

**CITY TREASURER'S OFFICE
FISCAL YEAR 2020 BUDGET TESTIMONY
APRIL 2, 2019**

INTRODUCTION

Good Morning, Council President Clarke and Members of City Council. I am Rasheia Johnson, City Treasurer. Joining me today are Christian Dunbar, Deputy City Treasurer – Debt Management and Raymond Hale, Deputy City Treasurer – Banking and Investments. I am pleased to provide testimony on the City Treasurer's Office's Fiscal Year 2020 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: The mission of the City Treasurer's Office (CTO) is to safeguard City funds, serve as the disbursement agent for all City-related payments, and invest those funds that are in excess of the amount needed to meet daily cash requirements. The CTO also works to improve and maintain the City's credit ratings.

Plans for Fiscal Year 2020:

Banking and Investment: The CTO released an RFP for custodian banking services. Beginning in FY20, the selected applicant will safeguard funds that are not directed by an ordinance or bond indenture, including the City's Consolidated Cash account.

Treasury Management System (TMS): CTO continues to work with the Office of Innovation and Technology (OIT) to fully integrate the TMS. In June 2018, a firm was selected to help CTO implement a system that will automate processes that are currently manual and spreadsheet-dependent, such as: the daily cash positioning for the General, Airport, and Water funds; examining bank fees; creating a centralized, secured, and standardized system to administer more than 300 bank and investment accounts for the City; and automate portions of the bank reconciliation process. The TMS will be fully implemented this year.

Reconciliation: In its FY17 Comprehensive Annual Financial Report, released on February 23, 2018, the City noted that there was a gap of \$33 million between the amount showing in its accounting system for its consolidated cash account (Concash) and the amount showing in its bank accounts. That gap was caused by the failure to do reconciliations beginning in July 2014, 18 months before the start of the Kenney Administration.

After discovering this issue, the City Treasurer engaged Horsey Buckner and Heffler (HBH), a nationally recognized accounting firm to help eliminate the differences between the accounting system and the bank accounts and to ensure that reconciliations were completed on-time going forward. The CTO and HBH worked to identify the causes of the discrepancy and to support staff in the reconciliation process for the consolidated cash account. HBH has also worked with the City to develop recommendations to strengthen internal controls and operating efficiencies within the CTO.

Additionally, in June 2018, Mayor Kenney appointed a Reconciliation Task Force, chaired by former City Controller Jonathan Saidel and I, to review the work of the CTO and HBH.

HBH's engagement consisted of a detailed examination of the cumulative unreconciled cash difference between the City's bank records and the City's accounting records (FAMIS) for the Concash account during the period July 1, 2014 – June 30, 2017. Throughout this process, HBH reviewed over 8,500 disbursement transactions

CITY TREASURER’S OFFICE

and over 17,000 deposit transactions. HBH’s procedures included matching both deposit and disbursement transactions from monthly bank statements as compared to FAMIS. Any transactions that did not “match” were noted as exceptions to be further investigated and resolved.

The process has led to the successful reduction of the unreconciled amount from the \$33.3 million to \$528,000. The Treasurer’s Office will continue to examine its files to resolve the remaining difference. It’s important to note, however, that there will often be timing differences at the end of months that can result in small differences between the amounts shown in the City’s accounting system and the amounts shown in bank statements.

Consolidated Cash Variance	
Date	Amount
December 2017	\$ 33.3M
March 2018	27.6M
April 2018	26.6M
June 2018	28.6M
July 2018	27.1M
September 2018	23.2M
November 2018	2.1M
December 2018	882K
January 2019	528K

HBH’s final report to the CTO and the Reconciliation Task Force also identified areas in need of improvement and proposed recommendations for how to achieve those improvements. HBH’s recommendations will help ensure that the City does not face another prolonged period during which reconciliations aren’t completed.

Among the recommendations that either have been implemented or will be implemented are the following:

1. Increasing staffing in the City Treasurer’s Office
2. Cross-training employees in the City Treasurer’s Office
3. Developing a policies and procedures manual to detail all of the CTO’s functions
4. Implementing an automated treasury management system with a reconciliation module

The CTO is up-to-date with all bank reconciliations and is in the process of implementing the recommendations. This budget includes funding to help implement those recommendations. The CTO will have a formal policies and procedures manual implemented by the end of FY19.

