



FINANCE COMMITTEE

CITY COUNCIL

TUESDAY, SEPTEMBER 2, 2008

CITY COUNCIL OFFICE

5:00 p.m.

AGENDA

Committee: J. Waltman, Chair, S. Fuhs, M. Baez

COMMITTEE OF THE WHOLE

5:00 pm

- 1. Executive Session – Personnel**
- 2. Update - Housing Permit Application Process**

FINANCE COMMITTEE

I. Budget Issues

6:00 pm

A. 4 Action Steps

- 1. Parking Authority**
- 2. RAWA**
- 3. Staff reductions – reorganizations**

B. Fines & Fees – Maximus suggestions

C. Collection of Act 511 Taxes (EIT, Per Capita, etc)

D. Expense analysis

- Operational savings
- Organization structure
- Contracted services

E. Specific 2009 Budget Commitments

F. Budget Timelines

II. 2009 CDBG Action Plan & Consolidated Plan Review

Follow up from 8-18 work session

- Sect 108 Loan to Reading Future
- Allocation of \$500,000 to OCR
- Amend to Allocate for Blighted Property Review Committee
- Amend to Allocate for Street Lighting
- Reduction in NEAR allocation
- Reduction in OND allocation

IV. Budget Issues

7:30 pm

1. Continuation of discussions started at the Budget Summit
2. Review of CIP Amendments & General Fund Amendments
3. Issues referred from past Finance Meetings

Council and Administration of Expectations of Finance Committee

- Scope of Finance Budget Committee Review

- a. General Fund Recovery Plan
- b. Capital Project Funding Plan
- c. Review of Financing and Debt Service
- d. Assessment of City Assets
- e. Related State and Federal Financial Issues

- Key Assessment Areas:

- a. CDBG
- b. Parking Authority
- c. Water Authority
- d. Equity opportunities
- e. Exemption revenue strategies
- f. Debt Service (current & proposed)
- g. User fees
- h. Regional opportunities (short/long term)
- i. Tax revenues
- j. State and Federal opportunities
- k. Expense analysis

- Operational savings
- Organization structure
- Contracted services
- 2008 Budget Review
- Discussion of Specific 2009 Budget Commitments

IV. Repeat Findings Identified in the External Audit Reports

**City of Reading
Summary of 2007 Findings and
Recommendations
2004-2007**

	2006	2005	2004
2007 Findings:			
07- Modified Accrual/Full Accrual Basis of 1 Accounting	M		
07- 2 Grant Receipts	06-3	05-4	04-5
07- 3 Grant Tracking & Monitoring			
07- 4 Pension Reporting	06-4		
07- 5 Pension Compliance			
07- 6 Unclaimed Property	M		
07- 7 Segregation of Duties - Bank Reconciliations			
07- 8 DCED Reporting Requirements			
07- 9 Employee Records			
07- 10 Journal Entries	M		
07- 11 Information Technology	06-6		
07- 12 Utility Billing Data	06-2	05-3	04-6

2007 Management Letter:

M	Implementation of Anti-Fraud Policies	
M	Conflict-of-Interest Policies	
	SAS Pronouncements/Internal Control	
M	Documentation	M
M	Financial Analysis & Accrual Reporting	M

M	Journal Entries	M		
M	Program Loans & Other Receivables	M	M	
	Accounting Manual & Cross-Training of Key			
M	Positions	M	M	
M	Compensated Absences/OPEB	M	M	M
M	Internal Audit Function	M	M	M

M - Management Letter item

In addition, it is important to note that over the years, standards have become tighter. What may not have been considered a reportable finding 4 years ago, may have been elevated to a finding in recent years as required by the change in auditing standards.

Also of note is that the City should be preparing for the implementation of the OPEB standard that has been highlighted in management letters since the standard's release.

Upcoming Issues

- Policy for the review and adoption of bonds and other financing initiatives
- Storm Sewer Utility
- Water Authority
- Review of Audit Findings

It is possible that members of and possibly a quorum of members of other governmental bodies of the municipality may be in attendance at the above-stated meeting to gather information. No action will be taken by any governmental body at the above stated meeting other than the governmental body specifically referred to above in this notice.

