

**OFFICE OF THE DIRECTOR OF FINANCE
FISCAL YEAR 2018 BUDGET TESTIMONY
APRIL 5, 2017**

INTRODUCTION

Good Morning, President Clarke and Members of City Council. I am Rob Dubow, Director of Finance. Joining me today at the table today is Cathy Paster, First Deputy Director of Finance. Also, representatives from all divisions of Finance are available here to answer questions that you may have. I am pleased to provide testimony on Finance's Fiscal Year 2018 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; and recording and accounting all City financial activities. 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; the Accounting Bureau; the Office of Risk Management; and the Office of Property Data.

Plans for Fiscal Year 2018: Finance plans the following for Fiscal Year 2018:

- Work with agencies throughout the government to carefully monitor expenses and revenues to ensure positive cash flow, maintain the City's fiscal stability and increase its financial strength despite the uneven economic recovery, the City's relatively high level of fixed costs, and the City's large unfunded pension liability. The relatively narrow fund balances in the Five Year Plan will limit the City's financial flexibility and require an added emphasis on cash management.
- The Office of Budget and Program Evaluation plans to continue the new program-based budgeting process implementation that began in FY17, with plans to include an additional 10-15 departments in FY18.
- The Accounting Division will continue its efforts to achieve excellence in financial reporting, including receipt of the GFOA Certificate of Achievement for Excellence in Financing Reporting for the 36th year; implement and report in the 2017 CAFR in compliance with all revised reporting requirements necessitated by new GASB pronouncements; and work to increase the number of vendors receiving payment through electronic means, instead of paper checks.
- The Grants Office will focus efforts on securing and building the capacity of City agencies to secure new resources to advance the Administration's priorities, including education, health and safety of Philadelphia's children and families; comprehensive neighborhood strategies for public safety, community engagement and health in underserved communities; workforce development and career pathways for Philadelphia's young adults; and diversity and inclusion in new funding opportunities.
- The OnePhilly team will continue the effort to replace the current Human Resources, Payroll, Time & Attendance, Benefits, and Pensions systems with one integrated system, allowing for more efficient operation and improving services for employees.

Office of the Director of Finance

- Working with the Office of Property Assessment, the Office of Property Data plans a project kick-off for a Computer Assisted Mass Appraisal system in Fall of FY18, and plans to finalize implementation of an additional two recommendations from a FY16 report related to improved address management across various City departments.
- The Office of Risk Management will continue its efforts to reduce worker injuries through improved worker safety. Additionally, through its Property Damage Subrogation Program and the Employee Disability Program, Risk Management will continue efforts to recover costs from insured losses, reimbursed property damage or unfounded work related injury claims.

BUDGET SUMMARY & OTHER BUDGET DRIVERS

Staff Demographics Summary (as of December 2016)				
	Total	Minority	White	Female
Number of Full-Time Staff	110	69	41	73
Number of Civil Service-Exempt Staff	35	15	20	22
Number of Executive Staff (deputy level and above)	10	2	8	7
Average Salary, Full-Time Staff	\$66,106	\$56,922	\$81,562	\$60,807
Average Salary, Civil Service-Exempt Staff	\$89,626	\$77,602	\$98,643	\$87,355
Average Salary, Executive Staff	\$132,758	\$130,271	\$133,380	\$124,970
Median Salary, Full-Time Staff	\$59,810	\$49,814	\$78,000	\$50,701
Median Salary, Civil Service-Exempt Staff	\$84,276	\$78,000	\$84,964	\$77,037
Median Salary, Executive Staff	\$132,027	\$130,271	\$133,501	\$118,489

Employment Levels (as of December 2016)		
	Budgeted	Filled
Number of Full-Time Positions	116	110
Number of Part-Time Positions	1	1
Number of Civil-Service Exempt Positions	36	35
Number of Executive Positions	10	10
Average Salary of All Full-Time Positions	\$66,215	\$66,106
Median Salary of All Full-Time Positions	\$61,892	\$59,810