Investment Management: CTO released an RFP to expand the depth and breadth of its team of its investment managers in 2018. CTO enlarged the pool of asset managers from eight to fourteen (including the seven incumbent managers that responded to the RFP), with approximately \$3 billion under management. Seven firms qualify as minority- and woman-owned businesses. As of March 2019, 33% of the City’s assets are under management with minority- and woman-owned businesses, compared to the previous 11%, and 68% of the assets under management are with firms headquartered in Philadelphia or the surrounding area. Expanding the total number of available investment managers created a more competitive fee environment in addition to providing flexibility if one or more firms are not meeting their assigned benchmarks.

Investment Policy: CTO will also update the City’s Investment Policy, which was last updated in September 2014. Investments covered under this investment policy include all operating, capital, debt service, and debt

CITY TREASURER'S OFFICE

service reserve accounts of the City's General Fund, Water Department, Aviation Division, and Philadelphia Gas Works.

Debt Management: Over the five years of the Plan, the CTO will continue to manage new and outstanding City debt. The list below details upcoming debt transactions for the remainder of FY19 and FY20.

- Spring 2019: General Obligation Refunding Bonds
- Summer 2019: General Obligation Revenue Bonds – New Money
- Summer 2019: Water and Wastewater Revenue Bonds – New Money
- Fall 2019: Philadelphia Authority for Industrial Development – New Money
- Fall 2019: Tax and Revenue Anticipation Notes (TRAN) for FY20 (if necessary)

In addition to new bond transactions, the CTO will issue and award three RFPs for professional service contracts that are due to expire.

- Spring 2019: Municipal Advisor for Philadelphia Water Department
- Fall 2019: Bond Counsel for TRAN
- Fall 2019: Municipal Advisor for General Obligation

BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of November 2018)				
	Total	Minority	White	Female
Number of Full-Time Staff	17	12	5	11
Number of Exempt Staff	8	6	2	4
Number of Executive Staff (deputy level and above)	2	2	0	1
Average Salary, Full-Time Staff	\$69,721	\$71,612	\$65,183	\$68,172
Average Salary, Exempt Staff	\$82,083	\$81,113	\$84,996	\$82,400
Average Salary, Executive Staff	\$127,978	\$127,978	N/A	\$149,350
Median Salary, Full-Time Staff	\$57,964	\$58,540	\$57,964	\$57,964
Median Salary, Exempt Staff	\$74,675	\$65,920	\$84,996	\$65,920
Median Salary, Executive Staff	\$127,978	\$127,978	N/A	\$149,350

Employment Levels (as of November 2018)		
	Budgeted in FY19	Filled as of the Increment Run (11/18)*
Number of Full-Time Positions	16	17
Number of Exempt Positions	9	8
Number of Executive Positions (deputy level and above)	3	2
Average Salary of All Full-Time Positions	\$71,598	\$69,721
Median Salary of All Full-Time Positions	\$58,852	\$57,964

*These numbers reflect the 17 positions filled as of November 2018, including 1 position paid for out of Finance's budget and 1 position paid for out of Pension's budget.

General Fund Financial Summary by Class						
	FY18 Original Appropriations	FY18 Actual Obligations	FY19 Original Appropriations	FY19 Estimated Obligations	FY20 Proposed Appropriations	Difference: FY20-FY19
Class 100 - Employee Compensation	\$1,062,869	\$1,064,446	\$1,046,647	\$1,080,056	\$1,262,499	\$182,443
Class 200 - Purchase of Services	\$118,444	\$100,862	\$623,444	\$623,444	\$198,444	(\$425,000)
Class 300/400 - Materials, Supplies & Equipment	\$22,224	\$12,166	\$22,224	\$22,224	\$22,224	\$0
	\$1,203,537	\$1,177,474	\$1,692,315	\$1,725,724	\$1,483,167	(\$242,557)

Contracts Summary (Professional Services only)						
	FY14	FY15	FY16	FY17	FY18	FY19 YTD (Q1 & Q2)
Total amount of contracts	\$2,292,640	\$2,584,452	\$2,844,125	\$2,675,767	\$6,331,506	\$2,449,904
Total amount to M/W/DSBE	\$513,886	\$627,050	\$618,547	\$1,166,253	\$3,190,181	\$1,746,297
Participation Rate	22%	24%	22%	44%	50%	71%

Total M/W/DSBE Contract Participation Goal (Public Works; Services, Supplies & Equipment; and Professional Services combined)			
	FY18	FY19	FY20
M/W/DSBE Contract Participation Goal	30%	30%	30%

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2020 General Fund budget totals \$1,483,167, a decrease of \$242,557 from Fiscal Year 2019 estimated obligation levels. This decrease is primarily due to the elimination of funds for an external accounting consultant to assist with the historical consolidated cash account reconciliation.

