

**DEPARTMENT OF FINANCE STATEMENT
2015 BUDGET PROPOSAL
CITY COUNCIL COMMITTEE ON THE BUDGET AND GOVERNMENT OPERATIONS
MONDAY, OCTOBER 20, 2014**

Chairman Austin, Vice-Chairman Reilly, and members of the City Council, thank you for the invitation to participate in the Budget hearings today, and it is my honor to appear before you .

One of the cornerstones on which a city's health rests, and a city's future is built, is its finances. We at the Department of Finance, in close partnership with Ms. Alex Holt, our budget director, and Ms. Lois Scott, our CFO, work hard to ensure a strong financial foundation for the City of Chicago for all Chicagoans.

Here, at the Department of Finance, we collect our revenues, pay our vendors, administer our benefits, meet our payroll, and prepare our financial statements, among many other duties. Our operations are not abstract or conceptual; we provide important services, day in and day out, to keep the City's finances moving forward. And, after eight months, I have a clear view of what we do well and what we can do better. What we do well, we will continue to do well, and what we can do better, we will -- to continually provide our constituents with a set of core financial services that works.

The first set of those services is our stewardship of the monies paid in to the City, to ensure efficiency, accuracy and transparency.

Revenues

Of course, the City (our services, programs and commitments) depends on revenues. Year-to-date, revenues managed by the Department of Finance have totaled \$1.9 billion, representing an increase of 8 percent over 2013. To highlight one important example, our division of Tax Enforcement undertook 534 audits in 2014, from which we assessed nearly \$30 million in unpaid taxes, or \$1 million for each field auditor on our staff. Our system is based on self-reporting, and for that system to work, it is critical that everyone pays their fair share and that no one skirts the rules.

We have recently reorganized our audit function based on the various types of taxes we enforce, rather than industry groups, which helps drive subject matter expertise and consistency in enforcement. However, we still need to build an analytics capability, to better assess how much each source of tax "ought" to be generating and, therefore, provide insight into where the gaps or areas of noncompliance lay hidden.

As important as individual audits are for enforcement, policy statements (or, tax rulings) play an equally vital role in providing a level playing field for all taxpayers and in closing tax loopholes exploited by sophisticated entities. As one example, the Department of Finance, working with the Law Department, issued a ruling in late 2013 to close a glaring gap in the application of the personal property lease tax. Taxpayers often entered into perpetual software leases that avoided the Illinois sales tax but were not always being taxed as leases for purposes of the lease tax, avoiding taxation entirely. Under the ruling,

perpetual leases of software are now taxed as leases for purposes of the City's lease tax, which should generate an additional \$10 million annually.

Collections

Of course, revenues require collections. Our collection team generates and mails notices for thousands of overdue payments, places holds on City licenses and permits sought by scofflaws, and send delinquencies to various law firms to assist in the collection process. Our collective efforts are reflected in the collection of \$109 million in overdue payments in 2014, an increase of 9 percent over 2013. Before we ask Chicagoans to pay any more in taxes, fines or other fees, we need to ensure that all of those who owe the City of Chicago money (whether locals or suburbanites) first pay what they owe. There are those, however, who are suffering from real financial hardship, which I will cover in a few moments.

It is not always a simple task to track down and collect from scofflaws who often don't want to be found or don't want to pay what they owe. One way we have been able to hold debtors accountable is by working with the State of Illinois on offsets to state payments for City debt. In 2014, the state offset program produced \$24 million of additional collections from those who owe the City money. This important program has generated an additional \$50 million in revenue for the City since its inception in 2012.

Despite these improvements, we need to do better. With assistance from the University of Chicago, we are piloting modifications to our collection notices, especially in areas where historical collections have been low. Streamlined notices and flexible payment terms are anticipated to generate higher rates of collection.

Another area of opportunity is our limited ability to match one debt to another for the same debtor, or, in some cases, locate the debtor in the first place, given missing, inconsistent or incorrect data (whether it be a phone number, an address, or even variations in names such as junior or senior or Robert, Rob, Bob or Bobby). In response to this need, the Department of Finance is working to consolidate debt from the City's eight receivable systems into an integrated search platform that will allow us to improve our ability to identify and locate debtors, and drive collections.

