

**OFFICE OF THE DIRECTOR OF FINANCE
FISCAL YEAR 2020 BUDGET TESTIMONY
APRIL 2, 2019**

INTRODUCTION

Good Morning, President Clarke and Members of City Council. I am Rob Dubow, Director of Finance. Joining me today is Cat Lamb, 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 2020 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 2020: The various divisions of Finance will undertake the following in FY20:

- 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).
- Continue efforts to make the budgeting process more efficient and effective, through the expansion of program-based budgeting 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 38th year; implement reporting practices in the 2019 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; update the City's Standard Accounting Procedures (SAPs); and work to increase the number of vendors receiving payment through electronic means, instead of paper checks.

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- Attempt to secure new public and private resources; assist City agencies and programs to effectively manage grant funds; work with the Mayor's Office of Diversity and Inclusion, the Managing Director's Office, and the Department of Commerce to promote equitable practices and inclusive policies throughout the City's grant-seeking and grant management practices.
- Continue to leverage the City's new integrated Human Capital Management system, OnePhilly, which replaced the City's legacy payroll, pensions, human resources, and time entry systems with one integrated system, allowing for more efficient operation and improved services for employees. Make significant progress on the second phase of the Administrative Modernization effort, which will replace the City's financial and purchasing systems.
- Continue to work with OPA, providing project management and business analysis support for the implementation of the CAMA system, which is scheduled to go live in early 2020. 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 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 November 2018)				
	Total	Minority	White	Female
Number of Full-Time Staff	114	75	39	79
Number of -Exempt Staff	38	21	17	27
Number of Executive Staff (deputy level and above)	11	3	8	7
Average Salary, Full-Time Staff	\$74,017	\$64,111	\$93,066	\$69,447
Average Salary, Exempt Staff	\$95,920	\$85,799	\$103,000	\$92,650
Average Salary, Executive Staff	\$139,892	\$134,678	\$141,847	\$135,824
Median Salary, Full-Time Staff	\$69,682	\$53,059	\$92,290	\$62,866
Median Salary, Exempt Staff	\$91,024	\$85,490	\$108,423	\$90,000
Median Salary, Executive Staff	\$149,350	\$131,084	\$151,925	\$131,084

Employment Levels (as of November 2018)		
	Budgeted in FY19	Filled
Number of Full-Time Positions	123	114
Number of Exempt Positions	39	38
Number of Executive Positions (deputy level and above)	10	11
Average Salary of All Full-Time Positions	\$71,735	\$74,017
Median Salary of All Full-Time Positions	\$66,140	\$69,682

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	\$1,315,127,522	\$1,323,542,195	\$1,370,653,742	\$1,386,283,847	\$1,421,231,315	\$34,947,468
Class 200 - Purchase of Services	\$3,201,430	\$2,941,763	\$3,201,430	\$3,201,430	\$3,201,430	\$0
Class 300/400 - Materials, Supplies & Equipment	\$103,109	\$77,135	\$103,109	\$103,109	\$103,109	\$0
Class 500 - Contributions	\$184,352,488	\$139,136,587	\$266,859,748	\$266,859,748	\$300,856,617	\$33,996,869
Class 800 - Payments to Other Funds	\$0	\$30,000,000	\$8,366,704	\$48,889,704	\$61,917,000	\$13,027,296
Class 900 - Advances/Misc. Payments	\$50,893,000	\$0	\$54,573,000	\$53,573,000	\$55,108,000	\$1,535,000
	\$1,553,677,549	\$1,495,697,680	\$1,703,757,733	\$1,758,910,838	\$1,842,417,471	\$83,506,633

Contracts Summary (Professional Services only)						
	FY14	FY15	FY16	FY17	FY18	FY19 YTD (Q1 & Q2)
Total amount of contracts	\$16,732,149	\$14,387,548	\$15,828,849	\$15,071,114	\$15,321,173	\$16,171,000
Total amount to M/W/DSBE	\$4,656,525	\$4,309,021	\$4,792,539	\$4,616,575	\$6,168,809	\$6,051,822
Participation Rate	28%	30%	30%	31%	40%	37%

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	35%	35%	35%

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The proposed Fiscal Year 2020 General Fund budget totals \$1,842,417,471 an increase of \$83.5 million over Fiscal Year 2019 estimated obligation levels. The \$83.5 million includes an increase of \$35 million in Class 100 costs; an increase of \$34 million in Class 500 costs; an increase of \$13 million in Class 800 costs and an increase of \$1.5 million in Class 900 costs. Direct General Fund appropriations proposed for the Finance Department's core budget (costs related to the operations of Finance) total \$15,787,334, an increase of \$84,619 over FY19 estimated obligation levels.

