

# City of Allentown

## Management and Financial Audit

November 26, 2019

- Project Purpose and Approach
- Financial Condition Assessment
- Management Audit Issue Identification
- 69 Total Recommendations
- Citywide
  - By Department/Major Function
- Implementation Considerations
- Next Steps

# Work Completed to Date

- Complete a financial condition analysis and five-year financial projections
- Conduct an organizational review designed to identify opportunities for improved efficiency and effectiveness and frame policy and organizational challenges
  - Staffing and workload patterns
  - Organizational structure
  - Policies and procedures
  - Technology

- Financial condition analysis
- Field work and interviews with nearly 100 staff and stakeholders
  - Including City Council, department directors, and key staff in all City departments
- Quantitative analysis
- Prepared recommendations and project report

# Financial Condition Assessment

# Financial Condition Assessment

- Completed historical revenue and expenditure trend analyses to develop five-year projection assumptions
- Verified assumptions with the Finance Director and EIP Project Team
  - Incorporated known revenue and expenditure factors
- Developed five-year baseline financial model
  - What happens if trends continue and there are no major programmatic adjustments?

# Revenue Projection Assumptions

- Major Revenue Sources
  - Real Estate Tax - 1.5% per year
    - Includes some growth attributable to the Neighborhood Improvement Zone (NIZ)
  - Earned Income Tax – 2.5% per year
  - Business Privilege – 3% per year
  - Other revenues largely held flat

