

**DEPARTMENT OF FINANCE STATEMENT  
2016 BUDGET PROPOSAL  
CITY COUNCIL COMMITTEE ON THE BUDGET AND GOVERNMENT OPERATIONS  
MONDAY, SEPTEMBER 28, 2015**

***Introduction***

Chairman Austin, Vice-Chairman Ervin, and members of the City Council, it is my honor to appear before you today and to be provided the opportunity to participate in these Budget hearings.

We, at the Department of Finance (Finance), in close partnership with the Budget Director and Chief Financial Officer, work to ensure a strong financial foundation for the City of Chicago and all Chicagoans.

To this end, our core operations – driving our revenues, protecting our assets, paying our vendors, administering our benefits, meeting our payroll, mitigating our risks and preparing our financial statements, among others – is our day-to-day charge. Remaining responsive to the needs of our residents, neighborhoods and our City is our ongoing challenge. What we do well, we will continue to do well, and what we can do better, we will. I am pleased to share with you today, some of the progress that we've been able to make over the past year.

***Revenues***

Year-to-date, revenues managed by Finance total \$1.5 billion, representing an increase of 12 percent over 2014. This increase is due, in part, to our efforts to make it easier for residents to pay their bills.

***Payment Processing***

Finance annually processes over 5.5 million payment transactions at its five payment centers, through lockboxes, over the phone, and over the web. We provide a number of options to ensure that paying bills to the City is simple and convenient. Over the past year, Finance was able to implement a number of measures that do just that, and we will continue to provide residents with more convenient options for making payments to the City.

- Expanded Payment Options. Fines imposed by the Department of Administrative Hearings can now be paid online, and payments for water and for vehicle violations can now be made electronically (ACH).
- Expanded Payment Options. In January, Finance issued an RFP to solicit proposals for a redesign of the City's payment system to increase convenience and expand payment options:
  - Walk-in payment options will be expanded from 5 locations today to hundreds of locations in our neighborhoods (grocery stores, banks and currency exchanges).
  - And going forward, we will provide (a) an integrated payment portal whereby a customer is able to pay all amounts owed to the City in one place, (b) new options for online payment such as mobile applications (for smartphones and tablets), and IVR

(phone) payments, and (c) greater convenience in terms of scheduled and recurring payments

- New Payment Plan Options. In recognition of the financial hardship many City residents face, Finance is implementing payment plan reforms for motorists who incur parking, red light camera and/or automated speed enforcement violations (“vehicle violations”).
  - In 2016, motorists will be able to enter into a payment plan online for vehicle violations (currently customers must make arrangements with one of the City’s law firms either in-person or over the phone). In doing so, the debtor will save the 22% surcharge currently assessed by the collection firm for setting up such payment plans.
  - Currently, payment plans for vehicle violations are only available to motorists after the fines associated with the violation double (late penalty assessed due to failure to pay). Going forward, short term payment plans (before any late penalty) will be available for those who want to pay their fine but need a little more time. We’d like to thank Alderman Ervin for taking the time to present the idea to us.

### ***Collections***

While we have a number of tools for debt collection that are effective, there is too much debt that remains uncollected. One of the keys to improved collection is matching debt to debtors and, this year, we began using advanced data matching software, and analytics to identify scofflaws across all debt types. This step, coupled with the implementation of other best practices, will not only help us better leverage the tools we have at our disposal, but will provide us with a few more:

- More Debt Checks Prior to License and Permit Issuance. Instead of searching for debt in eight separate receivables systems, we are moving towards an integrated search capability, resulting in faster customer processing times and greater collections at the point of license or permit issuance. Where the right debt is linked to the right business, we place a hold on their license and prevent them from conducting business until the debt is resolved.
- Active License Revocations. Where licenses have already been issued, Finance, in coordination with Business Affairs and Consumer Protection and Law, has begun to expedite license revocations for those business that have run up significant debts with the City (payment plans will be made available).
- Increased Bankruptcy Filings. Finance, working with Corporation Counsel, has begun to increase the number of claims filed against debtors who file bankruptcy and, in the process, close a loophole on some businesses or individuals that are knowingly gaming the City.
- Calling Debtors Earlier. Direct, phone contact with debtors earlier in the process (that is, in the first 60 days) results in greater collections. Finance is working to increase such direct contact, through Finance staff and collection agencies.