The Finance Department's proposed budget includes:

- \$1,421,231,315 in Class 100 funds, an increase of \$35 million over estimated FY19 obligation levels. This funding will fund fringe benefits and pensions costs for all City of Philadelphia General Fund employees and compensate 124 Finance Department employees. The \$35 million increase is a result of a \$30 million increase in pension costs; a \$4 million increase in fringe benefit costs, mostly related to healthcare costs; and a \$1 million increase in other Class 100 costs in Finance's core budget, raising the total Class 100 core budget from \$8,044,694 to \$9,084,313.
- \$3,201,430 in Class 200 funds for the purchase of services, unchanged from FY19.
- \$103,109 in Class 300/400 funding for materials, supplies and equipment, unchanged from FY2019.
- \$301 million in Class 500 funds for contributions, an increase of \$34 million. This includes the City's \$214 million contribution to the School District, an increase of \$33 million over the FY19 level; \$33.8 million for Community College of Philadelphia, an increase of \$1.4 million over the estimated FY19 obligation level; \$3.6 million to fund other City contributions, a decrease of \$1 million from the FY19 level; and \$49 million to fund indemnities, an increase of \$466,000 over the FY19 obligation level.
- \$61,917,000 in Class 800, a \$13,027,296 increase over FY19. This includes funding for the budget stabilization reserve fund, the housing trust fund and capital.
- \$55,108,000 in Class 900, a \$1,535,000 increase over FY19. This appropriation will provide a reserve to guard against potential cuts from the federal and state governments.

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STAFFING LEVELS

The department is requesting 124 budgeted positions for FY20, an increase of one position over the FY19 budgeted level. With the addition of this position, the Office of the Director of Finance will be sufficiently staffed to carry out its mission.

NEW HIRES

New Hires (from 7/1/2017 to December 2017)	
	Total Number of New Hires
Black or African American	3
White	3
Total	6

PERFORMANCE, CHALLENGES, AND INITIATIVES

EXECUTIVE DIRECTION PROGRAM

FY20 Strategic Goals				
<i>Executive Direction</i>				
<ul style="list-style-type: none"> Maintain long-term 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 transition to steady operational state when human resources, benefits, pensions, and time entry processes are all run on the new system. 				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Grants: Number of departments consulting with Grants to pursue competitive grant applications ¹	34	20	36	36
Grants: Percentage of grant applications resulting in successful award ²	28%	N/A	30%	32%
Executive Direction: Maintain or improve credit ratings ³	A2, A, A- (negative outlook Moody's)	A2, A, A- (stable outlook Moody's)	"A" category rating	"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, and FY19 data will be available at year-end. Twenty-eight grants were submitted in FY18. The final acceptance rate for all grants submitted in FY18 is not yet known, as some grants submitted in Q4 have not yet been announced.

³ The City maintains its "A" category rating with all three rating agencies. In November 2018, Moody's Investor Service revised its outlook on the City's general obligation, tax-supported and pension obligation debt to stable from negative, noting the City's improved financial position at the end of FY18 and continued growth from Wage and Earnings tax and Property tax revenue.

THE ACCOUNTING BUREAU PROGRAM

FY20 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). 				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Percentage of new Governmental Accounting Standards Board (GASB) pronouncements implemented by required date ¹	100%	N/A	100%	100%
Percentage of paid vendors enrolled in ACH automatic payments ²	59%	59%	70%	75%

¹ This is an annual measure, and FY19 data will be available at year-end. GASB pronouncements are implemented through the CAFR, which is completed at the end of February.

² Accounting aims to reduce the numbers of vendors receiving paper checks and increase the number of vendors receiving payment through electronic automated clearing house (ACH). The percentage of paid vendors enrolled in ACH automatic payments increased by 12% from FY17 to FY18. Finance will increase its efforts to further improve vendor ACH enrollment in FY19 and in FY20. The City's new contracting requirement for vendors to receive payment via ACH should also help improve this percentage.

