

**OFFICE OF THE DIRECTOR OF FINANCE
FISCAL YEAR 2019 BUDGET TESTIMONY
APRIL 3, 2018**

INTRODUCTION

Good Morning, President Clarke and Members of City Council. I am Rob Dubow, Director of Finance. Joining me today is Cathy Paster, First Deputy Director of Finance. Also, representatives from all divisions of Finance are available here to answer questions. I am pleased to provide testimony on Finance's Fiscal Year 2019 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: The Office of the Director of Finance is charged with overseeing the City's financial, accounting and budgetary functions, including establishing fiscal policy guidelines; overseeing the City's budget and financial management programs; recording and accounting all City financial activities, as well as administering the City's payroll activities and risk management functions.

The proposed budget for the Office of the Director of Finance supports a number of departmental divisions, including: Executive Direction, which is comprised of the Administrative Services Center, the Mayor's Office of Grants, and the Administrative Systems Modernization project (OnePhilly); the Office of Budget and Program Evaluation (OBPE); the Accounting Bureau; the Office of Risk Management; and the Office of Property Data.

Plans for Fiscal Year 2019: The various divisions of Finance will undertake the following in FY19:

- Work with the Mayor's Office and City Council to ensure that the School District of Philadelphia has the appropriate level of funding.
- Work with the Treasurer's Office, OBPE and other departments to maintain the City's "A" category ratings for its General Obligation (GO) debt from all three major rating agencies (currently rated A2 by Moody's, A by Standard & Poor's and A- by Fitch) and to get the negative watch from Moody's removed. One important factor in getting the negative watch removed is improving the City's fund balance.
- Continue efforts to make the budgeting process more efficient and effective, through the expansion of program-based budgeting from 31 departments to an additional 10-15 departments in FY19 and through careful monitoring of revenues and expenditures with the goal of achieving a healthier fund balance while being responsive to planned and unplanned funding needs.
- Strive for excellence in financial reporting, including receipt of the GFOA Certificate of Achievement for Excellence in Financing Reporting for the 37th year; implement reporting practices in the 2018 Comprehensive Annual Financial Report (CAFR) in compliance with requirements in all GASB pronouncements; continue increased communications and training efforts with City departments to improve compliance with existing policies and procedures; and work to increase the number of vendors receiving payment through electronic means, instead of paper checks.
- Attempt to secure new public and private resources and ensure the successful implementation of existing resources; assist City agencies and programs to effectively manage grant funds; and work with the Mayor's Office of Diversity and Inclusion, the Managing Director's Office, and the Commerce

Department to promote equitable practices and inclusive policies throughout the City's grant-seeking and grant management practices.

- Launch the OnePhilly project, which will replace the City's current payroll, pensions, human resources, and time entry systems with one integrated system, allowing for more efficient operation and improving services for employees.
- Continue work with OPA, providing project management and business analysis support for the implementation of the CAMA system, which is scheduled to go live in late 2019, with a goal to utilize the system fully to prepare assessments in Spring 2020 for Tax Year 2021. In addition, OPD will continue efforts to develop a unique parcel identification number (PIN) that will be identical in all City systems for each individual property address, ensuring that property data is consistent across all City systems.
- Continue efforts to reduce the number and severity of worker injuries through improved worker safety, while managing cost, maintaining a high standard and returning employees to normal function/work as quickly as possible; continue efforts to recover costs from insured losses, property damage or worker injury caused by others, as well as reduce the City's exposure to liability claims and lawsuits arising from activities and operations of independent contractors and vendors.

BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of December 2017)				
	Total	Minority	White	Female
Number of Full-Time Staff	110	74	36	76
Number of -Exempt Staff	32	16	16	20
Number of Executive Staff (deputy level and above)	10	3	7	6
Average Salary, Full-Time Staff	\$65,145	\$56,086	\$83,765	\$59,788
Average Salary, Exempt Staff	\$89,658	\$80,929	\$98,605	\$84,749
Average Salary, Executive Staff	\$132,558	\$126,847	\$135,005	\$125,464
Median Salary, Full-Time Staff	\$58,219	\$46,046	\$78,146	\$50,215
Median Salary, Exempt Staff	\$86,488	\$84,738	\$90,000	\$79,750
Median Salary, Executive Staff	\$131,026	\$120,000	\$145,000	\$116,745

Employment Levels (as of December 2017)		
	Budgeted	Filled
Number of Full-Time Positions	118	110
Number of Exempt Positions	32	32
Number of Executive Positions (deputy level and above)	15	10
Average Salary of All Full-Time Positions	\$67,743	\$65,145
Median Salary of All Full-Time Positions	\$58,454	\$58,219

General Fund Financial Summary by Class						
	FY17 Original Appropriations	FY17 Actual Obligations	FY18 Original Appropriations	FY18 Estimated Obligations	FY19 Proposed Appropriations	Difference: FY19-FY18
Class 100 - Employee Compensation	\$1,236,705,517	\$1,249,645,513	\$1,315,127,522	\$1,309,108,521	\$1,363,060,099	\$53,951,578
Class 200 - Purchase of Services	\$3,201,430	\$2,634,354	\$3,201,430	\$3,201,430	\$3,201,430	\$0
Class 300/400 - Materials, Supplies & Equipment	\$103,109	\$76,945	\$103,109	\$103,109	\$103,109	\$0
Class 500 - Contributions	\$178,057,824	\$137,397,632	\$184,352,488	\$184,352,488	\$257,668,574	\$73,316,086
Class 900 - Advances/Misc. Payments	\$0	\$0	\$50,893,000	\$50,893,000	\$53,573,000	\$2,680,000
	\$1,418,067,880	\$1,389,754,444	\$1,553,677,549	\$1,547,658,548	\$1,677,606,212	\$129,947,664

Contracts Summary (Professional Services only)						
	FY13	FY14	FY15	FY16	FY17	FY18 YTD (Q1 & Q2)
Total amount of contracts	\$27,067,370	\$16,732,149	\$14,387,548	\$15,828,849	\$15,103,109	\$14,968,282
Total amount to M/W/DSBE	\$7,683,758	\$4,656,525	\$4,309,021	\$4,792,539	\$4,616,575	\$6,225,266
Participation Rate	28%	28%	30%	30%	31%	42%

Total M/W/DSBE Contract Participation Goal (Public Works; Services, Supplies & Equipment; and Professional Services combined)			
	FY17	FY18	FY19
M/W/DSBE Contract Participation Goal	35%	35%	35%

PROPOSED BUDGET OVERVIEW

The proposed Fiscal Year 2019 General Fund budget totals \$1,677,606,212 an increase of \$129.9 million over Fiscal Year 2018 estimated obligation levels. The \$129.9 million includes an increase of \$54.0 million in Class 100 costs; an increase of \$73.3 million in Class 500 costs, and an increase of \$2.7 million in Class 900 costs. Direct General Fund appropriations proposed for the Finance Department's core budget total \$14,438,556, a decrease of \$119,230 over FY18 estimated obligation levels. The Finance Department's proposed budget includes:

- \$1,363,060,099 in Class 100 funds, an increase of \$54.0 million over estimated FY18 obligation levels. This funding will compensate 123 Finance Department employees and fund fringe benefits and pensions costs for all City of Philadelphia General Fund employees. The \$54.0 million increase is a result of a \$36.9 million increase in pension costs; a \$16.3 million increase in fringe benefit costs, mostly related to healthcare costs; and a \$740,770 increase in other Class 100 costs in Finance's core budget, raising the total Class 100 core budget from \$7,024,765 to \$7,765,535. This is mainly the result of moving OnePhilly staff from the Capital Fund to the General Fund.
- \$3,201,430 in Class 200 funds for the purchase of services, unchanged from FY18.
- \$103,109 in Class 300/400 funding for materials, supplies and equipment, unchanged from FY18.
- \$257,668,574 in Class 500 funds for contributions, an increase of \$73.3 million over estimated FY18 obligation levels. This includes the City's \$176.2 million contribution to the School District, an increase of \$71.8 million over the FY18 level (this amount will be modified based on the revised School District funding proposal); \$31.9 million for Community College of Philadelphia, an increase of \$1.5 million over the estimated FY18 obligation level; \$3.5 million to fund City contributions, a decrease of \$860,000 from the FY18 level; and \$56.8 million to fund indemnities, an increase of \$860,000 over the FY18 obligation level.
- \$53.6 million in Class 900, a reserve to mitigate the impact of potential federal or state funding cuts.

