



# ***FINANCE COMMITTEE***

***CITY COUNCIL***

**TUESDAY, SEPTEMBER 8, 2009**

**CITY COUNCIL OFFICE**

**5:00 p.m.**

**AGENDA**

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

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## **COMMITTEE OF THE WHOLE**

**Response to the Blue Ribbon Panel Report**

**5:00 p.m.**

***Recommendations attached at Tab 3***

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**1. Review Ordinance increasing the fees in the Zoning area 6:00 p.m.**  
(requested at 5-18 work session)

**2. Review Draft CDBG Budget 6:20 pm**

**3. Charter Amendment – Default Budget 6:40 pm**

**4. Review Draft 2010 Budget & Budget Calendar 6:40 pm**

**a. Define Core City Services-Programs**

**5. Review Follow-up List 7:30 p.m.**



# *CITY COUNCIL*

## ***Finance Committee***

### **Meeting Report Monday, August 3, 2009**

**Committee Members Attending:** J. Waltman, chair, M. Baez, S. Fuhs

**Others Attending:** V. Spencer, M. Vind, C. Geffken, R. Hottenstein, D. Cituk, M. Reese, C. Younger, L. Kelleher, M. Mayes

The Finance Committee meeting was called to order by Mr. Waltman, chair, at 5 pm.

#### **BOND SWAP**

Mr. Vind presented a proposal to swap the Capital Improvement Bond currently a variable rate to a fixed rate. He stated that the swap can be terminated along with the refinancing. He stated that under this transaction the City can issue a bit more debt for capital programs while keeping the repayment amount the same. He stated that this is the most conservative and least costly approach.

Mr. Waltman inquired why the variable rate bond is locked in at a 5.35% interest rate. Mr. Vind explained that this was due to the huge cash payment taken by the Administration in 2005. He stated that after the swap the City will pay more in principal and reduce the interest (blended).

Mr. Waltman noted that the proposed transaction would eliminate the liquidity fee. Mr. Vind agreed and noted that the City could also add \$2.5M in additional capital funding.

Mr. Waltman inquired about the disadvantages of the transactions. Mr. Vind stated that the only identified disadvantage would come if, in the years ahead,

the economy improves and the liquidity rates improve. He also noted the possibility that in the future these transactions will have less regulation.

Mr. Waltman stated that overall the City will reduce the liquidity cost by \$6.5M. Mr. Vind explained that as the DCED has already approved the transaction in 2005 Council will only need to approve an amendment to the bond ordinance. He suggested that the introduction could occur on August 10th with enactment August 24<sup>th</sup>. Mr. Vind stated that he will have the draft legislation to the Council office by Wednesday, August 5<sup>th</sup>.

Ms. Baez moved, seconded by Mr. Fuhs, to move ahead with the swap transaction.

### **Capital Improvement Program**

Ms. Kelleher noted the poor wording in Section 2 of the ordinance. She requested that clarification be provided.

Mr. Hottenstein explained that the stadium project planned for later in 2009 will increase by \$450,000 for a new project total of \$1.75M. He stated that the project will make improvements to the concourse, the locker room, the seating area, etc. He stated that the improvements will meet the MLB guidelines.

Mr. Waltman asked the Administration to consider pursuing the purchase of the Hillside pool. He noted that the pool draws capacity from the surrounding community. He also noted the severe need for more summer recreation facilities.

Mr. Hottenstein stated that the Lancaster Avenue Fire Station allocation is increased by \$75,000 for a new project total of \$3.575M.

### **Codes and Zoning Fee Increases**

Mr. Hottenstein distributed a new sheet showing the housing permit fees adjusted based on a property maintenance inspection every five (5) years.

Mr. Waltman stated that the new scaling makes more sense.

Mr. Hottenstein explained that for a single family rental property the landlord will be required to pay \$240 one time, every five (5) years and pay an annual \$50 renewal fee.

Mr. Cituk inquired about the change in revenue projected. Mr. Geffken stated

that this should increase housing permit revenues by \$385,000 annually.

Mr. Hottenstein apologized and stated that the Zoning fees have not been reviewed at this time.