The proposed budget includes:

- \$1,262,499 in Class 100, a \$182,443 increase over FY19. The additional funds will add a new employee to the accounting team, which was a part of the recommendations in the outside accounting firm's final report. In addition, the additional funds will cover the salary for an existing employee hired in January 2018 (paid for by Finance in FY18 and FY19) and provide a pay increase for District Council 33 employees.
- \$198,444 in Class 200, a \$425,000 decrease from FY19. The reduction in funding is due to the elimination of \$500,000 that had been used for the external accounting consultant assisting with the consolidated cash account reconciliation, which has now concluded. A \$75,000 increase will be used for Professional Services in Class 250 to pay for an RFP requested by City Council to conduct a feasibility study on the City's ability to establish and operate a municipally owned bank.
- \$22,244 in Class 300 and 400, no change from FY19.

CITY TREASURER’S OFFICE

STAFFING LEVELS

The department is requesting 18 budgeted positions for FY20, an increase of two positions from FY19.

The increase is attributed to adding funds into the CTO’s budget for an employee hired in January 2018 (paid for by Finance in FY18 and FY19) and adding a new employee to the accounting team which was a part of the recommendations in the outside accounting firm’s final report.

NEW HIRES

New Hires (from 7/1/2018 to 11/25/18)		
	Total Number of New Hires	Hindi
Asian	1	1
Total	1	1

The CTO hired one new executive employee in January 2019.

PERFORMANCE, CHALLENGES, AND INITIATIVES

DEBT MANAGEMENT PROGRAM

FY20 Strategic Goals				
<ul style="list-style-type: none"> • Maintain and/or upgrade all of the City’s credit ratings (A2, A, A-). • Increase the participation of institutional buyers in the City’s investor pool to borrow at a lower interest rate, creating additional savings for the City. 				
FY20 Performance Measures				
Measure ¹	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Net present value savings of the refunded bonds for General Obligations (GO) debt versus the City’s debt policy	8.04%	N/A	≥ 3.00%	≥ 3.00%
Net present value savings of the refunded bonds for Water debt	13.22%	N/A	≥ 3.00%	≥ 3.00%
Net present value savings of the refunded bonds for Gas debt	10.11%	N/A	≥ 3.00%	≥ 3.00%
Net present value savings of the refunded bonds for Airport debt	15.13%	N/A	≥ 3.00%	≥ 3.00%

¹ The City’s Debt policy requires a minimum net present value savings of 3% on the principal amount of refunded bonds including costs of issuance on each refunding transaction. These are annual measures, and FY19 data will be available at FY19 year-end. CTO did not have any refunding bond transactions during FY19 Q1 + Q2.

BANKING AND INVESTMENT MANAGEMENT PROGRAM

FY20 Strategic Goals				
<ul style="list-style-type: none"> • Update the City’s Investment Policy. • Implement a fully integrated Treasury Management System. • Enroll all CTO vendors in Automated Clearing House (ACH), reducing the number of paper checks printed by the City Treasurer’s Office. 				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Con-cash actual investment return (1 year) ¹	1.06%	1.55%	Meet and/or exceed portfolio benchmark	Meet and/or exceed portfolio benchmark
Percent of bank accounts that are reconciled (of 77 accounts) ²	90.90%	97.40%	100.00%	100.00%

¹ Quarterly results are the annual returns (net of fees) at the end of each quarter for the Con-Cash investment portfolio (i.e. FY19 Q1 will be the total return of the portfolio from 10/1/17-9/30/18). The BAML three-month T-Bill Total Return for the one-year period ending 9/30/18 was 1.59%.

² As of 12/31/18 (the end of FY19 Q2), 76 of the 77 City bank accounts were reconciled. As of 3/15/19, all 77 accounts were reconciled.