- Focused Tax Audits. By analyzing patterns and trends in historical tax returns, as well as business licenses, Finance is able to determine which businesses may be underfiling or non-filing. As we identify gaps, we will deploy our auditors.
- Collection Firms and Agencies. Currently, we use seven law firms (and two ex-offender collection agencies) to collect debt that is more than four months delinquent. Going forward, we intend to introduce more collection agencies (through an RFP) to drive competition and increase collections, by shifting debt among the agencies.
- Improved and Supplemental Communications. Finance is simplifying its collection notices and piloting additional notices or postcards, which has already resulted in greater collections (\$1.3 million). For example, we have now made it possible for motorists who've incurred vehicle violations to request email alerts on the status of existing tickets, alerts notifying them of impending penalties and other collection actions. More than 11,000 motorists with violations have already signed up for the notification in less than three months.

These new and more effective collection tools will generate an additional \$23 million for the 2016 budget.

And finally, to encourage those with debt to the City to come forward and make a payment, Mayor Emanuel has announced a plan for an amnesty program for the penalties and interest associated with certain outstanding debt. During the amnesty period, applicable penalties, interest and collection costs would be waived for debt included in the program. The amnesty program will be introduced in October to be voted on by the City Council.

We expect that the following debt types will be included in the program:

- Parking and red light violations incurred prior to 2012;
- Fines imposed by the Department of Administrative Hearings (for example, building code, false burglar alarm, and vandalism violations) and incurred prior to 2012; and
- Tax liabilities (both for non-filers and tax assessments) incurred prior to 2012.

Another core service of Finance is to ensure that the City pays its bills both on time and accurately.

## ***Accounts Payable***

To maintain the level of City services, it is important that we pay our commitments without delay. Since 2012, we have cut invoice processing time, from receipt by Finance to payment, by 38 percent. The reality is that if you were to hand me an invoice at today's budget hearing, you would be paid by next Monday. Still, there is more to do to eliminate paper invoices and paper checks, which slow down the process, and increase our administrative cost. For example,

- Electronic Fund Transfer (EFT). Through written and email notifications, phone calls, vendor fairs and the inclusion of EFT information with the City's bid packages, we are driving EFT utilization, which allows invoices to be processed within 3 business days. Since January, we have been able to convert 480 vendors and 8 percent of payments to EFT, and I, along with my colleagues at Buildings, 2FM, and CDOT, have been contacting other vendors to continue to push them towards payment process that is best for the City and our vendors
- Paperless Invoices. In response to delays in processing federally funded invoices and, in turn, reimbursements to the City, Finance (with DoIT's assistance) has implemented a web-based tool to facilitate the digital transfer and review of cumbersome invoice documentation among vendors, CDOT, Finance, and IDOT. The tool has now been fully rolled out, and represents a fully integrated, end-to-end digital invoice process. It has already substantially reduced cycle time and paved the way for approximately \$179 million in reimbursements.

In March 2015, Aldermen Laurino, Harris, Tunney and O'Connor raised valid concerns over the City's processing times for delegate agency invoices, specifically with regards to Chambers of Commerce. Facing the challenge that 40 percent of annual invoices are submitted in the final quarter, we have committed to revamping our operations and stepping up communications in an effort to speed up the reimbursement process:

- Finance now sends weekly reports to City departments listing the invoices that have been placed on hold due to a lack of insurance (in addition to our standard letter that is mailed to all delegates prior to the expiration of insurance).
- Finance now sends monthly reports to City departments listing delegate agencies which have failed to remit a monthly invoice. City departments are advised to contact such agencies to remediate the backlog.
- Finance is now tracking delegate agencies that have recurring issues with invoice submissions so that City departments can provide training and other assistance.