Our drive to accountability is reflected in our continuous efforts to collect employee debt. Many of our residents end up falling behind in their bills -- our employees are no exception. However, it is a privilege, not a right, to work for the City of Chicago and, therefore, our colleagues should be held to a higher standard. Indeed, City employees pay off their debt within 36 months at a much higher rate (96 percent) than the general public (57 percent). In order to both accelerate employee collections and move the 96 percent to 100 percent, the Department of Finance, in partnership with our Sister Agencies, took a number of important steps in 2014 by aligning collection strategies such as pre-hire debt checks, voluntary payroll deductions and email notifications. These actions have generated \$550,000 in new collections for 2014 when compared to the same period for 2013.

The Department of Finance has a number of other ideas and initiatives to improve our rates of collection over the next several years. However, our collection efforts should be tempered by the recognition of the financial hardship so many of our residents suffer. Towards this end, the City has created 91,619 payment plans in 2014 year-to-date, and we are looking for additional ways to make it easier for residents to pay down their debt. The Department of Finance needs to continue to provide flexible payment terms to assist residents who are having difficulty making ends meet, such as lowering down payments or extending repayment periods. And we have received some helpful ideas on this subject from several of you, our Aldermen.

Payment Processing

The surest way to collect on overdue debts is by preventing them from becoming debts in the first place, by making payments quick and easy. The Department of Finance annually processes over 2.5 million payment transactions at its five payment centers, through lockboxes and IVRs, and over the web. The number of payments made on the internet has steadily grown in recent years and currently represents nearly 50 percent of all payments processed by the Department of Finance, but the amounts paid by cash and check, and the persistence of delinquent debt means that we need to do more to help our customers make payments.

And we are doing more. The Department of Finance plans to expand payment options to more neighborhoods (grocery stores, banks and currency exchanges) and integrate current and emerging technologies (such as apps for your smart phone, whether it be the iPhone or the Droid). If you have a method of payment you prefer, we want to allow for it. Looking to the future, the Department of Finance continues to partner closely with Commissioner Berman and the City's Department of Innovation and Technology to further standardize and streamline our receivables and payment systems in 2015 and beyond.

As the City's payment options multiply, so does the need for proper controls to ensure that all payments are accurately posted and reconciled to a secure environment. We are the stewards of the City's finances, and there is no higher fiduciary obligation than safeguarding our financial assets. In 2014, the City took the opportunity to further protect City assets by promulgating a comprehensive policy on cash management to help ensure that the right measures are in place. We have also begun working with City departments to validate and implement internal controls, such as segregation of duties and regular reconciliation, and transition payment processing to the Department of Finance. Going forward, no payments will be received directly by any departmental staff, but will be received and processed only through the Department of Finance's payment resources.

The second set of our core services is the processing of monies paid out of the City, again, to ensure efficiency, accuracy and transparency.

Accounts Payable

Conscious of the critical role our vendors play in supporting City services, we work hard to find new ways of paying our commitments without delay. Since 2012, we have cut processing time by 50 percent for

nearly all of our payments. It is no easy task, given the 400,000 invoices we process each year. If there is such a thing as blocking and tackling in City government, this is it. In 2014, more than 90 percent of the City's bills were paid within seven days from the date the Department of Finance received a completed invoice. This is a tremendous achievement considering that most of our City's vendors submit paper invoices and prefer paper checks. And, yes, we are moving to change this – in this 21st Century, paper should be the exception not the rule. In 2015, vendors who submit electronic invoices and who agree to electronic payments will receive faster payment than those who don't.

We have made great strides on digitizing our workflow, starting with the new Cyber Grants program for CDBG delegate agencies debuted by OBM earlier this year. In 2015, we expect to use a similar process for many of the City's other workflows, such as CDOT and other paper-heavy invoices. Ultimately, in collaboration with Procurement, we expect to go "paperless" with e-invoicing in the coming years.

Still, more needs to be done, as is my refrain today. Earlier this year, there was too much of a backlog in paying our delegate agencies, those who provide critical services to our residents most in need. With the benefit of the Cyber Grants and more efficiently allocating our human resources, less than four percent of our current payments owed to delegate agencies are aged beyond 30 days, aside from those that are on hold for compliance reasons.