Which Local Taxes Are Available in Pennsylvania?

School districts, counties, and municipalities (cities, boroughs and townships) are not allowed to make up their own taxes; they are only allowed to choose between the taxes authorized for them by the Commonwealth. The number (and usefulness) of the taxes authorized varies across the different jurisdiction types.

Local taxes are authorized for local jurisdictions under several different laws; each jurisdiction has its own legal code that outlines how it operates, how it is governed, and which taxes it can levy. Pennsylvania counties, for example, are subject to the County Code passed by the Commonwealth. Boroughs, similarly, are subject to the Borough Code. The jurisdictional codes typically authorize the [real property and occupation tax](#).

In addition, Act 511 (often referred to as the "Local Tax Enabling Act"), also authorizes a variety of different taxes for municipalities and school districts. These include the [earned income tax, amusement tax, mercantile tax, per capita tax, occupation tax, and occupational privilege tax](#). Many of these Act 511 taxes often are referred to as "nuisance taxes," typically because individually they don't generate much revenue, and yet they are a nuisance to collect (and a nuisance for taxpayers to understand and not confuse).

Most of the Act 511 taxes have to be shared equally between school districts and municipalities if both levy it. For example, the maximum earned income tax rate for school districts and municipalities is 1 percent. If only the local school district levies the earned income tax, the school district can collect the entire 1 percent. If only the municipality levies the earned income tax, the municipality gets to collect the entire 1 percent. But if *both* the school district and municipality levy the earned income tax, they are required to *share* the 1 percent-- they each get 1/2 percent.

It is interesting to note that several local taxes are authorized both under the jurisdictional code, and under Act 511, *with different tax rates*. School districts and municipalities can choose under which law they want to levy the tax, and thus to tax rate cap they are subject. If a borough, for example, levies the occupation tax under the borough code, the maximum tax rate for the occupation tax is 30 mills. If a borough levies the occupation tax under Act 511, the maximum tax rate is \$10 (if they choose to levy it as a "flat rate"), or *no limit* if they choose to levy it as a millage.

School districts have an additional new option, as a result of [Act 50 of 1998](#). School districts adopting the new system receive a higher earned income tax limit in exchange for eliminating nuisance taxes (the occupation, occupational privilege, and per capita taxes), reducing real property taxes through [homestead and farmstead exclusions](#), and local tax referendum whenever future proposed real property tax increases exceed an inflation. The higher earned income tax rate is a full (and dedicated) 1 1/2 percent, compared to the "old" 1 percent (which needed to be shared equally with municipalities).

The local taxes available to different Pennsylvania jurisdictions appears in Table 1. In addition, the state also sets a [maximum tax rate](#) for many of these taxes. The combination of *which* taxes they are allowed to use, and for *how much*, have major impact on how jurisdictions [rely upon the different taxes](#).

Table 1. Major Taxes Available in Pennsylvania, by Jurisdiction (if blank, they cannot use the tax - for more detailed information, see Appendix A)							
Tax	3 rd - 8 th Class Counties	3 rd Class Cities	Boroughs	Townships of 1 st Class	Townships of 2 nd Class	School Districts	
						Under Act 511	Under Act 50 of 1998
Real Property	X	X	X	X	X	X	X
Occupation	X ¹	X	X	X	X	X	
Occupational Privilege		X	X	X	X	X	
Per Capita	X ¹	X	X	X	X	X	
Earned Income		X	X	X	X	X	X
Realty Transfer		X	X	X	X	X	X
Amusement		X	X	X	X	X	²
Mechanical Devices		X	X	X	X	X	
Mercantile		x	X	X	X	X	X
Personal Property	X						

1. Can levy one or the other, but not both simultaneously

2. Cannot collect more revenue from the Amusement tax than was collected in the year ending 6/30/97

What are the Local Taxes in Pennsylvania?