THE OFFICE OF BUDGET AND PROGRAM EVALUATION (OBPE) PROGRAM

FY20 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 and to serve all Philadelphians equitably, while balancing the City's short-term needs and long-term fiscal health. Expand program-based budgeting from 43 departments to all departments by FY21 (most of this work will be completed in FY20). Maintain and strengthen long-term fiscal stability by meeting fund balance goals and add funding to the City's budget stabilization reserve (rainy day) fund for the first time. Replace legacy capital budget management systems. 				
FY20 Performance Measures				
Measure ¹	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Percent change in the total dollar amount of General Fund revenue (actual) compared to budget (adopted) ²	3.4%	N/A	0 to 1%	0 to 1%
Percent change in the total dollar amount of General Fund expenditures (actual) compared to budget (adopted) ³	-0.8%	N/A	-1 to 0%	-1 to 0%
Ratio of actual unreserved General Fund fund-balance to actual General Fund revenue ⁴	8.1%	N/A	6 to 8%	6 to 8%
Total number of departments participating in program-based budgeting ⁵	31	N/A	40 to 45	53

¹ OBPE's measures are annual, and FY19 data will be available at year-end.

² Target is to be ≥ fiscal year projection.

³ Target is to be ≤ fiscal year projection.

⁴ OBPE aims to grow the Fund Balance to 6-8% over the next 5-10 years.

⁵ 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) PROGRAM

FY20 Strategic Goals				
<ul style="list-style-type: none"> Complete the implementation of Phase 1 of the Computer-Assisted Mass Appraisal (CAMA) Project. Complete the implementation of Phase 1 of the Parcel Identification Number (PIN) Project. 				
FY20 Performance Measures				
Measure ¹	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Annual number of data addressing project improvement recommendations completed as scheduled ²	<p><u>Item 3:</u> Complete process for documenting deed discrepancies - 100% completion;</p> <p><u>Item 4:</u> Develop and implement citywide address assignment policies - 25% completion;</p> <p>Identify Addressing Authority - 50% completion</p>	N/A	Complete two recommendations – implement citywide address assignment policies and identify city addressing authority; PIN project 75 % complete	Complete PIN Project Phase 1
Percent complete of CAMA implementation schedule ³	30%	50%	50% complete	Complete CAMA Project Phase 1 (100%)

¹ OPD's measures are annual, and FY19 data will be available at year-end.

² 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

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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 completed the process for documenting deed discrepancies (#3 above), and began 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.

³ This is a new measure for FY20. In FY21, the CAMA measure will be 100% percent complete for Phase 2 (Field Mobile - evaluators can confirm and update property information while in the field) and Phase 3 (Public Access - public can submit online applications for exemptions and appeals). The FY19 target will be exceeded.

THE RISK MANAGEMENT PROGRAM

FY20 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. 				
FY20 Performance Measures				
Measure	FY18 Actual	FY19 YTD (Q1 + Q2)	FY19 Target	FY20 Target
Average number of police and firefighters on no duty ¹	321	469	350	400
Number of employee injuries	3,051	1,530	A reduction from FY18	A reduction from FY19
Settlement cost for closed claims (in millions) ²	\$1.076	\$0.235	\$1.500	\$1.500

¹ There have been significant increases in the number of people on no duty. Risk continues to vet the numbers to discern the appropriate levels.

² Beginning in FY19, Risk hired a new claims manager who changed claim adjudication policies and practices to closely align with the Law Department's practices. This has significantly reduced payouts, resulting in lower settlement costs. Risk facilitates collaboration among claim professionals and City defense counsel to provide direction and technical expertise that ensures cost-effective and appropriate case management strategies and claim dispositions. This category captures the settlement costs of General Fund claims only.

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

To mitigate against the risks of future state and federal funding cuts, the Plan includes an annual federal funding reserve of about \$55 million. While this reserve would help offset potential cuts, it represents only a small fraction of what the City projects to receive in grants from the state and federal government each year.

CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY19											
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]
PMA Management Corp	Medical health care, claims and litigation mgt. services to employees who sustain service-connected injuries	\$7,091,000	11/20/2017	7/1/2018	MBE: 15-20%	12%	\$878,822	23%	\$1,676,822	no	no
					WBE: 10-15%	11%	\$798,000				
					DSBE: Best Efforts	0%	\$0				
Bio-Care Inc	Medical examinations for uniformed population of the Fire Department	\$2,200,000	10/6/2017	7/1/2018	MBE: Best Efforts	0%	\$0	0%	\$0	no	no
					WBE: Best Efforts	0%	\$0				
					DSBE: Best Efforts	0%	\$0				
Lawton Associates	Insurance & Risk Management Services	\$900,000	3/12/2018	7/1/2018	MBE: 25-30%	100%	\$900,000	100%	\$900,000	yes	no
					WBE: 25-30%	0%	\$0				
					DSBE: Best Efforts	0%	\$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%	37%	\$1,650,000	70%	\$3,150,000	yes	no
					WBE: 15-20%	33%	\$1,500,000				
					DSBE: Best Efforts	0%	\$0				

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>	15	43	<i>Total</i>	2	0
<i>% of Total</i>	13%	38%	<i>% of Total</i>	18%	0%
<i>Average Salary</i>	\$72,129	\$57,699	<i>Average Salary</i>	\$136,575	
<i>Median Salary</i>	\$66,140	\$47,306	<i>Median Salary</i>	\$136,575	
	White	White		White	White
<i>Total</i>	15	24	<i>Total</i>	2	6
<i>% of Total</i>	13%	21%	<i>% of Total</i>	18%	55%
<i>Average Salary</i>	\$103,013	\$89,849	<i>Average Salary</i>	\$157,456	\$136,615
<i>Median Salary</i>	\$98,017	\$83,625	<i>Median Salary</i>	\$157,456	\$136,475
	Hispanic	Hispanic		Hispanic	Hispanic
<i>Total</i>	1	3	<i>Total</i>	0	0
<i>% of Total</i>	1%	3%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$98,017	\$57,732	<i>Average Salary</i>	\$0	\$0
<i>Median Salary</i>	\$98,017	\$49,440	<i>Median Salary</i>	\$0	\$0
	Asian	Asian		Asian	Asian
<i>Total</i>	4	6	<i>Total</i>	0	1
<i>% of Total</i>	4%	5%	<i>% of Total</i>	0%	9%
<i>Average Salary</i>	\$56,613	\$77,377	<i>Average Salary</i>	\$0	\$131,084
<i>Median Salary</i>	\$50,962	\$75,385	<i>Median Salary</i>	\$0	\$131,084
	Other	Other		Other	Other
<i>Total</i>	0	3	<i>Total</i>	0	0
<i>% of Total</i>	0%	3%	<i>% of Total</i>	0%	0%
<i>Average Salary</i>	\$0	\$94,466	<i>Average Salary</i>	\$0	\$0
<i>Median Salary</i>	\$0	\$91,690	<i>Median Salary</i>	\$0	\$0
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	7	8	<i>Total</i>	0	1
<i>% of Total</i>	6%	7%	<i>% of Total</i>	0%	9%
<i>Average Salary</i>	\$66,026	\$79,163	<i>Average Salary</i>	\$0	\$131,084
<i>Median Salary</i>	\$65,288	\$75,585	<i>Median Salary</i>	\$0	\$131,084
	Male	Female		Male	Female
<i>Total</i>	35	79	<i>Total</i>	4	7
<i>% of Total</i>	31%	69%	<i>% of Total</i>	36%	64%
<i>Average Salary</i>	\$84,331	\$69,447	<i>Average Salary</i>	\$147,010	\$135,824
<i>Median Salary</i>	\$83,430	\$62,866	<i>Median Salary</i>	\$149,350	\$131,084

LANGUAGE ACCESS

1. Has your leadership received language access training?

Yes. The language access coordinator receives annual language access training from the Office of Immigrant Affairs (OIA).

2. Do you currently have a language access coordinator?

Yes. Dan O'Brien- Arabic speaker, Returned Peace Corps Volunteer and former translator for Refugees who are Survivors of trauma.

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

Finance has a language access plan and it is posted online at <https://www.phila.gov/documents/language-access-plans/>.

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

Refresher trainings for leadership and staff are currently being scheduled with OIA.