



Allentown

435 Hamilton Street
Allentown, Pa. 18101

Minutes - Final

City Council

Tuesday, November 26, 2019

6:00 PM

Council Chambers

Management and Financial Audit Presentation

Roll Call

Present: 11 - Candida Affa, Candida Affa, Candida Affa, Candida Affa, Roger MacLean, Roger MacLean, Courtney Robinson, Cynthia Mota, Daryl Hendricks, Julio Guridy, and Ed Zucal

Management and Financial Audit Presentation

[15-3299](#) Novak Presentation

Attachments: [Allentown Report Presentation - November 2019](#)

Ms. Michele Ferguson, Organization Practice Leader with Novak Consulting Group and with her is her colleague Jonathan Ingram who is a Senior Associate with their firm. She stated that they conducted a Management Audit through the Commonwealth's EIP Program. They will talk about the Financial Assessment that they did and the Findings from the Management Audit. They went through the Financial Analysis and Recommendations. It lays out 70 plus recommendations, the next steps and what is required beyond the life of this specific program. They spent a significant amount of time meeting with Council and staff throughout the organization. They questioned and analyzed a specific amount of background information and data. They spent a significant amount of time with the Finance Department to understand the current financial condition of the city. On the expense side they focused on the personnel expenses. Many are defined in the Collective Bargaining Agreement. They looked at the healthcare costs and pension assumptions. They applied Minimum Municipal Obligation (MMO) necessary to achieve 95 percent funding over a 15 year period from the Actuarial Studies.

Mr. Jonathan Ingram stated that at the high level review of the Financial Assessment process their approach is to analyze five (5) of revenue and expense data. Determine what anticipated factors that might impact revenue and expenses. It defines specifically for the General Fund. They define what gap may exist and how to apply to the city's Fund Balance. The Revenue Sources: Real Estate Tax based on historical growth 1.5 percent per year, Earned Income Tax (EIT) growth 2.5 percent, Business

Privilege Tax growth 3 percent and other revenue were held largely flat. They looked at Fuel commodities, office supplies were part of the Consumer Price Index. There is a structural budget deficit. He stated that the city's expenses are growing at a rate faster than your revenues. You have a healthy fund balance in the General Fund. There is a need to pay attention and make adjustments on the expense side. It is more likely to make adjustments on the revenue side as well. They identified in the Management process Audit a number of recommendations that may create some cost savings. There are also investments needs within the organization. With the Financial Policy and Financial Management recommendation and the high level observation and recommendation applied to each of the city's department. They need to develop Financial Management Policies. Specifically, Fund Management Policies, Debt Management Policies and Investment Policies. The Governance Finance Officer Association identifies a number of Best Practices you can use. It formalizing this policy and making this decision and expectation and help you curb and maintain Fund Balance. It creates some consistency and help with credit ratings as well. The Debt Management and Investment Management Policies are important policies for best practices not as critical to implement a fund balance. Healthcare costs is the most important and largest cost-drivers on the expense side. The city has historically under-budgeted the health insurance costs. They recommended to fully budgeting for healthcare cost on an annual basis in order to get financial projection models. It will also help from relying on the Risk Management Fund. The city has tapped in the Risk Management Fund to close that health insurance gap. Moving to fully fund this item in the General Fund will help restore the Risk Management Fund. One of the realities that they face is that a local government in Pennsylvania much of your personnel expenses are tied to the Collective Bargaining Agreement. Strategies available are to control plan expenses and increase employee contributions. That is a difficult thing to achieve. They did some bench marking on how much employees pay in Allentown. Typically, they pay from 0 to 7.5 percent depending on their plan selection. The average for local governments in the mid-Atlantic is about 18 percent. Another Best Practice recommendation relates to the city's post employment benefits for your retirees. The city is utilizing a pay as you go method to fund those post employment benefits. There is an opportunity to create a Trust Fund to start to defray the expenses. that would require an initial investment that could come from the Fund Balance or the possibility to sell some city assets and properties.