Another area of performance improvement has been in the One Summer Chicago Youth program. Historically, delegate agencies have been reluctant to participate in the City's One Summer Youth program due to the City's reimbursement model, which adversely impacts their liquidity and slows down payment to youths participating in the program. For 2015, Finance and the Department of Family Support Services offered all delegate agencies the option of participating in centralized payroll services with Automatic Data Processing (ADP). 34 delegate agencies participated in the program and had their payrolls processed within seven days (20 days faster than the average delegate agency invoice).

More generally, payroll is a critical function of the Department of Finance.

### ***Payroll***

Compensating more than 34,000 City employees accurately and on time, with over a million payments, is the primary role of the payroll division. The process includes calculating and remitting all applicable taxes, voluntary deductions such as credit unions and deferred compensation, involuntary deductions like garnishments and tax levies, and retro payments upon contract ratification.

Approximately 87 percent of payroll is made electronically through direct deposit. Taking this process further, last year we committed to implement electronic pay stubs, which allow employees to receive their paychecks and W-2s online. With the initial rollout on July 1, 2015, we should be completed by the end of the year (in time for W2s). While this change may seem modest, it offers our employees greater convenience and reduces our printing and distribution costs and is a good example of our commitment to rethinking the way we do things.

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

### ***Healthcare and Benefits***

Over the past decade, the City's healthcare costs per employee have increased 94 percent, with the rising cost of healthcare generally (for example, the cost of specialty drugs has risen 112%, or \$41.3 million since 2013), whereas employee contributions have remained relatively flat. While these factors will continue to present a challenge to the City's budget, we will continue to partner with Labor through the Labor Management Cooperation Committee (LMCC) to improve the level and quality of City healthcare without imposing undue financial burden and to lower healthcare costs without undermining the quality of City healthcare.

For example, in 2015, this partnership established a "nested network" of hospitals and doctors within the PPO network, for which we have negotiated lower rates. This nested network is projected to reduce the City's healthcare costs by \$10 million in 2015 without sacrificing quality and, for 2016 and beyond, the LMCC recently passed a resolution that builds upon this success through a commitment to evaluate the benefit of a number of initiatives, such as:

- further modifications to the nested network aimed at encouraging even more utilization; and
- additional adjustments to the City's drug formulary (drug options) that reflect the reality that there are lower cost drugs that may be as effective as higher cost drugs, without the added costs from marketing.

We are also exploring other changes to the City's healthcare plan based on a series of proposed pilots of new and innovative ways of delivering quality care:

- Mobile Medical Devices to assess the impact of technology, real-time information and clinical support has in treating chronic conditions;
- Second Opinions to reduce unnecessary procedures and produce better outcomes for the patient;
- Telemedicine to provide participants with 24/7 access to a physician (from the convenience of their home), to avoid higher-cost options and guide participants to facilities that are most appropriate for their conditions;
- Physician Led Managed Care to provide participants with the most effective form of care management since we respond better and are more likely to adhere to treatment when counseled directly by our own doctor.

Through these pilots, the data it generates and other initiatives, the City and the LMCC will be better positioned to evaluate which investments are best suited to improve the health outcomes for those who participate in our health plans. On the subject of data, Finance has begun putting the City's healthcare and wellness data to work for our members in new ways.

- Historically, the City's care management vendor contacted a City employee to provide counseling if that employee visited an emergency room (ER) more than 3x in a fixed 3-month period and where such visits were deemed preventable (not a true emergency). Repeated ER usage may indicate that participants, despite the higher copay, are using it for healthcare services more suitable for a primary care physician or urgent care clinic or, otherwise, are not effectively managing a chronic condition. Finance instructed the City's care manager to intervene and provide counseling much earlier, which will lead to more effective treatment and lower costs to the City. In the first two months, this shift in approach has resulted in 42 more City employees (or their dependents) being enrolled in care management programs.
- The Chicago Lives Healthy program requires that each participant receive a biometric screening. Historically, this information had been used only by Healthways (our wellness vendor) to provide health coaching and was not shared with City's care management vendor. Going forward, this information is being directly shared with the City's care management vendor, so that critical biometric data can be integrated with claims data to determine which City employees are exhibiting signs of illness and, more importantly, may be in need of greater care.