Payroll

Compensating more than 32,000 City employees accurately and on time is the primary role of the payroll division. The process includes carefully calculating and remitting all applicable taxes, voluntary deductions such as credit unions and deferred compensation, and involuntary deductions like garnishments and tax levies. In addition, the unit individually calculates and distributes retroactive payments upon contract ratification and consistent with contractual obligations.

In a given year, payroll issues over a million payments and, consistent with our efforts to digitize the department's workflow, approximately 87 percent of those payments are electronic through direct deposit. Taking those efforts one step further, in 2015 the City will implement electronic pay stubs which will allow employees to receive their paycheck and W-2s online. This offers our employees greater convenience, and reduces our printing and distribution costs. While it may seem trivial, one of the things that has surprised me since joining the City is the delivery of a paper copy of my pay stub twice a month, when the actual funds are delivered electronically.

The Department of Finance also actively manages our healthcare and benefit programs in order to provide quality care at a reasonable cost.

Healthcare

The City's healthcare costs for 2015 are expected to rise modestly from 2014, consistent with trends over the past several years. This stabilization in the trajectory of the City's healthcare budget is a direct reflection of the City's valued partnership with the Labor Management Cooperation Committee (the "LMCC") and the principle that "quality healthcare services drive savings." Better treatment and care leads to healthier and informed patients and, in turn, fewer incidences of illness and emergency room visits. Similarly, the City's Wellness program screens thousands of our employees, some of whom have discovered that their health was either compromised or deteriorating. The combination of better-informed patients and a benefit plan that leverages medical care through a physician's office has also helped control expense. Some medical care, such as critical care for life-saving procedures and treatment, is expensive and deservedly so, but, as we have seen, a majority of care can be better driven through effective coordination of care and proactive treatment of chronic conditions.

Some simple changes to our benefit design have done much to improve care and manage cost. For example, in 2013, the City agreed to pay 100 percent of the cost of lab tests, and MRI, PET and CAT scans using facilities for laboratory and radiology services that are independent from hospitals (and, hence, premium pricing). We also began to offer more comprehensive diabetes management with waived (free) or reduced prescription drug copayments. The list of new programs is long, from maternity care, to chronic care management, to preventive care, to the medical home program. For certain transplants and bariatric surgeries, we have identified hospitals that provide better outcomes (often at lower cost, with lower readmission rates, lower complications and less time to heal).

The limited increase in health costs we've seen over these years is largely attributable to the rising cost of named brand drugs and more generous benefits in the City's HMO program. But the City and the LMCC have been working together to adopt sensible changes that provide quality care at a reasonable cost. This year, we adopted a new drug formulary that moves beyond matching a generic to a specific brand drug, but, rather, matches a generic drug to a particular type of therapy. Going forward, patients will continue to have access to medication that is medically necessary, rather than what is marketed on the Sunday morning TV shows.

And, for 2015, the City and the LMCC have put into place other innovations that will keep pace with the ever-changing landscape of healthcare. For instance, the City and LMCC have approved another set of options for employees, to more closely align costs to quality of care through a "nested network" of quality health providers, which will now be available to employees within the current network of providers. And, for the first time, employees will have a greater financial stake in future initiatives and savings by participating in such savings through "subscriber share." As important, employees will have a direct accounting of how much their healthcare providers charge, which will allow them to factor in the relative financial costs of choosing among providers.

What more can we do? As I noted, the landscape of healthcare in America is always evolving, and we must continue to adapt our benefit plans to these changes. We need to do more to ensure better participation by our employees in life-changing programs, develop alternative means for delivering

healthcare to our employees, and demand better accountability from hospitals and provider groups in terms of coordinating and managing the whole patient's care (not simply one ailment or one procedure).

In 2015, the City begins the second year of a three-year phase out of the City healthcare benefits for retirees. While the City will continue to subsidize healthcare plans for those who retired on or after August 23, 1989 with at least ten years of service, those participants will experience a reduction in the City subsidy to their premiums in the coming year. This reduction will result in an estimated saving of \$27 million in the 2015 budget.

The non-Medicare eligible retirees have four healthcare plan options to select from, including two plans that maintain or reduce their premiums. The average increase for retiree's current City provided health care plan is \$122 per month, with more than 50 percent of retirees receiving monthly increases from less than \$20 up to \$73. The monthly average increase assumes all retirees continue to enroll in their current plan; however, the monthly average would be lower if the non-Medicare retirees selected one of the alternative plans. In fact, if they select the Blue Choice Value Plan, they would pay less for their coverage than what they pay today.

