



Making MidYear Moves:

What to Include & Avoid in a MidYear Budget Amendment

Earlier this month, City Council adopted and Mayor Kenney signed Bill 230767, which amends the City's FY24 General Fund budget and adds more than \$100M in appropriations, a 2% increase over the Original Adopted Budget. MidYear Transfer Ordinances are tools to adjust appropriations during the fiscal year to fix errors (like funds being allocated to the wrong department or class due to a drafting mistake) and respond to changing conditions (like a significant court-ordered payment, public health or safety emergencies, an influx of revenue, or spike in prices for critical items, such as gas).

In recent years, MidYears have gone from refinements on the margins of the budget to more material changes that could impact the City's fiscal stability. To maintain and enhance the City's financial condition, PICA recommends that MidYear Transfer Ordinances generally be limited to one-time costs that can't wait until the coming fiscal year.

What is a MidYear Transfer Ordinance?

A MidYear Transfer Ordinance amends the annual budget legislation during the fiscal year. There is no limit to the number of amendments during the year, but typically Philadelphia has one or two General Fund transfer ordinances, and there can also be changes to the Capital Budget and Program and other operating funds.

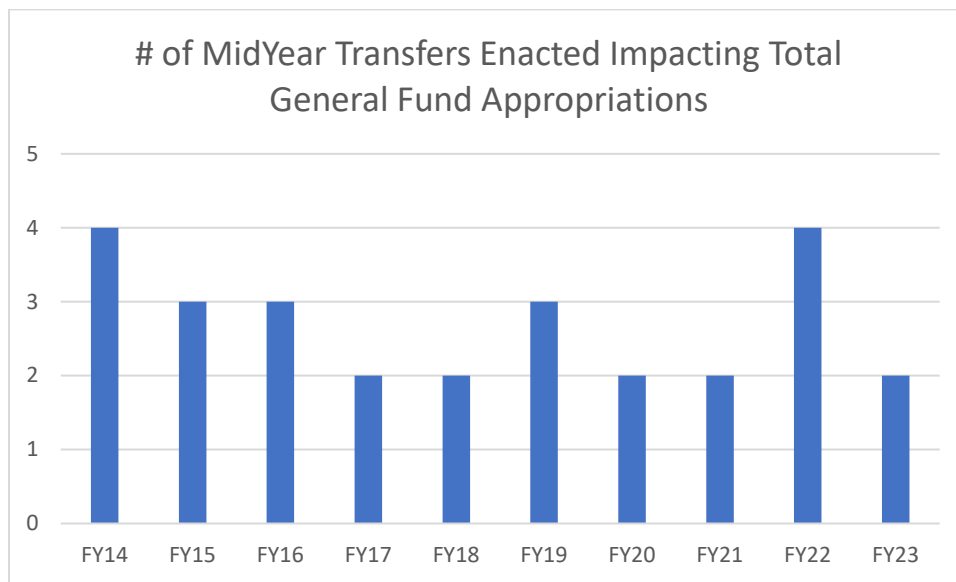
Two General Fund transfer ordinances proposed by the Administration are usually introduced each year to make adjustments during that fiscal year.¹ One is often proposed in the fall and passed by the end of the fall session in December, about 6 months after the budget for that fiscal year was adopted. The fall ordinance is an opportunity to adjust based on operational experience and correct any errors in the original legislation. A second Administration MidYear Transfer Ordinance is usually introduced in tandem with the proposal of the budget for the coming fiscal year. The spring Transfer Ordinance again fixes errors and adjusts appropriations based on operational experience so far in the year and updated projections for the remainder of the year. Additionally, when financial conditions allow, it may expand or launch initiatives that are also contemplated in the upcoming budget to get the ball rolling. Additional MidYear Transfer Ordinances can be initiated by City Council members or proposed by the Administration.

¹ There are also Year-End Transfer Ordinances that are typically proposed in the fall after the end of the fiscal year.



Trends in MidYear Transfer Ordinances

In the ten years from FY14 through FY23, there were 27 operating MidYear Transfer Ordinances enacted that had a net impact on General Fund appropriations. In addition to those 27 ordinances, there were other transfers in appropriations that either had zero net impact, either because they shifted funds between departments and classes without increasing total appropriations or concerned funds other than the General Fund (ex. Aviation, Water, or Community Development). The number of enacted ordinances with a net impact on the General Fund in a given fiscal year ranged from 2 to 4.



As the size of the General Fund has grown, so has the size of MidYear Transfer Ordinance appropriations. Not only has the dollar amount increased, but so has its size relative to the Original Adopted Budget. The combined amount added to the General Fund appropriation via MidYear has ranged from 0.4% to 4.4% as compared to the Original Adopted Budget, with the average in pre-pandemic years being 1.5% and the average increase from FY20 through FY23 being 3.4%. The net change in appropriations happens within the context of changes in revenue estimates and final fund balance for the prior year, so the change in spending should be considered alongside changes in available resources.



