

**OFFICE OF THE DIRECTOR OF FINANCE
FISCAL YEAR 2025 BUDGET TESTIMONY
MARCH 27, 2024**

INTRODUCTION

Good Morning, President Johnson and Members of City Council. I am Rob Dubow, Finance Director. Joining me today are Cat Lamb, First Deputy Finance Director and Elizabeth Hanley, Deputy Finance Director for Administration, Development and Training. I am pleased to provide testimony on the Office of the Director of Finance's Fiscal Year 2025 Operating Budget.

DEPARTMENT MISSION & PLANS

Mission: Finance strives to ensure that the City maintains long-term fiscal stability while meeting the Mayor's policy goals to make Philadelphia the safest, cleanest, and greenest big city in the nation with economic opportunity for everyone. It does so by overseeing the City's financial, accounting, and budgetary functions, including establishing fiscal policy guidelines, overseeing the City's budget and financial management programs, adding financial capacity throughout the government, and recording and accounting for all City financial activities. Finance administers the City's payroll activities and risk management functions, issues financial reports, and oversees expenditures and reports on all grants.

Plans for Fiscal Year 2025:

The various divisions of Finance will undertake the following in FY25:

- Work with the Mayor's Office and City Council to increase City funding for the School District of Philadelphia and support to the Community College of Philadelphia (CCP).
- Through the Budget Office, work to ensure the city's long-term financial health by developing a budget that is balanced over five years and invests in Mayor Parker's strategic priorities of a Safer, Cleaner, Greener Philadelphia with economic opportunities for all.
- Work with colleagues in the City Treasurer's Office and within Finance to maintain at least the City's "A" category ratings for its General Obligation (GO) debt from all three major rating agencies. In its most recent ratings change, Moody's upgraded the City's credit rating to 'A1' from 'A2' with a long-term Stable outlook, and S&P maintained the City's 'A' rating while revising its outlook from Stable to Positive. Fitch Ratings affirmed the current 'A' Stable rating. These upgrades mean that the City has its highest combination of ratings in more than four decades. Credit ratings are a key factor in determining the interest rate that the City pays on its borrowing costs for infrastructure investments.
- Continue to strive for excellence in financial reporting, including receipt of the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financing Reporting for the 44th year; implement reporting practices in the City's 2024 financial statements in compliance with Governmental Accounting Standards Board (GASB) requirements; and update the City's Standard Accounting Procedures (SAPs).
- Keep Project OPAL on track to replace the City's existing accounting, contracting, and procurement systems and make core processes more efficient to administer and easier for end users, all while ensuring that the appropriate fiscal controls and risk mitigation strategies are in use.

- Through the Policy, Analysis and Grants Office, continue to balance various funding streams to maximize the amount of funding the City receives via grants in FY25.
- In partnership with the City Treasurer's Office and the Procurement Department, pilot a Procurement Card (P-Card) program that will allow for the direct purchase of small dollar items using P-Cards.
- Through the Office of Risk Management, and in partnership with the City's municipal union leadership, continue efforts to reduce the number and severity of worker injuries through improved worker safety while managing cost and returning employees to normal or light duty work as soon 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.

PROPOSED BUDGET OVERVIEW

General Fund Financial Summary by Class						
	FY23 Original Appropriations	FY23 Actual Obligations	FY24 Original Appropriations	FY24 Estimated Obligations	FY25 Proposed Appropriations	Difference: FY25-FY24
Class 100 - Employee Compensation	\$10,863,735	\$10,658,385	\$11,795,202	\$11,795,202	\$11,832,986	\$37,784
Class 200 - Purchase of Services	\$4,002,420	\$7,679,057	\$5,000,698	\$7,350,698	\$6,243,771	(\$1,106,927)
Class 300/400 - Materials, Supplies & Equipment	\$38,616	\$38,124	\$47,024	\$47,024	\$47,024	\$0
	\$14,904,771	\$18,375,566	\$16,842,924	\$19,192,924	\$18,123,781	(\$1,069,143)

Proposed Funding Request:

The proposed Fiscal Year 2025 General Fund budget totals \$18,123,781 a decrease of \$1,069,143 over Fiscal Year 2024 estimated obligation levels. This decrease is a net outcome of the addition of funds to support contracted and non-represented and exempt wage increases and increased insurance costs as the insurance market continues to harden; offset by a decrease due to a nonrecurring intergovernmental payment to St. Christopher's in FY24.

The proposed budget includes:

- \$11,832,986 in Class 100, a \$37,784 increase over the budgeted level in FY24. This increase is driven primarily by employee wage increases.
- \$6,243,771 in Class 200, a \$1,106,927 decrease over the budgeted level in FY24. This decrease was a net outcome of increased insurance costs as the insurance market continues to harden; offset by a decrease due to a non-recurring intergovernmental payment to St. Christopher's in FY24.
- \$47,024 in Class 300/400, same budgeted level in FY24.