General Fund Financial Summary by Class						
	FY16 Original Appropriations	FY16 Actual Obligations	FY17 Original Appropriations	FY17 Estimated Obligations	FY18 Proposed Appropriations	Difference: FY18-FY17
Class 100 - Employee Compensation	\$1,180,984,315	\$1,192,084,421	\$1,236,705,517	\$1,265,613,843	\$1,315,127,522	\$49,513,679
Class 200 - Purchase of Services	\$4,542,479	\$4,234,118	\$3,201,430	\$3,138,770	\$3,201,430	\$62,660
Class 300 - Materials and Supplies	\$95,158	\$59,463	\$87,493	\$87,493	\$87,493	\$0
Class 400 - Equipment	\$15,616	\$44,878	\$15,616	\$15,616	\$15,616	\$0
Class 500 - Contributions	\$141,718,880	\$142,113,799	\$178,057,824	\$178,007,824	\$183,136,571	\$5,128,747
Class 700 - Debt Service	\$0	\$0	\$0	\$0	\$0	\$0
Class 800 - Payment to Other Funds	\$0	\$0	\$0	\$0	\$0	\$0
Class 900 - Advances/Misc. Payments	\$0	\$0	\$0	\$0	\$0	\$0
	\$1,327,356,448	\$1,338,536,679	\$1,418,067,880	\$1,446,863,546	\$1,501,568,632	\$54,705,086

Professional Services Contracts Summary						
	FY12	FY13	FY14	FY15	FY16	FY17 YTD (Q1 & Q2)
Total amount of contracts	\$13,931,823	\$27,067,370	\$16,732,149	\$14,387,548	\$15,827,505	\$14,327,622
Total amount to M/W/DSBE	\$5,037,804	\$7,683,758	\$4,156,525	\$4,309,020	\$4,792,539	\$4,549,775
Participation Rate	36%	28%	25%	30%	30%	32%

M/W/DSBE Contract Participation Goal			
	FY16	FY17	FY18
M/W/DSBE Contract Participation Goal	30%	35%	35%

PROPOSED BUDGET OVERVIEW

Proposed Funding Request:

The FY2018 budget, as proposed, provides the necessary funding for the Office of the Director of Finance to accomplish its objectives. The proposed Fiscal Year 2018 General Fund budget totals \$1,501,568,632, an increase of \$54.7 million over Fiscal Year 2017 estimated obligation levels. The \$54.7 million includes an increase of \$49.5 million in Class 100 costs; an increase of \$62,660 in Class 200 costs; and an increase of \$5.1 million in Class 500 costs. Direct general fund appropriations proposed for the Finance Department's core budget total \$14,151,198, an increase of \$1,193,357 over FY17 estimated obligation levels. The Finance Department's proposed budget includes:

- \$1,315,127,522 in Class 100 funds, an increase of \$49.5 million over estimated FY17 obligation levels. This funding will compensate 118 Finance Department employees and fund fringe benefits and pensions costs for all City of Philadelphia General Fund employees. The \$49.5 million increase is a result of a \$29.3 million increase in pension costs; a \$19.9 million increase in fringe benefit costs, mostly related to healthcare costs; and a \$325,697 increase in other Class 100 costs in Finance's core budget, raising the total Class 100 core budget from \$7,002,480 to \$7,328,177.
- \$3.2 million in Class 200 funds, an increase of \$62,660 from the FY2017 estimated obligation level, which restores a one-time funding cut taken in FY2017.
- \$103,109 in Class 300/400 funding for materials, supplies and equipment, unchanged from FY2017.
- \$183.1 million in Class 500 funds for contributions, an increase of \$5.1 million. This includes the City's \$104.3 million contribution to the School District, an increase of \$84,664 over the FY2017 level; \$29.9 million for Community College of Philadelphia; \$3.7 million to fund City contributions, an increase of \$805,000 from the FY17 level, primarily as a result of the City's contribution to the Army-Navy game; and \$44.9 million to fund indemnities, an increase of \$4.2 million over the FY2017 obligation level.

STAFFING LEVELS

The department is requesting 118 budgeted positions for FY18, an increase of two positions in the Office of Budget and Program Evaluation. With the addition of these positions, the Office of the Director of Finance is sufficiently staffed to carry out its mission.

Charts in my testimony include demographic information, broken down by gender and race, for all departmental staff, as well as for senior staff only; gender and race of new departmental hires in fiscal year 2017; and information on the number of bilingual employees in the department.

