia's annual budget process, with each city department submitting its own five-year goals and financial estimates.

The long-term plans of New York City, Detroit, and Washington—all of which were subject to external oversight in the past—are the most comparable to Philadelphia's in terms of financial detail and supporting analysis. In El Paso, Texas; Los Angeles; and Denver, long-term financial considerations are limited to a chapter in budget documents otherwise focused on the year ahead. Austin, Texas, and Oklahoma City produce forecasting reports for their local economies but little detail on expenditures and revenues. In Houston, the forecast consists of a few slides in a preliminary budget presentation to the City Council.

Among the 18 cities, only Philadelphia, Washington, Detroit, and Pittsburgh have long-term plans that must be balanced after year one. (The plans of Pittsburgh and Detroit also have to show fund surpluses of 10% and 5%, respectively.) More commonly, a plan will show gaps where future expenditures may outpace financial capacity, and it might offer recommendations for closing those gaps. The plans of Columbus, Ohio; San Diego; San Francisco; and Oklahoma City include broad discussion of measures to help balance the budget.⁴ Other plans merely point out the gaps, as is the case in Portland, Oregon; Los Angeles; and Houston.⁵ San Jose, California; San Francisco; and Phoenix, meanwhile, conduct stress testing to model the impact of economic downturns.⁶

Looking beyond the current budget year can make a huge difference during periods of economic stress. In the short term, city fiscal managers can rely on one-time fixes such as accumulated fund balances and reserves to make ends meet. But managing the budget over the course of a projected multiyear economic disruption requires city officials to develop other responses. For Philadelphia in 2020, the five-year plan includes cuts to some departmental budgets and increases some taxes, although PICA's review expressed concern that the out-year revenue projections on which those actions were based were overly optimistic.⁷

Legal basis and oversight

Cities codify basic budget practices, such as defining classes of expenditures or setting the start of the fiscal year. Most cities that engage in long-term planning do so without a legal requirement, except in a few cases in which a previous fiscal crisis led to state intervention.

Philadelphia's long-term planning requirement is part of the state law that created PICA; there is no local ordinance mandating such planning, although the city could enact one if PICA expires. New York, Washington, Detroit, and Pittsburgh began doing long-term planning as part of state fiscal interventions; now, laws in those cities—enacted either as part of the initial intervention or in preparation for its end—mandate planning.⁸

Long-term planning also is required by law in San Francisco, where it was mandated by the city charter in the aftermath of the Great Recession.⁹ San Francisco's plan is produced jointly by the mayor, the Board of Supervisors (city council), and the city controller's office. The role of the controller, a long-term appointee with a high degree of independence, includes proposing fiscal policies and strategies for addressing issues identified in the plan. In most of the other cities examined, the mayor's administration handles the policy aspect of long-term planning.

At the moment, Philadelphia's long-range plan is the only one in the cities studied that is subject to binding oversight, in that it must be approved by a state agency; PICA has retained active authority much longer than other, similar city-focused agencies. Upon its scheduled expiration, PICA will have been overseeing the city's finances for more than 30 years; by contrast, New York's oversight lasted 11 years (1975-86), Washington's was in effect for six years (1995-2001), Pittsburgh's spanned more than 14 years (2003-18), and Detroit's lasted five years (2013-18).¹⁰

In New York, Washington, and Detroit, binding oversight can resume if the city's fiscal management triggers certain provisions, such as ending a year in deficit or missing a payroll payment. Since 2018, Detroit has been operating under a waiver from the oversight authority, which will continue meeting until 2028 to review the city's compliance with the waiver conditions.¹¹ New York state's oversight agency has continued meeting and reviewing New York City's long-term plan without an approver role, which expired in 1986; until 2008, this advisory function included the power to reimpose binding oversight under certain conditions. The panel's existence has been extended until 2033,¹² but the state Legislature would have to reauthorize oversight. Washington's authority is no longer active but could be reconstituted by Congress and the president if the city's fiscal performance falters.¹³

In reviewing Philadelphia's five-year plan, PICA puts out a staff report that analyzes the plan and its assumptions and highlights areas of concern. An appendix includes a letter from the city controller advising the PICA board on whether the plan should be approved. The authority was more assertive on the fiscal year 2021 plan than in years past, making its approval contingent on several conditions—including a plan to limit overtime spending, a subject that some PICA members have discussed for years.¹⁴

New York has additional layers of internal advisory oversight from the city comptroller and Independent Budget Office (IBO), a city agency with a director appointed by an advisory board whose members are appointed by elected city officials other than the mayor. The city charter mandates that the IBO issue three reports during budget development. The IBO also routinely publishes a list of budget options with estimates of savings or revenue potential and sometimes presents key arguments for and against options such as revising programs, reducing subsidies, eliminating tax breaks, and broadening the city's taxes on sales and services.¹⁵ (PICA has generally refrained from these sorts of recommendations in Philadelphia, on the grounds that doing so would go beyond the purpose for which it was created.) In New York City, the comptroller, an elected official, also has an advisory oversight role in the charter, producing reports commenting on the budget and long-term plan at two stages in the development process.

In San Diego, the Office of the Independent Budget Analyst (IBA) reviews the mayor’s long-term financial plan and submits a public report of its findings to the City Council. The office, established in the charter and reporting to the council, likewise analyzes the annual budget and proposed legislation.¹⁶

In some cities, nongovernmental organizations provide unofficial outside oversight; the Citizens Budget Commission (CBC) in New York and the San Francisco Bay Area Planning and Urban Research Association use the publicly released plans and reports to inform their advocacy work on financial matters. Founded during the Great Depression, the CBC acts as a civic watchdog, analyzing city and state finances, as well as the management of city government.