CITY TREASURER'S OFFICE

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

N/A

CITY TREASURER’S OFFICE

CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts with For-Profit Vendors											
Top Five Largest Contracts over \$34,000 for FY19											
Vendor Name	Brief Description of 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	Is This a Local Business? (principal place of business located within City limits) [yes / no]	Does the Vendor Have a Waiver for Living Wage Compliance? [yes / no]
Cozen O’Connor*	General Obligation Fund Bond Counsel	\$563,044	6/27/2014	12/15/2014	MBE: 0%	0%	\$0	100%	\$563,044	Yes	No
					WBE: 0%	100%	\$563,044				
					DSBE: 0%	0%	\$0				
Horse, Buckner, Heffler	Accounting Consultant	\$423,528	11/15/2017	4/15/2018	MBE: 0%	100%	\$423,528	100%	\$423,528	Yes	No
					WBE: 0%	0%	\$0				
					DSBE: 0%	0%	\$0				
Hawkins Delafield & Wood LLP	General Obligation Fund Disclosure Counsel	\$144,060	6/27/2014	12/15/2014	MBE: 0%	0%	\$0	0%	\$0	No	No
					WBE: 0%	0%	\$0				
					DSBE: 0%	0%	\$0				
Greenberg Traurig, LLP	PWD Disclosure Counsel	\$110,000	8/16/2016	1/1/2017	MBE: 0%	0%	\$0	0%	\$0	Yes	No
					WBE: 0%	0%	\$0				
					DSBE: 0%	0%	\$0				
PFM Financial Advisors LLC	PWD Municipal Advisor	\$105,819	10/1/2015	1/1/2016	MBE: 0%	0%	\$0	0%	\$0	Yes	No
					WBE: 0%	0%	\$0				
					DSBE: 0%	0%	\$0				

* In accordance with the City’s Office of Economic Opportunity Diverse Lawyer Rule, the attorney working directly with CTO on the above contract is a woman in a partnership position at a majority owned law firm, it can counted as a WBE.

CITY TREASURER’S OFFICE

EMPLOYEE DATA

Staff Demographics (as of November 2018)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	3	6	<i>Total</i>	1	1
<i>% of Total</i>	18%	35%	<i>% of Total</i>	50%	50%
<i>Average Salary</i>	\$69,346	\$78,500	<i>Average Salary</i>	\$106,605	\$149,350
<i>Median Salary</i>	\$50,962	\$65,920	<i>Median Salary</i>	\$106,605	\$149,350
	White	White		White	White
<i>Total</i>	2	3	<i>Total</i>	0	0
<i>% of Total</i>	12%	18%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$84,996	\$51,975	<i>Average Salary</i>	\$0	\$0
<i>Median Salary</i>	\$84,996	\$54,781	<i>Median Salary</i>	\$0	\$0
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	0	0	<i>Total</i>	0	0
<i>% of Total</i>	0%	0%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$0	\$0	<i>Average Salary</i>	\$0	\$0
<i>Median Salary</i>	\$0	\$0	<i>Median Salary</i>	\$0	\$0
	Asian	Asian		Asian	Asian
<i>Total</i>	1	2	<i>Total</i>	0	0
<i>% of Total</i>	6%	12%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$57,339	\$61,484	<i>Average Salary</i>	\$0	\$0
<i>Median Salary</i>	\$57,339	\$61,484	<i>Median Salary</i>	\$0	\$0
	Other	Other		Other	Other
<i>Total</i>	0	0	<i>Total</i>	0	0
<i>% of Total</i>	0%	0%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$0	\$0	<i>Average Salary</i>	\$0	\$0
<i>Median Salary</i>	\$0	\$0	<i>Median Salary</i>	\$0	\$0
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	3	2	<i>Total</i>	1	0
<i>% of Total</i>	18%	12%	<i>% of Total</i>	50%	0%
<i>Average Salary</i>	\$71,635	\$61,484	<i>Average Salary</i>	\$106,605	\$0
<i>Median Salary</i>	\$57,339	\$61,484	<i>Median Salary</i>	\$106,605	\$0
	Male	Female		Male	Female
<i>Total</i>	6	11	<i>Total</i>	1	1
<i>% of Total</i>	35%	65%	<i>% of Total</i>	50%	50%
<i>Average Salary</i>	\$72,561	\$68,172	<i>Average Salary</i>	\$106,605	\$149,350
<i>Median Salary</i>	\$67,295	\$57,964	<i>Median Salary</i>	\$106,605	\$149,350

CITY TREASURER'S OFFICE

LANGUAGE ACCESS

1. Has your leadership received language access training?

Yes, the leadership team for CTO received language access training.

2. Do you currently have a language access coordinator?

Yes, CTO does have a language access coordinator.

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

Yes, the language access plan can be found at: <https://beta.phila.gov/documents/language-access-plans/>.

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

Each year the language access plan is reviewed to ensure it reflects the needs of the office.