STAFFING LEVELS

The department is requesting 123 budgeted positions for FY19, an increase of five positions over the FY18 budgeted level.

This increase is a result of consolidating OnePhilly staff and moving the expenses from the Capital Fund to the General Fund. With the addition of these positions, the Office of the Director of Finance is sufficiently staffed to carry out its mission.

NEW HIRES

New Hires (from 7/1/2017 to December 2017)					
	Total Number of New Hires	Gujarati	Hindi	Marathi	Kuchhi
Black or African American	3	-	-	-	-
Asian	2	1	2	1	1
White	1	-	-	-	-
Total	6	1	2	1	1

PERFORMANCE, CHALLENGES, AND INITIATIVES

Executive Direction:

FY19 Strategic Goals				
<i>Executive Direction</i>				
<ul style="list-style-type: none"> Maintain long-term fiscal stability of the City's finances while helping the City to achieve policy goals. 				
<i>The Mayor's Office of Grants</i>				
<ul style="list-style-type: none"> Secure new public and private resources and ensure the successful implementation of existing public and private resources. Build the capacity of City agencies and programs to efficiently secure and manage grant funds. Manage strategic partnerships and strengthen collaborative relationships to increase access to grant resources and to improve program delivery. 				
<i>OnePhilly</i>				
<ul style="list-style-type: none"> Successfully implement OnePhilly to update and modernize employee-related administrative systems and processes. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Grants: Number of departments consulting with Grants to pursue competitive grant applications ¹	20	18	20	28
Grants: Percentage of grant applications resulting in successful award ²	22%	27%	25%	30%
Executive Direction: Maintain GO credit rating while working to remove the negative outlook from Moody's in FY19	"A" category rating	"A" category rating (negative outlook Moody's)	"A" category rating (negative outlook Moody's)	"A" category rating

¹ The goal is to increase the number of departments. The Grants Office anticipates that through outreach and education, 8-10 additional departments will have the capacity to pursue competitive grant applicants in collaboration with the Grants Office.

² This is an annual measure. Twenty-nine applications were submitted in calendar year 2015, and 42 were submitted in calendar year 2016. The acceptance rate for all grants is not yet known.

The Accounting Bureau:

FY19 Strategic Goals				
<ul style="list-style-type: none"> Obtain the Certificate of Achievement for Excellence in Financial Reporting from GFOA. Implement new GASB pronouncements as required for each fiscal year CAFR. Encourage vendors to enroll in ACH for direct deposit payments by improving the vendor website. Provide timely and accurate processing of payroll and fringe benefits (employee benefits). 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Percentage of new GASB pronouncements implemented by required date ¹	100%	N/A	100%	100%
Percentage of paid vendors enrolled in ACH automatic payments	47%	56%	65%	70%

¹ This is an annual measure. GASB pronouncements are implemented through the CAFR, which is completed at the end of February.

The Office of Budget and Program Evaluation (OBPE):

FY19 Strategic Goals				
<ul style="list-style-type: none"> Obtain the Distinguished Budget Presentation Award from GFOA. Continue to budget appropriately for all departments to ensure efficient and effective delivery of the City's services to Philadelphians, while balancing the City's short-term needs and long-term fiscal health. Expand program-based budgeting from 31 departments to an additional 10-15 departments in FY19 and to all departments by FY21. Collect data and evaluate capital project processing times using shared capital project tracking system. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Percent change in the total dollar amount of General Fund revenue (actual) compared to budget (adopted) ¹	0.6%	N/A	0 to 1%	0 to 1%
Percent change in the total dollar amount of General Fund expenditures (actual) compared to budget (adopted) ²	-1.1%	N/A	-1 to 0%	-1 to 0%
Ratio of actual unreserved General Fund fund-balance to actual General Fund revenue ³	4.6%	N/A	6 to 8%	6 to 8%
Total number of new departments participating in program-based budgeting ⁴	20	11	10 to 15	10 to 15

¹ This is an annual measure. Target is to be \geq fiscal year projection.