Ongoing budget monitoring

Budget monitoring helps policymakers keep expenditures in line with revenues within the current year and take corrective action if necessary. The practice, recommended by the Government Finance Officers Association, features public reports issued monthly or quarterly that compare actual revenues and expenditures with previously budgeted figures.¹⁷ The reports might not include anything that members of senior management didn’t already know. But they allow other departments and outside entities to see the numbers before the end of the fiscal year. With the uncertainty surrounding the economy in the wake of COVID-19, cities that have these processes in place will likely be better positioned to make quick course corrections as new information comes in.

Twenty-one of the 31 cities in this study carry out some form of regular budget reporting. (See Table 2.)

Table 2

How Cities Handle Budget Monitoring During the Fiscal Year

Regular reports	No reports
New York; Los Angeles; Chicago; Houston; Phoenix; Philadelphia; San Antonio; San Diego; Dallas; San Jose, California; Austin, Texas; Jacksonville, Florida; Columbus, Ohio; San Francisco; Indianapolis; Washington; El Paso, Texas; Detroit; Nashville, Tennessee; Oklahoma City; and Pittsburgh	Fort Worth, Texas; Charlotte, North Carolina; Seattle; Denver; Boston; Portland, Oregon; Memphis, Tennessee; Las Vegas; Louisville, Kentucky; and Baltimore

Sources: Official websites, documents, and interviews with local officials

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Characteristics of budget monitoring reports

In Philadelphia, the Quarterly City Manager’s Report (QCMR) fulfills the monitoring function. Required under the PICA Act, the QCMR is prepared by the city finance department to document the city’s progress in executing the budget and is formally submitted to PICA for review.¹⁸ The office or department that coordinates budget development also monitors it in most of the cities.

The majority of these city budget monitoring reports—including Philadelphia’s—assess how much the actual numbers differ from those budgeted for the year. In Nashville, Tennessee; Phoenix; San Jose; and Indianapolis, the documents assess how much actual revenue and spending differ from previous years. Eleven of the 21 cities that do regular budget reporting—including Philadelphia in a typical year—release their reports quarterly or

semiquarterly, while 10 publish monthly or bimonthly. Responding to coronavirus-induced uncertainty in the current fiscal year, Philadelphia agreed, as a condition for PICA's approval of its five-year plan, to start submitting monthly reports.¹⁹

As is the case in all but a handful of cities in this study, Philadelphia's QCMR includes narrative explanation of variances. The Philadelphia report also compares employee head counts with those authorized in the budget, as do reports for Jacksonville, Florida; Los Angeles; Columbus; Detroit; and Pittsburgh.

There is far less variation among cities in the form and structure of budget monitoring reports than of long-term planning documents.

Legal basis and oversight

Ongoing budget monitoring is a legal requirement in 11 of the 21 cities where the practice was identified, including every city with a history of state fiscal intervention. In the rest, monitoring is done as an official policy or recommended practice. Reports are prepared by technical staff and presented to the mayor, City Council, the public, and, in some cases, an oversight authority.

In Philadelphia, PICA staff members review each report and issue their own analysis. Although it's never happened, PICA can cut off Philadelphia's revenue streams if the city is unable to explain a variance to the authority's satisfaction.

The four other cities once under fiscal oversight—New York, Washington, Pittsburgh, and Detroit—are among those that still issue monitoring reports. New York submits monthly reports to its mostly advisory oversight authority. Detroit reports to its oversight board monthly as a condition of its waiver from binding oversight. Washington and Pittsburgh are no longer required to submit reports to any authority, but both have codified the quarterly reporting requirement.²⁰ Washington, Pittsburgh, and the 16 cities that have not been under state oversight present the reports to the local officials who would be responsible for midstream course corrections—and eventually to the public.

In several cities, the reports are prepared by a part of the government independent of the mayor or council, providing an enhanced form of oversight. Examples of this model include the offices of the chief financial officer in Washington and the controller in San Francisco.²¹ Those cities' budgets reflect the policy priorities of the mayor and council, but these internal oversight offices can restrict disbursement of funds when revenues are insufficient.

For a few municipalities, the local legislative body has created a layer of internal advisory oversight. San Diego's quarterly report, created by the finance department, must be reviewed by the IBA, which has no enforcement power but can issue an advisory report with recommendations for potential council action.²² In Jacksonville, the council auditor compiles and vets executive branch finance reports before they are presented to the council.²³ Los Angeles' quarterly report, meanwhile, is prepared by the office of the chief administrative officer, which reports to both the mayor and the council.²⁴

Conclusion

With PICA scheduled to expire as early as June 2023, policymakers in Philadelphia and Harrisburg will have to decide whether or how to preserve two core functions that the PICA Act requires in the city: long-term financial planning and ongoing budget monitoring.

More than half of the 31 cities that Pew examined conduct some form of long-term planning or forecasting, while about two-thirds perform budget monitoring. And most do so without a state mandate or truly independent oversight. Assessing the impact of such external controls is beyond the scope of this report.

The pending decision about PICA has taken on added importance since the COVID-19 pandemic began roiling the economy and depressing tax revenues, reinforcing the need for all governments to monitor revenues and expenditures. With this report and future convenings on fiscal policy and oversight, Pew aims to help inform discussion of this consequential decision.

About this brief

This brief was researched and written by Garrett Hincken, an officer with Pew’s Philadelphia research and policy initiative. It was edited by Larry Eichel, a senior adviser to the initiative, along with Erika Compart, Cindy Murphy-Tofig, and Bernard Ohanian, and designed by Cara Bahniuk. Tom Ginsberg, a senior officer with the initiative, also contributed to the research.

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Endnotes

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Contact: Elizabeth Lowe, communications officer **Email:** elowe@pewtrusts.org **Project website:** pewtrusts.org/philaresearch

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