In 2016, the City begins the final year of a three-year phase out of City healthcare benefits for retirees and their spouses or dependents (19,395 retirees and 8,050 spouses or dependents). This reduction will generate \$30 million more in savings for the 2016 budget. After 2016, a City healthcare plan will no longer be offered for those retirees, though the City will continue to subsidize healthcare for those who retired before August 23, 1989 (approximately 3,259 retirees and 539 spouses and dependents).

## ***Risk Management***

We have been working with the Budget Office and the Office of the Inspector General to conduct a pilot analysis of small claims, settlements and judgments in order to actively manage and anticipate risk and to determine where additional investments should be made to mitigate future claims. In the past some limited-scope analyses had been done, but a comprehensive program was not in place. The next step will be to provide recommendations on changes in operating procedures and policies that could reduce the number and cost of claims.

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***

The 2014 Comprehensive Annual Financial Report, or CAFR, is itself a clear reflection of our progress toward righting the City's finances. When this administration took office in 2011, there were five material weaknesses and 2 significant deficiencies. This year, with the 2014 CAFR, and for the first time since 2007, the City was found to have no material weaknesses or significant deficiencies. With stronger management and better financial controls, we have been able to clean house.

Additionally, we are working with the City's Treasurer's Office to enhance the City's cash management process in order to:

- maximize investment earnings;
- satisfy financial data requirements from banks that provide lines of credit; and
- more accurately project future cash positions.

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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

# 2016 Budget Hearing

## MBE/WBE Contracting Data

Period: Jan - Jun 2015

Total Purchases: \$44,211,425

<u>MBE/WBE Spend (1)</u>	
WBE:	\$946,940 (2.1%)
Asian MBE:	\$3,879,468 (8.8%)
African-American MBE:	\$4,923,692 (11.1%)
Hispanic MBE:	\$1,537,396 (3.5%)
<b>Total Purchases:</b>	<b>\$11,287,496 (25.5%)</b>

## Staffing Data (on 8/1/ 2015)

<u>Department Ethnicity and Gender</u>				
	Male	Female	Total	%
Asian	20	14	34	5.9%
Black	77	212	289	50.4%
Hispanic	39	68	107	18.7%
White	78	56	134	23.4%
Other	5	4	9	1.6%
<b>Total</b>	<b>219</b>	<b>354</b>	<b>573</b>	<b>100%</b>
	38.2%	61.8%	100%	

<u>New Hires(2) Ethnicity and Gender</u>				
	Male	Female	Total	%
Asian	2	3	5	12.8%
Black	9	7	16	41.0%
Hispanic	2	8	10	25.6%
White	3	3	6	15.4%
Other	1	1	2	5.1%
<b>Total</b>	<b>17</b>	<b>22</b>	<b>39</b>	<b>100%</b>
	43.6%	56.4%	100%	

<u>Department Managers Ethnicity and Gender</u>				
	Male	Female	Total	%
Asian	8	1	9	6.6%
Black	14	35	49	36.0%
Hispanic	8	15	23	16.9%
White	33	17	50	36.8%
Other	3	2	5	3.7%
<b>Total</b>	<b>66</b>	<b>70</b>	<b>136</b>	<b>100%</b>
	50.4%	49.6%	100%	

## Interns (on 8/1/2015)

<u>School</u>	<u>Gender</u>	<u>Race</u>
Chicago State University	Female	Black or African American
Elmhurst College	Female	White
DePaul University	Female	Hispanic
University of Illinois Chicago	Female	Black or African American
DePaul University	Male	Asian and White
Loyola University	Male	White
Northeastern Illinois University	Female	Hispanic
DePaul University	Male	Hispanic

(1) Does not include healthcare payments. Includes the administrative fees paid to healthcare providers.

(2) Does not include employees hired in 2015 and were terminated or resigned. Includes transfers within Finance and from other City departments.



**DEPARTMENT OF FINANCE**  
**Programmatic Organizational Chart**