² This is an annual measure. Target is to be \leq fiscal year projection.

³ This is an annual measure. OBPE aims to grow the Fund Balance to 6-8% over the next 5-10 years.

⁴ The roll-out of program-based budgeting began in FY17. Each year, OBPE will include additional departments until this is implemented citywide.

The Office of Property Data (OPD):

FY19 Strategic Goals				
<ul style="list-style-type: none"> Continue the addressing data projects to ensure consistent addressing and improve the collection, maintenance, and distribution of accurate property data across City agencies. Continue the CAMA project in FY19, working toward full implementation of the system by December 2019. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Annual number of data addressing project improvement recommendations completed as scheduled ¹	two recommendations complete 3 rd at 35% completion	N/A	Item 3 (document deed discrepancies) – 100% complete; Item 4 (city-side address assignment policies) -25% complete; Item 5 – (Citywide Addressing Authority) -50% complete	Complete 2 recommendations – implement city-wide address assignment policies and identify city addressing authority; PIN project 75% complete
CAMA project will kick-off with vendor on-site and full project development underway in October 2017 ²	N/A	Contracted with vendor; kicked off project; data cleansing underway		60% complete

¹ This is an annual measure. In FY17, OPD completed two recommendations and began implementing a third: 1) develop and adopt a consistent citywide address database format (completed), 2) re-design and implement processes for Unified Land Records System (ULRS) to support new address data and parcel identifier standards (completed), and 3) develop a process for documenting deed discrepancies and sharing this information with other city agencies (35% complete). In FY18, OPD will complete the process for documenting deed discrepancies (#3 above), and begin two additional recommendations: 4) develop and implement citywide address assignment policies (anticipate 25% completion), and 5) identify the City Addressing Authority (expects 50% completion). For FY19, OPD expects to complete the cityside address assignment project and the identification of the City addressing authority, and expects 75% completion on the PIN project.

² This is a new measure for FY18, so data is not available for FY17.

The Risk Management Division:

FY19 Strategic Goals				
<ul style="list-style-type: none"> • Reduce the number of workers' injuries. • Help return employees to normal function as quickly as possible. • Reduce and limit the City's exposure to liability claims. • Appropriately recover costs for damages caused to City property as well as costs associated with bodily injury to City workers caused by others. 				
FY19 Performance Measures				
Measure	FY17 Actual	FY18 YTD (Q1 + Q2)	FY18 Target	FY19 Target
Average number of police and firefighters on no duty	340	335	335	331
Number of employee injuries	2,926	1,462	2,858	2,798
Settlement cost for closed claims ¹	\$1.3M	\$632K	\$1.5M	\$1.5M

¹ This category captures the settlement costs of General Fund claims only.

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

N/A

CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY18											
Vendor Name	Service Provided	Dollar Amount of Contract	RFP Issue Date	Contract Start Date	Ranges in RFP	% of M/W/DSBE Participation Achieved	\$ Value of M/W/DSBE Participation	Total % Participation - All DSBES	Total \$ Value Participation - All DSBES	Local Business (principal place of business located within City limits) [yes / no]	Waiver for Living Wage Compliance? [yes / no]
Comp Services, Inc.	Medical health care, claims and litigation mgt. services to employees who sustain service-connected injuries	\$6,474,000	1/27/2014	7/1/2014	MBE: 15-17%	19%	\$1,220,000	22%	\$1,436,000	yes	no
					WBE: 10-12%	3%	\$216,000				
					DSBE: best efforts		\$0				
Conduent State & Local Solutions* (formerly XEROX State & Local Solutions*)	Administer & collect code violations & alarm fees	\$1,010,050	12/15/2012	1/1/2014	MBE: 20-25%	20%	\$202,010	20%	\$202,010	yes	no
					WBE: 20-25%		\$0				
					DSBE: best efforts		\$0				
Lawton Associates	Insurance & Risk Management Services	\$930,000	3/7/2014	7/1/2014	MBE: 25-30%	100%	\$930,000	100%	\$930,000	yes	no
					WBE: 25-30%		\$0				
					DSBE: best efforts		\$0				
Various (6 vendors)	Legal services related to City's Employee Disability/Worker's Compensation Program	\$4,500,000	3/20/2017	7/1/2017	MBE: 15-20%	17%	\$750,000	50%	\$2,250,000	yes	no
					WBE: 15-20%	33%	\$1,500,000				
					DSBE: best efforts		\$0				