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Fiscal Year	Net Impact of Transfer	
	Ordinances on the General Fund (not including revenue increases)	MidYear Additions as % of Original Adopted Budget
FY14	\$ 104,497,472	2.7%
FY15	\$ 67,346,192	1.5%
FY16	\$ 51,488,562	1.3%
FY17	\$ 59,984,565	1.4%
FY18	\$ 18,784,028	0.4%
FY19	\$ 88,682,020	1.9%
FY20	\$ 177,766,693	3.5%
FY21	\$ 125,570,323	2.8%
FY22	\$ 160,143,324	2.8%
FY23	\$ 256,945,788	4.4%

Thus far in FY24, one MidYear Transfer Ordinance has been adopted that includes a \$109.5 million net increase in General Fund appropriations (1.8%). Given this level of change, and the likelihood of at least one more FY24 transfer ordinance, it is possible that the trend of MidYear Ordinances growing to a larger share of the Original Adopted Budget will continue.

Recommended Approach to the Scope of Fall MidYear Transfer Ordinances

The MidYear Transfer Ordinance exists to make adjustments necessary to carry out the decisions made in the annual budget process or to address emergencies where little deliberation is needed to determine whether to proceed (ex. an unexpected Court order for payment, a health or climate emergency...). From a fiscal stability perspective, the MidYear should not result in dramatic changes in overall spending or fund balance unless it is totally unavoidable.

What to Include in MidYear Transfer Ordinances

Financial Considerations

- Unavoidable or mandated costs that would create larger financial risk to the City if the decision was deferred until the next budget cycle.

Operational/Policy Considerations

- Shifts between classes within a department with no net impact on overall appropriations that allow the department to deliver services as planned or to take advantage of an opportunity.
- New investments that respond to emergent conditions that improve public health and safety.
- New appropriations that allow the City to take advantage of new revenue streams, such as a recently awarded grant.



What to Avoid in MidYear Transfer Ordinances

Financial Considerations

- Items that will cause the Five-Year Plan to become imbalanced.
 - While the current year may be able to support additional appropriations, if the Five-Year Plan has declining fund balances (like in the current Plan), it may become imbalanced by additional appropriations.
- Items with costs recurring beyond the current fiscal year.
 - The MidYear Transfer process, particularly in the fall, does not include a full review of revenue expectations for coming years. Committing to new, ongoing costs without the context of available resources should be avoided.
- Items that aren't an emergency or due to changing conditions.
 - The MidYear Transfer process, particularly in the fall, does not include a full review of all potential spending options and does not have as robust a process for prioritizing needs. For new or expanded spending that isn't an emergency or due to changing conditions, it is best to consider options as part of the broader budget process for the coming fiscal year. This is particularly true in the fall MidYear ordinance when there is not as much of the fiscal year elapsed and less certainty around how the final numbers will turn out.

Operational & Policy Considerations

- Items that involve more than writing a check.
 - By the time the legislation is passed, particularly for the spring transfer ordinance, there isn't much time left in the fiscal year to do anything new or expand operationally. RFP processes won't be completed quickly enough for payments to be made before the end of the fiscal year, equipment likely won't be delivered in time, and new staff is unlikely to be onboarded.
- Funds for new hires.
 - Class 100 (Personnel) costs are the only area of the budget where more than the authorized amount can be spent. This flexibility is needed to avoid disrupting critical services (ex. if the Fire Department goes over budget on staff costs, the City doesn't stop responding to 911 calls until more funds can be authorized). Because this flexibility exists, and because salary costs can fluctuate based on who joins and leaves City employment and when, it is very challenging to predict exact amounts by department. Given this volatility and the lack of urgency to make adjustments for relatively minimal changes in staffing levels or compensation, these types of amendments should be avoided, particularly for new units or functions. Exceptions to this may be needed in the event of public health and safety emergencies or with new labor agreements.



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The practice of implementing MidYear Transfer Ordinances in Philadelphia's fiscal management has been evolving, shifting from minor budget adjustments to substantial amendments that can impact the City's financial stability. The recent adoption of Bill 230767 increased the FY24 General Fund budget by 2%. While the single largest increase, for indemnities, is an example of an unavoidable cost that should be included in a transfer ordinance, the overall size of this MidYear exemplifies the trend of relatively larger adjustments to the budget. While these ordinances are essential for addressing unforeseen costs and operational changes, it's crucial to approach them with fiscal prudence. To safeguard the City's financial health, such amendments should ideally focus on one-time, unavoidable expenses and avoid commitments that could unbalance future budgets or introduce recurring costs without thorough revenue evaluation. As we move forward, maintaining a balance between flexibility and fiscal responsibility will be key to ensuring the city's financial stability and the effective implementation of its budgetary goals.