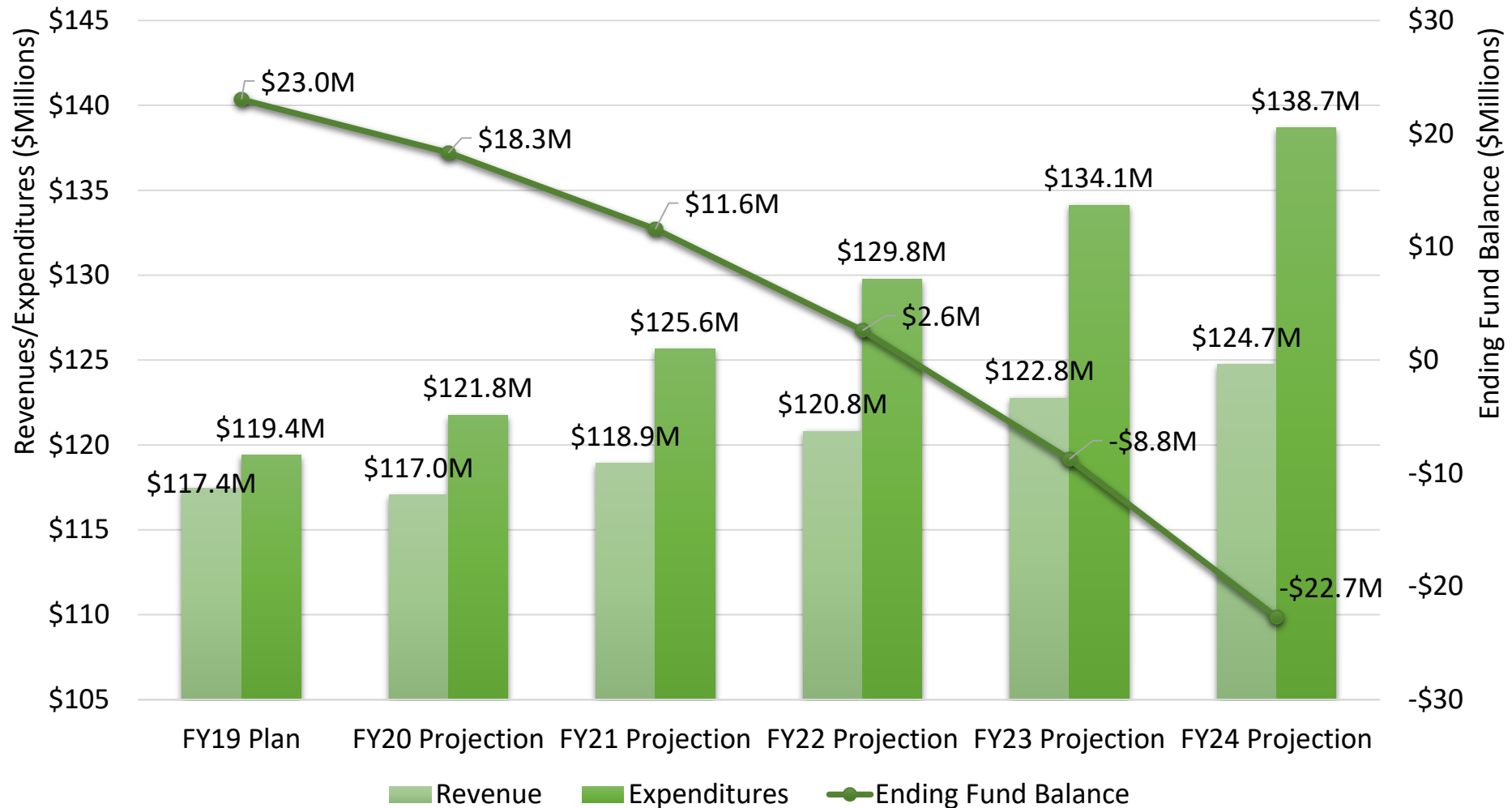


# Expense Projection Assumptions

- Expense Drivers
  - Personnel Services tied to labor agreements – 3% per year
  - Healthcare costs increase – 8.4% per year
    - Historical increases range from 8.3% to 11.0%
  - Pension assumptions based on 2018 actuarial studies required to achieve 95%+ funding ratios over 15-year period
    - Pensions are not distressed
    - Generous pension plans from prior union agreements cannot be avoided
  - Other non-personnel costs at or below inflation

# Projected Surplus/Deficit

## General Fund Revenue and Expenditure Projections



# Financial Policy and Procedure Recommendations

- Develop and implement appropriate financial management policies
  - Fund balance policy for each major operating fund
  - Debt management
  - Investment management
    - Identify clear, acceptable levels of risk for City investments

- Increase Health Insurance funding by \$2.5 million in 2020 budget and apply 8.4% annual increases
  - City has historically underbudgeted health insurance costs and relied on Risk Management Fund to help pay for increases
  - Eliminate reliance on Risk Management Fund to cover health costs

- Pursue strategies to limit health care costs
  - Major cost driver but bound by collective bargaining agreements
  - Negotiate with bargaining units to limit annual premium increases to 5% or less
    - Require employees to cover premium increases in excess of 5%
  - Increase employee premiums for new employees hired after set dates

- Create an Other Post Employment Benefit (OPEB) Trust to partially or fully fund liabilities
  - No clear indication of pension system instability
  - However, City has more than \$94 million in OPEB liabilities on its books
  - Using a trust allows the City to proactively fund existing liabilities
    - May allow the City to reduce reported OPEB liabilities and improve credit rating

# Management Audit

Organization-Wide  
Recommendations



- Develop an organization-wide strategic plan
  - Formalizes the City's goals for the future
  - Identifies priority issues and focus areas
  - Guides work plans and service decisions
  - Supports other planning efforts (Vision: 2030)

- Implement Priority-Based Budgeting (PBB)
  - Fundamental shift from traditional budgeting
  - Fund programs that most advance City strategic priorities
    - Avoid funding programs that have little impact
    - Reevaluate programs each budget cycle
  - Creates a mechanism for making difficult service and budget decisions

- Develop a capital project inventory and prioritization system
  - Ensure capital projects align with strategic goals
  - Prioritize projects that preserve and extend asset life
  - Leverage PBB process to allocate funding

- Implement a comprehensive performance measurement program
  - Determine whether programs meet goals and provide effective service
  - Evaluate programs using three criteria:
    - Quantity of work accomplished
    - How well resources are utilized
    - Whether program accomplished its intended purpose/advanced strategic priorities

- Establish a compensation philosophy
  - Continue efforts to evaluate classification system and employee compensation
  - Define a formal approach for setting/updating compensation
    - Lead, match, or lag the wage market
  - Incorporate compensation philosophy assumptions into financial planning

# Management Audit

## Recommendations by Function

# Internal Services:

Finance, Human Resources,  
Solicitor's Office, Information  
Services

- Reorganize Finance to create a Deputy Finance Director position
  - Responsible for day-to-day supervision of Finance staff
  - Allows Finance Director to better manage strategic needs and provide financial oversight
- Cross-train employees
  - Pension and payroll functions rely on a single staff person
  - Opportunity to teach Accountant positions