STAFFING LEVELS

The department is requesting 147 budgeted positions for FY25 (All Funds), a net increase of eight (8) positions over the budgeted level in FY24, which was 139.

The increase is attributed to the addition of full-time positions for the following: five (5) grant-funded positions in Executive Direction for the City’s Community Development Block Grant - Disaster Recovery grant for Hurricane Ida; as well as three (3) positions are a net of increases and decreases under the Executive Direction unit.

Employment Levels (as of December 2023)		
	FY25 Budgeted	Filled as of December 2023
Number of Full-Time Positions	147	129
Number of Part-Time Positions	0	0
Number of Exempt Positions	63	51
Number of Executive Positions (deputy level and above)	12	11
Average Salary of All Full-Time Positions	\$88,394	\$89,926
Median Salary of All Full-Time Positions	\$85,000	\$85,190

NEW HIRES

New Hires (from 7/1/2023 to December 2023)			
	Total Number of New Hires	Spanish	Chinese-Cantonese
Black or African American	8	1	
Asian	1		1
Total	9	1	1

PROGRAM BASED BUDGETING:

Program Name: Executive Direction

Program Number: 01

FY25 Proposed General Fund: \$18,123,781

Program Description:

The Office provides oversight for the City's fiscal policy, the various programs within the Office of the Director of Finance listed in this section, and for agencies that report to the Director of Finance, including the City Treasurer's Office, the Department of Revenue, the Office of Property Assessment, and the Philadelphia Board of Pensions and Retirement. Units within Executive Direction include:

- **Administrative Services Center (ASC):** The ASC provides financial and/or administrative services for the Office of the Director of Finance, the Procurement Department, the City Treasurer's Office, the Office of Human Resources, and the Civil Service Commission. The ASC also supports other departments on an as-needed basis. In addition, the ASC delivers training and other capacity-building initiatives to improve financial practices and procedures throughout the City.
- **Finance Program Management Office (FPMO):** The FPMO supports process redesign and technology implementations with proven methodologies to enable the Office of the Director of Finance to deliver projects that align with Department goals more efficiently.
- **Internal Controls and Compliance:** Internal Controls is responsible for updating and ensuring compliance with the City's Standard Accounting Procedures (SAPs) and assisting departments when responding to audit requests.
- **OnePhilly:** OnePhilly oversees the modernization of the City's human resources, payroll, pensions, and fringe benefits systems, along with associated business process improvements that allow for more efficient operations and improve services for employees.
- **Payroll:** Central Payroll processes weekly payroll and special payrolls for over 26,000 active full-time City employees.
- **Policy, Analysis & Grants:** Policy, Analysis & Grants will focus on fiscal policy and analysis, as well as oversight of the Grants Office. This new unit will analyze proposals, including legislation and revenue initiatives, benchmark against other cities, and conduct other fiscal analysis in support of Finance's mission to maintain the City's long-term fiscal stability.

FY25 Strategic Goals:

- Keep Project OPAL on track by contracting for implementation support to set the City up to complete the Business Process Alignment Phase and kick off the Architecture Phase in FY25.
- Continue to maintain the City's fiscal health while enabling policymakers to achieve their goals and have their work reflected in

maintaining or improving the City’s credit ratings.

- In partnership with the City Treasurer's Office and the Procurement Department, pilot a Procurement Card (P-Card) program that will allow for the direct purchase of small dollar items using P-Cards. The intent is to significantly reduce the need for small dollar purchase orders, direct reimbursements, petty cash accounts and operational advances.

FY25 Performance Measures:

Measure	FY23 Actual	FY24 Target	FY25 Target
Maintain or improve credit ratings	A1, A, A	"A" category rating	A1, A, A
OnePhilly: Total open issues ¹	111	125	150
OnePhilly: Percent of open issues that are defects ²	55%	45%	25%

1 The increase for FY25 target number of tickets is due to a significant number of Enhancements and Reports that are being requested.

2 The number of defect requests has significantly dropped. Finance anticipates a bigger drop in the upcoming year.

Program Name: Accounting

Program Number: 02

FY25 Proposed General Fund: \$3,317,151

Program Description:

Accounting records the City’s financial activity, maintains the City’s centralized accounting system, and establishes and works with Internal Controls and Compliance to enforce Standard Accounting Procedures (SAPs) for the management and expenditure of all dollars to ensure that proper internal controls are in place to safeguard City funds, processes vendor payments, and issues financial reports.