Ms. Michele Ferguson stated that the Financial Condition Assessment is critical to understand where the city is today in terms of its long-term financial status. It really does help inform how to begin to prioritize the needs of the organization. In aged communities across the country there is

a large deficit in resources available to manage the infrastructure: your people infrastructure as well as your structural assets. There are many opportunities across the organization and the city to continue to invest. Part of the Management part of the audit is to take a hard look at the financial condition of the organization and identify what are the most critical needs of the organization. They met with over 100 different staff members and the tremendous amount of pride that the employees take in the organization and the work that they do. Many weren't shy where they see deficiencies and needs of more investment in the work that they do on a day to day basis. There are a number of recommendations that they made that is specific to each of departments in the organization and other recommendations that spanned across all departments. She stated that they call those the organization wide recommendations. One of the most important ones is to develop an organization wide strategic plan. She stated that she knows the community is in the process of going through the Allentown Vision 2030 process. That is a critical opportunity to determine the economic development strategies are for the long-term for this community. A Strategic Plan, an organization-based strategic plan really helps each department to ensure that they are aligned with the priorities that this Council has established. It links them to the specific day to day work that is happening in the department. It helps unify the work that is being done throughout the organization. There are always opportunities to identify an appetite for investments and developments than there are often resources. She suggested to implement a priority based budgeting process. It helps to create structure for the many requests during the budget process. They have recommendations in the report about the Capital Infrastructure and the CPI budgeting process. They have recommendations for the organization wide perspective for you as policy makers as well as leaders throughout the organization have access to data about the performance of the programs that you all have done. She stated that she knows that the organization went through a Compensation Study and one of the critical elements is to identify what is your over-arching compensation philosophy. Where does this governing body want to set its pay scales.

Mr. Jonathan Ingram stated that they have over 70 plus recommendations in the Report. Some of the internal service functions: Human Resources, IT, and Finance. Obviously, it relates to the finances that were already discussed related to the Finance Department. They also identified the need to create a Deputy Director position within Finance. They recommended cross-training employees in Finance specifically around payroll processing and pension related obligation. On Human Resources side, they identified a series a recommendations designed to improve the training program. They recommend creating a supervisory training program. It can be done with both in-house personnel and provided

through individual department directors or supervisors. There are also contracting opportunities. They recommended implementing a Comprehensive Performance Review System to make sure that they are occurring on a consistent basis. It is a great opportunity to manage employee expectations and a useful process in terms of a personal motivation. In the Solicitor's office, they recommended developing a process for updating the City Charter. This is a process that your Solicitor is already beginning to wrestle with. They looked at the capacity of the attorneys to deal with specialty items. They suggested to engage with outside Counsel for labor counsel and collective bargaining negotiations. In Information Systems, they recommended a number of areas that touch on Customer Service as well as IT Governance. They recommended an IT Steering Committee to create an avenue to identify and address in a timely fashion IT Customer Service issues and prioritize Investment decisions, a Governance Structure and an IT Strategic Plan. They made recommendations to reclassify two vacant positions as Business Analyst. To create internal services, customer service liaisons to help with departments throughout the city.

Ms. Michele Ferguson stated with regard to Community and Economic Development the Allentown Vision 2030 process will certainly be an opportunity to set some additional goals and targets for housing and economic development and planning related items. As part of the Management Audit, they look at each of the structures of each of the departments and look for opportunities to cross-train staff and similar function to collaborate. They recommended restructuring to better align the services. They recommended creating a Community Development Bureau within the Community and Economic Development Department. They looked at places for new revenue. They looked at the Fee Structures and made recommendations about the need to on a regular basis review all of your planning and development related fees. Parks and Recreation most significant recommendations is looking at transferring the functions within the Parks Department that are similar to Public Works. Identify opportunities where there are efficiencies, for resource sharing. This will strengthen the pool of staff. On Recreation side, they have recommended developing a Recreation work plan to prioritizing the work. She recommended looking at the fees of the Recreation side. They don't make recommendations on the level or amounts. They suggest a Policy on the cost recover.

Mr. Jonathan Ingram stated on the Public Works side they have corresponding recommendations related to the maintenance function. This gives an opportunity to consolidate some Supervisory Management position and expand that management pool. He highlighted one risk is you have to be intention that Park Maintenance is done at the same service