Pennsylvania law allows local governments and school districts to use a wide variety of taxes to fund their services. The multitude of taxes may appear confusing initially, but each is straightforward. This web page describes the major local taxes.

[Real Property Tax](#)

[Occupation Tax](#)

[Emergency & Municipal Services Tax \(formerly called the Occupational Privilege Tax\)](#)

[Per Capita Tax](#)

[Earned Income Tax](#)

[Realty Transfer Tax](#)

[Amusement Tax](#)

[Mechanical Devices Tax](#)

[Mercantile Tax](#)
[Personal Property Tax](#)

1. Real Property Tax

The real property tax is a tax on the value of the real property (land, buildings, and other improvements) owned by a taxpayer. It is sometimes called the real estate tax. The amount of real property tax a taxpayer owes depends upon the value of their property and the local tax rate. Property values for tax purposes are determined by an assessment process conducted by the county government. These assessed values may be very different than the actual market value of the properties.

2. Occupation Tax

The occupation tax has roots in England during the seventeenth and eighteenth centuries. At that time, many occupations were created by grant or title and could be sold or transferred between individuals. Occupations thus often were a form of property which could be bought and sold, much like real estate.

It is not surprising then that the occupation tax is very similar to the real property tax. The tax is levied on the value of residents' occupations, as determined by the county tax assessors office. The occupation of school bus driver may have an assessed value of \$25, for example, while that of a lawyer may be \$290. Assessed values are not based upon income, so all members of the same occupation will pay the same amount of occupation tax even if their income differs dramatically.

The local jurisdiction levies a tax rate on these occupational assessments. The occupation tax is collected from residents, without regard to where they actually practice their occupation.

The occupation tax can also be levied as a flat rate tax. Every person who works pays the same amount, regardless of their occupation. The maximum levy as a flat rate is \$10 per person, while there is no limit if the occupation tax is levied as a tax rate.

3. Emergency & Municipal Services Tax

Prior to Act 222 of 2004, the Emergency & Municipal Services Tax used to be called the Occupation Privilege tax, and is a tax on the privilege of working in the jurisdiction. All persons employed in the jurisdiction levying this tax must pay, regardless of whether they are legal residents of the jurisdiction. Municipalities and school districts can exempt low-income residents from paying the tax (Act 222 allows these jurisdictions to exempt taxpayers with annual income of less than \$12,000 from paying this tax). The maximum levy is \$52.

4. Per Capita Tax

The per capita tax is a flat rate tax, levied on adults who live in the jurisdiction. It is sometimes known as the "head," "poll," or "residence" tax. All adults pay the same amount, regardless of their income level.

5. Earned Income Tax

The earned income tax is a kind of income tax levied only on residents' earned income (such as wages, salaries, or other reimbursements for work). Unearned income, such as interest, dividends, pensions, and

social security are exempt from the tax. Unlike the federal or state income taxes, the earned income tax allows no exemptions or standard deductions. A jurisdiction can collect earned income tax from non-residents who work in the jurisdiction but do not pay an earned income tax in their "home" jurisdiction.

The maximum levy is 1 percent of earned income. If both the municipality and school district levy the earned income tax, both must share the 1 percent.

6. Realty Transfer Tax

The realty transfer tax is a tax on the sale of real estate. The maximum levy is 1 percent of the sales price. If both the municipality and school district levy this tax, both must share the 1 percent.

7. Amusement Tax

The amusement tax is a tax on the privilege of engaging in an amusement. It is tax levied on the admissions prices to places of amusement, entertainment, and recreation. Amusements can include such things as craft shows, bowling alleys, golf courses, ski facilities, or county fairs. The amusement tax is considered a tax on patrons, even though it is collected from the operators of the amusement.

8. Mechanical Devices Tax

The mechanical devices tax is a tax on coin-operated machines of amusement, such as jukeboxes, pinball machines, video games, and pool tables. The tax rate is set as a percentage of the price to activate the machine.