FY25 Strategic Goals:

- **Maintain Excellence in Reporting:** Produce an Annual Comprehensive Financial Report (ACFR) that adheres to the highest standards, securing the Certificate of Achievement for Excellence in Financial Reporting from GFOA.
- **Enhance Financial Management:** Contribute to the improvement of the City’s financial management systems and processes by actively engaging in Project OPAL, collaborating with the OPAL team on the design of the new system.
- **Strengthen Internal Controls:** Continue to participate in regular meetings with departmental staff to provide comprehensive training and updates on proper internal controls and standard accounting procedures.

FY25 Performance Measures:

Measure	FY23 Actual	FY4 Target	FY25 Target
Percentage of new GASB pronouncements implemented by required date	100%	100%	100%
Percentage of paid vendors enrolled in ACH automatic payments	67%	70%	70%

Program Name: Budget Office

Program Number: 03

FY25 Proposed General Fund: \$2,002,031

Program Description:

The Budget Office ensures the City’s long-term fiscal health while allocating the resources necessary for City programs and services to operate efficiently and effectively and serve all Philadelphians equitably.

FY25 Strategic Goals:

- **Fiscal Stability:** Ensure the city’s long-term financial health by developing a budget that is balanced over five years.
- **Strategic Planning:** Ensure budget investments realize Mayor Parker’s strategic priorities of a Safer, Cleaner, Greener Philadelphia with economic opportunities for all.
- **Performance Management:** Continue collecting and reporting out on performance metrics to assess the effectiveness of investments in services.

FY25 Performance Measures:

Measure	FY23 Actual	FY4 Target	FY25 Target
Percent change in the total dollar amount of General Fund revenue (actual) compared to budget (adopted)	6.0%	0 to 1%	0 to 1%
Percent change in the total dollar amount of General Fund expenditures (actual) compared to budget (adopted)	1.3%	-1 to 0%	-1 to 0%
Ratio of actual unreserved General Fund fund-balance to actual General Fund revenue	16.2%	≥ 6 to 8%	≥ 6 to 8%
Percent of capital dollars unspent after 6 years (General Obligation only) ¹	8.8%	<10%	<10%

¹ While capital projects can take years to complete, it is important to maintain an efficient rate of spending so that Philadelphians benefit from maintained and new infrastructure. This measure compares the amount of General Obligation capital funds that remain unallocated after 6 years with the amount of new General Obligation capital dollars added that year. General Obligation capital dollars are those that will be borrowed and will be repaid with local taxes.

Program Name: Risk Management

Program Number: 04

FY25 Proposed General Fund: \$6,990,115

Program Description:

Risk Management (Risk) works to reduce the financial impact to the City from claims, lawsuits, and employee injuries; reduces the corresponding frequency and severity of these events through the application of professional risk management techniques; protects City finances through effective risk transfer and fund recovery; and provides a safe work environment for employees and the public on City property.

FY25 Strategic Goals:

- Risk will establish an Owner Controlled Insurance Program(s) (OCIP) for significant construction projects. Under an OCIP, the City purchases insurance for itself and contractors on specific projects of a certain size and scope and receives an integrated safety program and centrally processed claims for all participants. An OCIP levels the playing field for small and diverse contractors since the City arranges for and covers the insurance.
- Work with Risk’s third-party administrator to decrease the cost of the City’s Employee Disability Program, while continuing to provide optimal service to injured workers. Another goal is to incorporate direct deposit as an option for our injured City workers to receive workers compensation payments.

FY25 Performance Measures:

Measure	FY23 Actual	FY4 Target	FY25 Target
Average number of police and firefighters on no duty	561	425	400
Number of all employee injuries	2,155	A reduction from FY23	A 5% reduction over the last three fiscal years
Settlement cost for closed claims (in millions of dollars)	\$0.58	\$1.10	\$1.40

OTHER BUDGETARY IMPACTS

Federal and State (Where Applicable)

The City has received over \$4.5 billion in federal, state and local recovery funding to assist with new costs and lost revenues arising from the pandemic. This funding includes \$1.4 billion in American Rescue Plan (ARP) funding that has been built into the Five-Year Plan to help cover some

of the City's revenue losses related to the pandemic. The last part of ARP funding (over \$400M) will be spent during the first half of FY25 as required.

In August 2021, Philadelphia was affected by Hurricane Ida. This resulted in substantial property damage and extensive flooding. The City was granted roughly \$163M in Community Development Block Grant Disaster Recovery (CDBG-DR) funds to support Philadelphia's recovery from the storm. CDBG-DR funds from the U.S. Department of Housing and Urban Development (HUD) help cities, counties, and states to recover from Presidentially declared disasters like Hurricane Ida. Finance is working with colleagues in the Division of Housing and Community Development to deploy these funds over the next six years.