NEW HIRES

New Hires							
	Total Number	Yoruba	Creole	Gujarati	Hindi	Malayalam	Spanish
Black or African American	2	1	1	0	0	0	0
Asian	2	0	0	1	1	1	1
Hispanic or Latino	1	0	0	0	0	0	0
White	1	0	0	0	0	0	0
Total	6	1	1	1	1	1	1

PERFORMANCE, CHALLENGES, AND INITIATIVES

FY18 Performance Measures: Accounting Bureau				
Measure	FY16 Actual	FY17 YTD (Q1+Q2)	FY17 Estimate	FY18 Target
Implement new GASB pronouncements by required date *	100%	N/A	100%	100%
Percentage of vendors enrolled in ACH automatic payments **	N/A	45.7%	60%	70%

*GASB pronouncements are implemented through the CAFR, which is completed at the end of February.

**Data not available prior to FY17.

FY18 Performance Measures: Office of Budget and Program Evaluation				
Measure	FY16 Actual	FY17 YTD (Q1+Q2)	FY17 Estimate	FY18 Target
Percent change in the total dollar amount of General Fund revenue (actual) compared to budget (adopted) *	2.1%	N/A	0.8%	0 to 1%
Percent change in the total dollar amount of General Fund expenditures (actual) compared to budget (adopted) **	0.4%	N/A	1.1%	0 to 1%
Ratio of actual unreserved General Fund fund-balance to actual General Fund revenue ***	3.7%	N/A	2.4%	3.0%
Total number of new departments participating in program-based budgeting for upcoming fiscal year submission ****	N/A	20	20	10 to 15

* Target is \geq FY projection. This metric is calculated on an annual basis.

** Target is \leq FY projection. This metric is calculated on an annual basis.

*** This metric is calculated on an annual basis. OBPE aims to grow the Fund Balance to 6-8% over the next 5-10 years.

**** Program-based budgeting pilot began in FY17. Each year, OBPE will include additional departments until this is implemented citywide.

FY18 Performance Measures: Executive Direction				
Measure	FY16 Actual	FY17 YTD (Q1+Q2)	FY17 Estimate	FY18 Target
Grants: Increase number of departments consulting with Grants to pursue competitive grant applications *	N/A	12	12	20
Grants: Percentage of grant applications resulting in successful award**	N/A			25%
Executive Direction: Maintain GO credit rating while working to remove the negative outlook from Fitch and Moody's in FY18	"A" category rating	"A" category rating (negative outlook S&P and Moody's)	"A" category rating (negative outlook S&P and Moody's)	"A" category rating

*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.

** Twenty-nine applications were submitted in calendar year 2015, and 42 were submitted in CY16. Acceptance rate not yet known for all grants.

FY18 Performance Measures: Office of Property Data				
Measure	FY16 Actual	FY17 YTD (Q1+Q2)	FY17 Estimate	FY18 Target
Number of data addressing project improvement recommendations completed as scheduled	N/A		2 complete 3 rd at 25% completion	2 complete 3 rd at 25% completion
CAMA project will kick-off with vendor on-site and full project development underway in October 2017	N/A			October 2017 kick-off

In FY17, OPD will complete two recommendations and begin implementing a third: 1) develop and adopt a consistent citywide address database format, 2) re-design and implement processes for Unified Land Records System (ULRS) to support new address data and parcel identifier standards, and 3) develop a process for documenting deed discrepancies and sharing this information with other city agencies (25% complete).

In FY18, OPD will complete the process for documenting deed discrepancies (#3 above), 4) develop and implement citywide address assignment policies, and begin 5) the process of identifying the City Addressing Authority (25% complete).

FY18 Performance Measures: Office of Risk Management				
Measure	FY16 Actual	FY17 YTD (Q1+Q2)	FY17 Estimate	FY18 Target
Average number of police and firefighters on no duty	274	343	353	275
Number of employee injuries	2,883	1,513	2,865	2,858
Settlement cost for closed claims	\$2.5 M	\$1.76 M	\$3.17 M	\$3.0 M