9. Mercantile Tax

The mercantile tax is levied on the gross receipts of local businesses. It sometimes is known as the business gross receipts tax, or business privilege tax. The mercantile tax can be levied on wholesale and retail trade, as well as restaurants. The Local Tax Reform Act of 1988 prohibited imposing any new mercantile taxes after November 30, 1988, though jurisdictions which were using the tax at that time are allowed to continue to levy it.

10. Personal Property Tax

The personal property tax is similar to the real property and occupation taxes, in that it is levied on the value of property owned by residents. The property it taxes is intangible personal property, such as mortgages, other interest bearing obligations and accounts, public loans, and corporate stocks. The personal property tax has sometimes been called an honesty tax because the only way a county knows the value of a taxpayer's personal property is if that taxpayer is honest enough to report it.

Act 511 Taxes

	Property Tax	Per Capita Tax	EIT	Mercantile Tax
1988	\$6,337,582	\$236,000	\$3,251,000	\$1,077,000
1998	\$14,617,441	\$189,000	\$3,660,000	\$1,480,000
2007	\$1,5384,219	\$91,000	\$8850005	\$1,677,233

Revenues from External Audit Reports

	Property Tax	Act 511	Licenses, Permits, Fees	Charges for Services
1993	\$7,560,124	\$5,999,069	\$2,265,884	\$1,089,361
1998	\$14,617,441	\$5,845,840	\$2,330,878	\$840,692
2007	\$15,384,219	\$18,989,234	\$3,897,845	\$5,534,626

Licenses, Permits and Fees from External Audit Reports

	Housing	Tax Admin Lic	Street & Pavement	Bus Priv
1993	\$179132 (@\$15 per)	\$26,965	\$93,476	\$42,998(@\$7.50)
1998	\$281,157 @\$35	\$772,978	\$99,415	\$150,018(@\$35)
2007	\$251,347 (@50 per)	\$18,176	\$48,163	\$242,789 (@\$55)

2009 Budget Calendar

- **May 2009*** – Budget Summit: initial review of financial situation and general outline of goals and objectives.
- **June 2009*** – Budget Summit Policy Issues: In depth review of goals and objectives discussed during May summit. 2009 goals and objectives will be agreed to by the summits conclusion.
- **June 30** – All Departments will submit descriptions of Goals and services provided on or before Monday, June 30th. Notice of this deadline will be provided to all Departments immediately following the May Budget Summit.
- **June 30 -July 15** – Administrative review of Department Budgets
- **July 15** – Submission of detailed Department Budgets
- **July 21** – Presentation of compiled departmental requests to City Council
- **July 22** - Budget Sub-committee begins review of Draft General Fund Budget.
- **August 1** – Initiation of joint review of General Fund Budget requests (Administration and Council Budget Sub-Committee)
- **September 2** –Discussion of Draft Budget at Special Finance Committee Meeting and submission of tax and fee ordinances.
- **September** – Provide City Council with information on upcoming bond, swap, refinancing issues that need to be approved by the end of the year.
- **October 1** – Formal presentation of 2009 Budget (General Fund and CIP) to Council & Introduction of Budget Ordinances at Special Meetings; Introduction of Fee and Tax Ordinances and Full Time Position Ordinance.
- **October 1** - Advertisement of General Fund and CIP Budget (Note: Figures to City Clerk by Monday Sept. 22 to allow preparation of the advertisements).
- Monday, October 20th 5:00 p.m. in Council Chambers - Capital Budget Public Hearing
- Tuesday, October 21st 5:00 p.m. in Council Chambers – General Fund Budget Public Hearing
- **October - November 10** – Special Meeting (if necessary) for the Introduction of Budget Amendments.
- **November 10** – Last day to Introduce Budget Amendments at Regular Meeting
- ~~**November 2009*** – Capital Budget Public Hearing 5:30 p.m. Council Chambers~~

- ~~November 2009*~~ — ~~General Fund Budget Public Hearing 5:30 p.m. Council Chambers~~
- **November 24** – Adoption of General Fund Budget, CIP Budget, and any Tax and Fee Ordinances

*Exact dates will be provided by the City Clerk.