For retirees who choose one of the lower premium plans for 2015, they will save an average of \$212 per month in premiums compared to what they would have paid under the current plan. Also, there will be no increase in co-pays for prescription drugs next year regardless of plan choice. Further, knowing that some retirees are in a more difficult financial position than others, a premium subsidy is available to low-income residents at or below 250 percent of the federal poverty level.

As noted above, the City's Wellness program provides employees with critical feedback for better health, as well as access to preventive care and other programs to help prevent and manage chronic conditions. The physician co-pay provides ready access to physician care, which is key to treating conditions early in the disease process. The Wellness program and the health plans are aligned to support the employee who wishes to stay healthy and maintain the highest level of functioning possible. Indeed, nearly 85 percent of our employees participated in the Wellness program, without which awareness, outreach and treatment would often not occur.

Lastly, all of what we do (and much of the City does) is reflected in our financial reporting, in which our financial results are reported with clarity, accuracy and transparency.

Financial Reporting and Accounting

In June, the Department of Finance submitted the 2013 Annual Financial Report (or, the “2013 CAFR”) of the City of Chicago, (a) in accordance with state law, (b) in conformity with generally accepted accounting principles (GAAP) and, (c) as audited by a licensed public accountant. The 2013 CAFR is itself a clear reflection of our progress toward righting the City’s finances and for the 2nd year in a row, the City was found to have no material weakness. When this administration took office in 2011, there were five material weaknesses and 2 significant deficiencies. With stronger management, better financial controls, and, to be frank, hard work, we have been able to clean house – for 2013, the Department of Finance had no material weaknesses and reduced the non-material deficiencies to one.

In July, the Department of Finance also completed the A-133 Audit of Federal Funds, spent by the City and our delegate agencies, which totaled nearly \$900 million in 2013. The Department of Finance has worked closely with other City departments to properly administer and monitor all grant funding, which resulted in a 50% reduction in audit findings for 2013.

We, at the Department of Finance, are the financial stewards of the City of Chicago and its future. And every day I witness the hard work and dedication of the entire finance team in meeting our commitment to you and the residents of the City of Chicago.

Department of Finance

2015 Budget Hearing

MBE/WBE Contracting Data

Period: Jan - Sept 2014

Total Purchases: \$36,875,808

<u>MBE/WBE Spend</u>	
WBE:	\$1,606,082 (4.4%)
Asian MBE:	\$4,442,659 (12.0%)
African-American MBE:	\$1,923,247 (5.2%)
Hispanic MBE:	\$2,199,239 (6.0%)
Total Purchases:	\$10,171,227 (27.6%)

Staffing Data (on 10/1/ 2014)

<u>Department Ethnicity and Gender</u>				
	Male	Female	Total	%
Asian	19	14	33	6.00%
Black	69	208	277	50.36%
Hispanic	40	64	104	18.91%
White	76	53	129	23.45%
Other	3	4	7	1.28%
Total	207	343	550	100%
	37.64%	62.36%	100%	

<u>New Hires Ethnicity and Gender</u>				
	Male	Female	Total	%
Asian	0	0	0	0.00%
Black	4	6	10	55.56%
Hispanic	1	3	4	22.22%
White	2	0	2	11.11%
Other	0	2	2	11.11%
Total	7	11	18	100%
	38.89%	61.11%	100%	

<u>Department Managers Ethnicity and Gender</u>				
	Male	Female	Total	%
Asian	7	1	8	6.72%
Black	13	32	45	37.82%
Hispanic	8	12	20	16.81%
White	30	12	42	35.29%
Other	2	2	4	3.36%
Total	60	59	119	100%
	50.42%	49.58%	100%	

Interns (on 10/1/2014)

School	Gender	Race
Argosy University	Female	Black or African American
Roosevelt University	Female	Black or African American
Carleton College	Male	Asian
Chicago State University	Female	Black or African American
Concordia University	Male	Black or African American
Loyola University	Male	Asian

DEPARTMENT OF FINANCE
Programmatic Organizational Chart

Office of the City Comptroller
City Comptroller

Administration
First Deputy Director