CONTRACTING EXPERIENCE

M/W/DSBE Participation on Large Professional Services Contracts											
Top Five Largest Contracts, FY17											
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	\$6,282,000	1/27/2014	7/1/2014	MBE: 15-17%	23%	\$1,424,000	23%	\$1,424,000	yes	no
					WBE: 10-12%		\$0				
					DSBE: best efforts		\$0				
Conduent State & Local Solutions* (formerly XEROX State & Local Solutions)	Administer & collect code violations & alarm fees	\$1,412,500	12/15/2012	1/1/2014	MBE: 20-25%	20%	\$282,500	20%	\$282,500	yes	no
					WBE: 20-25%		\$0				
					DSBE: best efforts		\$0				
Lawton Associates	Insurance & Risk Management Services	\$850,000	3/7/2014	7/1/2014	MBE: 25-30%	100%	\$850,000	100%	\$850,000	yes	no
					WBE: 25-30%		\$0				
					DSBE: best efforts		\$0				
Various (TBD for FY 2018)	Legal services related to City's Employee Disability/Worker's Compensation Program	\$4,000,000	3/20/2013	7/6/2013	MBE: 15-20%	25%	\$1,000,000	38%	\$1,500,000	yes	no
					WBE: 15-20%	13%	\$500,000				
					DSBE: best efforts		\$0				

*FY18 contract under CAO.

EMPLOYEE DATA

Staff Demographics (as of December 2016)					
Full-Time Staff			Executive Staff		
	Male	Female		Male	Female
	African-American	African-American		African-American	African-American
<i>Total</i>	14	39	<i>Total</i>	1	0
<i>% of Total</i>	13%	35%	<i>% of Total</i>	11%	0%
<i>Average Salary</i>	\$68,912	\$52,037	<i>Average Salary</i>	\$142,052	-
<i>Median Salary</i>	\$64,595	\$44,220	<i>Median Salary</i>	\$142,052	-
	White	White		White	White
<i>Total</i>	15	26	<i>Total</i>	2	6
<i>% of Total</i>	14%	24%	<i>% of Total</i>	11%	67%
<i>Average Salary</i>	\$94,125	\$74,314	<i>Average Salary</i>	\$153,371	\$126,050
<i>Median Salary</i>	\$85,000	\$64,585	<i>Median Salary</i>	\$153,371	\$118,500
	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>	\$81,282	\$45,979	<i>Average Salary</i>	-	-
<i>Median Salary</i>	\$81,282	\$34,414	<i>Median Salary</i>	-	-
	Asian	Asian		Asian	Asian
<i>Total</i>	5	4	<i>Total</i>	0	1
<i>% of Total</i>	5%	4%	<i>% of Total</i>	0%	11%
<i>Average Salary</i>	\$52,423	\$72,326	<i>Average Salary</i>	-	\$118,489
<i>Median Salary</i>	\$40,231	\$69,926	<i>Median Salary</i>	-	\$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>	-	-
<i>Median Salary</i>	\$56,362	\$50,616	<i>Median Salary</i>	-	-
	Bilingual	Bilingual		Bilingual	Bilingual
<i>Total</i>	7	7	<i>Total</i>	0	1
<i>% of Total</i>	6%	6%	<i>% of Total</i>	0%	11%
<i>Average Salary</i>	\$52,648	\$63,897	<i>Average Salary</i>	-	\$118,489
<i>Median Salary</i>	\$40,231	\$50,701	<i>Median Salary</i>	-	\$118,489
	Male	Female		Male	Female
<i>Total</i>	37	73	<i>Total</i>	3	7
<i>% of Total</i>	34%	66%	<i>% of Total</i>	22%	78%
<i>Average Salary</i>	\$76,561	\$60,807	<i>Average Salary</i>	\$150,931	\$124,970
<i>Median Salary</i>	\$76,608	\$50,701	<i>Median Salary</i>	\$145,000	\$118,489

NUMBER OF BILINGUAL EMPLOYEES

Number of Bilingual Employees														
	Spanish	Greek	Tagalog	Arabic	Mandarin	Hindi	Gujarati	Cantonese	Punjabi	Creole	Pampango	Urdu	Malayalam	Yoruba
Risk Management	1	1	0	0	0	0	0	0	0	0	0	0	0	0
Budget	0	0	0	0	1	0	0	0	0	0	0	0	0	0
Accounting	2	0	2	1	1	2	1	1	1	1	1	1	1	1
Mayor's Office of Grants	0	0	0	1	0	0	0	0	0	0	0	0	0	0
Total - All Divisions	3	1	2	2	2	2	1	1	1	1	1	1	1	1
Total - # of Bilingual Employees	14													
Total - # of Languages Spoken	14													