level. Park Maintenance task can receive second priority. It is a recommendation that allows for some cost savings and potential efficiencies. They recommended developing some detailed asset inventory, conditions assessments and work plans. They made recommendations to look at RFPs for a number of functions. These are processes that will take time to work through. They recommended additional support for the MS4 Program - Stormwater Management Program. There is a third party contractor. The city structured the Stormwater Water Fund to create a buffer and build some revenue in a five year period. Police Department is a really important area for the community. Police, Fire and EMS are the three pillars of Public Safety space. It is guided by the service level decisions. They recommended to engage in a Policy conversation with the governing body to define what the standard is for proactive and community policing within the community. That standard will drive the staffing need. Some data with respect of calls of service was prohibited. They recommended data collection areas to gather better data. Having reliable CAD data is important. They suggested implementing a proactive policing strategy, Intelligence Style Policing to enhance crime analysis in real time to create a structure to hold law enforcement personnel accountable. They identified areas of potential staffing needs. Fire and EMS, the Fire Department have core functions: fire suppression, fire prevention, and EMS. They recommended working to integrate. There is limited cross-training, mutual training events. Create a management structure and a training structure. The goal is to ultimately move towards cross-staffing model. That is not a near term solution or possibility. It creates a larger labor pool and opportunities for specialization, and could potentially reduce some of the overtime cost. There are some challenges. There are implementation challenges. The fire and EMS side, they looked at the Staffing Requirements and needs relevant to overtime expenses. They calculated the impact of that lead on the minimum staffing requirements for the Fire Company as well as the EMS Company. There is a need to start adding personnel. The good news is that the cost of those positions would be at least partially offset by reduction in overtime expenses. They made recommendations to create some administrative structure for the Battalion Fire Chief. EMS and Fire personnel exist in two different unions at the moment as represented by two collective bargaining agreements. There are some implementation challenges and a long-term process. On the fire and EMS side, they looked at staffing requirements and needs specific to overtime expenses. There are clear staffing needs as well as staffing needs on the EMS side. It is largely related to lead usage and the overtime use is largely attributable to achieving minimum staffing on shifts. There is a need to start adding EMS personnel in those spaces. The cost of those positions will be at least partially offset by the reduction in overtime expenses. They made recommendations for administrative specialization for the Battalion Chiefs.

They work on the 10 hours or the 14 hours schedule and are the Command Officer and Fire. They would like to see inventory management. He stated that they will be providing the city with an Implementation Plan that would provide key implementation steps as well as the individual within the city and the department that they feel should be responsible for implementation. They provide the Implementation Plan in a draft format. They expect the city to take it and evaluate those projects within the context of all the work they have to do and convert that Implementation Plan into target completion dates. The things they offered are major projects. They will be heavy lifts for staff and managers who already have more than a full-time job. They wanted to be very prudent of where they recommended adding additional resources. They may be needs and opportunities to create an additional project management support to carry forward the recommendations. He asked if there were any questions or comments.

Mr. Roger MacLean asked if there were any comments from Council. It was a rough draft for tonight.

Mr. Julio Guridy asked about the process and how do they think Council can manage it to make sure it is implemented.

Ms. Michele Ferguson stated that they will provide an Implementation Plan that is a companion document to the full Report. They do that purposefully. Handing over a 200 page Report to an organization is a little overwhelming. The Implementation Plan breaks down the 70 plus recommendation to manage steps. It provides an opportunity for accountability. There will be internal conversation on how to begin the implementation process. She invited them to practice a little patience. The Implementation Plan can serve as a communication tool. It can be used by the organization as a reporting mechanism. There may be cases that there are recommendations that they have made that the organization spends time reviewing, debating, and talking about and may come back to you and say this is not the right recommendation and wants to go in a different direction.

Mr. Julio Guridy stated that he wanted to make sure that there was a conference call and do the best they can to make sure that it is implemented. Council changes and so does the administration. In the past, they had a group of professionals that are company leaders that developed and monitored the recommendations that were made. It worked out pretty good. You see the development we have in the city that we did not have 15 years ago. We are spending more than we are actually making in the city. The revenue is smaller than the expenditures year to year. We have a structural deficit that is not getting any smaller. Everything goes up. The health benefits is one and personnel as well. You made some

recommendations on investing and divesting some of the properties. He asked is that enough.

Ms. Michele Ferguson stated that they have seen organizations that have structured some committees of the Council to serve in the oversight role. It is important to say that it may take external support for some of the recommendations to be implemented. Some are internally operationally focused and will be the purview of the professional staff. They are the ones with the most knowledge and will be able to make their professional recommendations to you all about the specific implementation strategies for them. When you talk about the Community Development impact and fees there may be opportunities to invite others to participate in those conversations that become advocates for some of the changes because they will see the value as well. There are ways to institutionalizing some of those conversations. Regardless of who is sitting in those chairs, there are conversations happening for implementation.

Mr. Julio Guridy stated that don't him wrong, they have a very capable staff that will be able to do all of this. Staff change, people get other opportunities in their life and some retire and they lost the institutional knowledge.