EMPLOYEE DATA

Staff Demographics (as of December 2017)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	13	43	<i>Total</i>	2	0
<i>% of Total</i>	12%	39%	<i>% of Total</i>	20%	0%
<i>Average Salary</i>	\$70,352	\$50,572	<i>Average Salary</i>	\$131,026	N/A
<i>Median Salary</i>	\$62,491	\$43,540	<i>Median Salary</i>	\$131,026	N/A
	White	White		White	White
<i>Total</i>	13	23	<i>Total</i>	2	5
<i>% of Total</i>	12%	21%	<i>% of Total</i>	20%	50%
<i>Average Salary</i>	\$99,327	\$74,957	<i>Average Salary</i>	\$155,371	\$126,859
<i>Median Salary</i>	\$87,766	\$64,170	<i>Median Salary</i>	\$155,371	\$115,000
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	1	4	<i>Total</i>	0	0
<i>% of Total</i>	1%	4%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$81,282	\$48,093	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$81,282	\$41,207	<i>Median Salary</i>	N/A	N/A
	Asian	Asian		Asian	Asian
<i>Total</i>	5	5	<i>Total</i>	0	1
<i>% of Total</i>	5%	5%	<i>% of Total</i>	0%	10%
<i>Average Salary</i>	\$47,683	\$81,860	<i>Average Salary</i>	N/A	\$118,489
<i>Median Salary</i>	\$40,231	\$95,000	<i>Median Salary</i>	N/A	\$118,489
	Other	Other		Other	Other
<i>Total</i>	2	1	<i>Total</i>	0	0
<i>% of Total</i>	2%	1%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$56,362	\$50,616	<i>Average Salary</i>	N/A	N/A
<i>Median Salary</i>	\$56,362	\$50,616	<i>Median Salary</i>	N/A	N/A
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	8	8	<i>Total</i>	0	1
<i>% of Total</i>	50%	50%	<i>% of Total</i>	0%	10%
<i>Average Salary</i>	\$53,591	\$71,510	<i>Average Salary</i>	N/A	\$118,489
<i>Median Salary</i>	\$43,741	\$66,843	<i>Median Salary</i>	N/A	\$118,489
	Male	Female		Male	Female
<i>Total</i>	34	76	<i>Total</i>	4	6
<i>% of Total</i>	31%	69%	<i>% of Total</i>	40%	60%
<i>Average Salary</i>	\$77,604	\$59,788	<i>Average Salary</i>	\$143,198	\$125,464
<i>Median Salary</i>	\$77,050	\$50,215	<i>Median Salary</i>	\$143,526	\$116,745

LANGUAGE ACCESS

- 1) Has your leadership received language access training?

All Finance leadership has received language access training.

- 2) Do you currently have a language access coordinator?

The Finance Department's language access coordinator left the department in March 2018. We will be appointing a new coordinator very soon.

- 3) Has your department written a language access plan and is it posted online?

The Finance Department has a language access plan and it is posted online.

- 4) Explain what your department has done to improve language access services over the past year.

Because most of Finance's interaction is with City employees, the demand for language access services is very small. The one area where there may be contact is in filing claims with Risk Management. Language access training has been provided to Risk's claims unit intake staff. Additionally, Risk installed a dedicated phone line in its offices. This phone line allows for someone who comes in with Limited English Proficiency (LEP) to call the language line to get a translator on the phone with both the claimant and our staff. During next fiscal year, Risk will be translating the primary intake forms into Spanish.