PICA Fact Sheet: Bond Authorizations

When the City wants to spend big on things that last, like major public works or infrastructure initiatives, it often relies on borrowed money. That helps ensure there are enough funds available to make the big investment without sacrificing short-term flexibility for operating needs and spreads the costs out over time in a way that aligns with the useful life of the investment. Most people, for example, use a mortgage instead of their checking account to purchase a house. Over time (usually decades) the City pays back what it borrowed plus interest. These payments are called debt service. In a system of fiscal checks and balances, if an administration wants the City to borrow money, it needs City Council's authorization first.

How does authorization work?

The first step in getting authorization for borrowing is coming up with an estimate for how much borrowing to authorize. The executive branch considers the City's debt policy, funds available for debt service, and desired size and impact of the investment to estimate how much borrowing they'd like City Council to authorize. That estimate gets written up into a bill summarizing the authorized amount and intended use of the borrowed funds. The bill is then introduced in City Council, where it gets read into the record and assigned to the Finance Committee. The bill is then heard in committee, where Councilmembers discuss and debate the merits and details of the bill, then vote on whether or not to advance the bill out of the committee. If the committee votes in favor of the bill, it is then reported out of committee back to the full City Council to be considered for a vote. After being reported out of committee, City Council brings the bill up for a final vote. If City Council doesn't authorize the borrowing, the City can't borrow money. If City Council *does* authorize the borrowing, and the Mayor signs the Council-approved bill, the City can start to put legislation into action.

Some things to consider:

Authorization does not equal borrowing

The Government Finance Officers Association (GFOA) recommends that cities "borrow only as much as needed to fund capital projects or expected expenses, after consideration of cash funding, grants, or other funding sources." The City considers how much it will be able to spend before deciding how much of the authorization to borrow. Instead of borrowing the full authorization all at once, the City borrows incrementally.

- For example, City Council authorized $400 million in borrowing for the Neighborhood Preservation Initiative in 2021. Instead of borrowing all $400 million at once in 2021, the City has borrowed in smaller chunks in line with their capacity to spend:
  - NPI 1: $99 million in 2021
  - NPI 2: $99 million in 2023
  - NPI 3: $149 million in 2024
- General Obligation borrowing works similarly. Instead of borrowing for six years of capital needs all at once, borrowing is typically done every other year as cash is needed to complete the projects, with authorizations approved one year at a time.

Having more authorization than needed is typically preferrable to having too little, so long as the repayment of the full amount is fiscally sustainable.

If the City spends down its funds and has no borrowing authorization left:

- An administration has to go back and start the authorization process over to receive Council authorization to borrow additional funds.
- Delays caused by the need to request additional authorizations could result in more costly projects.

If the City spends down its funds and has some authorized borrowing remaining:

- It can borrow the remaining funds to expand or augment the project.
    - This typically still requires a sign off from City Council, but is less complicated than authorizing additional borrowing.

What if the City doesn't borrow the full authorized amount?

If the City is able to complete related capital projects without borrowing the full amount authorized by City Council, the City is able to avoid paying more debt service than necessary. The legislation that authorizes City borrowing is typically structured to include a broad authorization of the project and overall borrowing amounts by City Council, with periodic checks (like the Capital Budget process, or annual program budget requirements) to ensure that both the legislative and executive branches of Philadelphia City Government are in alignment before incurring long term obligations that limit fiscal flexibility. Once approved by City Council, an authorization remains in place, allowing an administration to borrow until all borrowing is completed or it proactively removes it from its books.

About this Report

One image used in this publication was generated using ChatGPT's DALL-E feature. All AI-generated content and images were reviewed by PICA Staff prior to publication.