Mr. Jonathan Ingram stated that she will share a much smaller community, the City of Pottstown, Pennsylvania went through an EIP process and actually developed a citizen committee to help oversee. They provided an avenue.

Mr. Roger MacLean stated that Mr. Guridy talked himself into a committee.

Ms. Michele Ferguson stated that you found a Chair.

Ms. Candida Affa touched on the major revenue sources and selling out housing stock.

Mr. Jonathan Ingram stated that is an opportunity to look at the assets that you have. You don't necessarily need from an operations perspective.

Ms. Michele Ferguson stated that these are assets that are owned by the city.

Mr. Daryl Hendricks stated to follow up you don't know the assets the city owns. He stated that is generally a one-time revenue sources.

Mr. Jonathan Ingram stated that they did not have the opportunity to do a full detail. That scope of work is way down in the weeds. There may be

opportunities and there may not. That is the initial amount that can go into a pool.

Mr. Roger MacLean asked if there were any comments from the public.

Mr. Glenn Hunsicker asked about the financial policy and procedures and debt management. Are there any specifics on managing the debt? How will they manage that debt other than paying or organizing more bonds.

Mr. Jonathan Ingram stated that Debt Management is largely about organizing your debt ratio. The amount of debt you incurred as well as the interest paid on the debt. The city has good advisors and have been proactive in refinancing the debt. This is really about creating a policy around what level of risk you are willing to take on with respect of the debt ratios, General Obligation Debt, as well as bad debt.

Mr. Glenn Hunsicker asked what ratio of risk that the city should take on in your opinion. He asked about the Fund Balance Policy for each major operating funds. He asked about the health insurance funding \$2.5 million. The city is strapped for money. Let's face it. No one wants to increase taxes for than you have to. At the same time, we are asking Council to cut down expenditures. That is the first thing we should have been doing.

Mr. Jonathan Ingram stated that they are not Financial Advisors. There are best practices for the government, the Governance Finance Officers Association and also a police decisions in terms of what that risk is. There are some benchmarks that are tied to credit ratings. He stated that Fund Balance Policies are essentially policy decision to earmark an unrestricted amount of money on an annual basis. Typically, between three and six months of annual operating expenditures as a rainy day fund. From a budgeting perspective and from their view it is important to account for and budget for health insurance expenses. It is equally important and they offer recommendations to control those costs with a collaborative and cooperative effort to collective bargaining units.

Mr. Glenn Hunsicker stated that they asked 90 percent of the non-bargaining people to join the bargaining people, SEIU. There will be a big savings in doing that.

Mr. Tom Hahn asked Novak in their professional opinion when the budget process is in the procedure it is right now here is Allentown, is it the responsibility of the administration to bring forth a budget or is it Council's job to make all the cuts so that the administration can say they did not do it.

Mr. Jonathan Ingram stated that it is a political perspective question that

they don't engage in.

Mr. Glenn Keller, 2726 Fernor Street, asked if there was a date certain for transferring the status of this Report from draft to final version that it will make it more formally available for public access. He asked if it will be finalized.

Mr. Mike Hanlon stated not the draft, but the PowerPoint is available online.

Mr. Julio Guridy stated that it is public information and asked the Novak representatives when will they complete the final Report.

Ms. Michele Ferguson stated that they provided the draft Report and have been soliciting comments. They always leave a couple of typos in there to make sure that everybody reads it in full. They are making some of those minor adjustments and corrections. They are prepared to provide the final version within the next two weeks.

Mr. Julio Guridy asked the Novak representatives to explain the Project Surplus Deficit page.

Mr. Jonathan Ingram stated that you will see three lines on the Chart. The two bars, the light green is revenue and the FY2019 budget is \$117 million and expenditures are \$119.4 million. The Chart also identifies your current General Fund balance and demonstrates the revenue and expenditures projections in five years and how it will impact if additional measures are not taken to either increase revenue or control expenses in that area.

Mr. Julio Guridy stated that it is extremely important for the city to make those changes and get some kind of infusion on the revenue side. In this current budget, it is based on what the administration is projecting Capital Expenditures in the proposed budget, based on borrowing money in the future to pay for some of this Capital Project Projections.

Mr. Jonathan Ingram stated that in terms of the Capital piece, the debt ratio is not a great deal of additional capacity to take on more debt. There are some prioritization that is going to have to occur.

Mr. Roger MacLean stated with the Roll Call, everyone is accounted for, except Mr. Robinson. He stated that unless Novak has anything else they will adjourn the meeting.

ADJOURNED: 7:00 PM