- Create a comprehensive supervisory and management training program
  - Engage a third-party contractor to develop curriculum and administer training
  - Creates a foundation for building a workforce development program
- Implement consistent performance reviews
  - Ensure staff work toward City strategic goals
  - Improve accountability and opportunities for managers to coach staff

- Develop a process for updating the City Charter and codified ordinances
  - Regularly review to ensure these reflect current practices and community values
- Engage outside legal counsel to represent the City in labor matters and union negotiations
  - Leverage Public Employer Labor Relations Advisory Service (PELRAS)

- Revive the Technology Steering Committee (TSC)
  - Build formal linkages between customer departments and IS
- Update the Information Services Strategy plan and implement a formal governance process
  - Leverage TSC to identify organization-wide technology priorities and goals
  - Describe how complex technology projects will be identified, prioritized, and funded

- Reclassify vacant positions as Business Analysts
  - Create staff capacity for IS to achieve greater understanding of customer needs
- Develop service level agreements (SLAs) with customer Departments
  - Increases transparency
  - Formalizes mutual understanding of service expectations and obligations

# Community and Economic Development

- Create a Community Development Bureau
  - Group smaller functions under the Community Development Operations Manager
  - Maximizes use of management staff and streamlines structure
- Conduct an annual review of all Community and Economic Development fees
  - Ensure that fees adequately cover costs as defined in the City Code

# Parks and Recreation

- Transfer Parks functions and staff to the Public Works Department
  - Reduces overlap between Parks and Public Works
  - Creates opportunities to streamline service delivery
  - Allows the City to determine appropriate maintenance service levels based on strategic priorities and available resources



- Create an annual Recreation work plan
  - Prioritize programs that advance City strategic goals
- Establish formal cost recovery goals for Recreation programs
  - Determine which recreation programs to subsidize and the extent of subsidy required

# Public Works

- Consolidate Parks maintenance and Public Works functions
  - Create consolidated labor pools in the DPW Streets and Building Maintenance Bureaus
  - Opportunity to reduce middle management positions
  - Represents a significant operational and cultural change from current practice
- Develop asset inventories, condition assessments, and work plans using consolidated staff

- Issue RFPs to evaluate the cost-effectiveness of contracting for services
  - Street Sweeping
  - Roadside Mowing
  - Custodial Services
  - Animal Control
  - Traffic Signal Maintenance
  - Asset Disposal
- Compare cost of contracting to fully-burdened in-house costs

- Provide additional support for the MS4 program
  - City currently utilizes a third-party contractor for developing stormwater management plan
  - Plan implementation challenging due to lack of staff capacity
  - Expand scope of contract to include implementation assistance
  - Important to complete stormwater programs to ensure compliance and avoid fines

# Police

- Adopt a proactive policing standard and adjust minimum staffing levels to meet proactive needs
  - Determine what proportion of an Officer's time should be spent on proactive policing
  - Ensure call data tracked by Lehigh County 911 is accurate
  - Evaluate call data to assess demand for services and develop schedules that maximize existing positions
- Enhance data collection

- Implement an information-led, proactive policing strategy
  - Utilize CompStat or a similar model
  - Identify crime trends and apply analysis in the field through patrol and enforcement
  - Assess internal communications to ensure information is shared accurately
  - Hold staff accountable
  - Engage the community to gather information and prevent crime



# Fire

- Fully integrate Fire and EMS operations and management
  - Fire and EMS largely separate operations currently
  - Significant operational overlaps between divisions
  - Facilitate closer communications beginning with senior leadership
  - Utilize regular meetings to foster closer working relationships

- Consider additional personnel in Fire Suppression and Paramedic functions
  - Potentially reduces overtime costs
- Assign administrative specializations to Battalion Chiefs
  - Training program, pre-plans for occupancies, fleet operations
  - Allows Department to better integrate administrative direction into operations

# Implementation Considerations

# Implementation Considerations

- Draft implementation plan provides key implementation steps and prioritization
- Recommendations represent a substantial number of new projects on top of the existing workload
  - Organizational capacity must be considered
- Implementation will take time and effort

# Discussion

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