### **Legal Action/Strategies Outside of Act 47**

Mr. Waltman expressed the belief that the remedies described by Mr. Reddig at the July Work Session are also available outside the Act 47 process. He questioned the impact of these remedies when used either with the Act 47 process or apart from it.

Mr. Fuhs noted the importance of the Administration's work with other cities to address common issues such as mandatory arbitration included in Act 111.

Mr. Waltman expressed the belief that that same issue can be taken through the court system. He again suggested that the Administration can seek the relief available without using Act 47.

There was next a discussion on the benefits of partnering with other cities compared to taking action individually. Ms. Kelleher inquired how five (5) cities in eastern Pennsylvania will obtain the state legislative changes demanded. She noted that tax payers across the Commonwealth have been demanding property tax reform for 20-30 years with no result.

Mr. Spencer expressed his agreement with Ms. Kelleher's statement and noted the need for Council and the Administration to have a good understanding of the difference between Act 47 and bankruptcy. He noted that the state created Act 47 as a means to avoid bankruptcy. Mr. Waltman agreed and expressed the belief that Act 47 was created to be a hook.

### **Budget Preparation & Strategy**

Mr. Waltman noted that it is the beginning of August and inquired how the Administration is progressing on drafting the 2010 budget. Mr. Hottenstein replied that the draft budget was distributed to Council members at the June budget summit. He stated that expenditures are projected at \$74M and revenues projected at \$59M. The projected revenues include the fee increases recommended by Maximus.

Ms. Kelleher inquired why the 2009 budget, as amended, totaling \$69M was not used as a template. Mr. Hottenstein stated that the 2009 budget was used as a

template and the projected budget for 2010 includes contractual and other mandated expenditure increases. Ms. Kelleher noted that when comparing the 2010 budget distributed at the budget summit to the 2009 amended budget the line items appear to be alike. Mr. Geffken stated that the Administration is currently working on ways to close the budget gap constructively while considering the cost of government.

### **CDBG Residual**

Mr. Mayes distributed a document showing the CDBG projects from 2005 through 2009 showing the amount budgeted, the amount spent, and the amount remaining. He stated that \$400K – \$500K is estimated to be available for reprogramming by the end of October.

### **Review Departmental Work Plans**

No report was given.

### **Repeat External Audit Findings**

Ms. Kelleher distributed the updated list provided by Herbein and Co.

#### Utility Billing

Mr. Geffken reported that the Finance Department will be recommending that a utility billing manager be brought on.

#### Modified Accrual

Mr. Geffken said that an S.O.P. was drafted in 2007 which brought about compliance.

#### Grant Receipts

Mr. Geffken reported that the Finance Department is now moving to improve reconciliations which should eliminate this finding next year.

Mr. Spencer inquired if Triad is still assisting the Community Development Department with CDBG Grant. Mr. Hottenstein stated that Triad is still assisting but not at the prior level.

#### Cash Disbursements

Mr. Geffken explained that this problem was caused by personnel shortfall. It is expected that the finding will be corrected before next years audit.

### Pension Reporting

Mr. Geffken explained that the pension administrator function was transferred from Human Resources to the Finance Department. Issues are being addressed. He stated that the new administrator is working hard and learning under fire. He expressed the belief that the findings should be gone next year.

### Pension and Compliance

Mr. Geffken agreed that the some benefit packages are not in compliance with state regulations. He noted the Administration's plan to use a labor attorney to negotiate future collective bargaining agreements.

Mr. Cituk explained the cost of the Police pension benefit.

### Unclaimed Property

Mr. Geffken that the Finance Department is working with IT to correct this finding. He noted his work to assist IT in creating a priority list.

### Reconciliation

Mr. Geffken stated that the Finance Department is considering hiring an accountant to assist with this issue. He stated that the department has also considered utilizing the Auditor's assistant to assist.

### DCED Reporting Requirements

Mr. Geffken promised Council that this issue would not reappear next year.

Ms. Kelleher noted a repeat finding listed in the management letter noting performance issues in the internal auditor's office. She stated that these issues were identified before 2004. Mr. Cituk replied that the Auditor's office is under staffed and unprepared to undertake internal audit functions.

Mr. Fuhs inquired how Mr. Cituk sees the role of the Auditor's office performing annually, now and in the future. Mr. Cituk noted his work with the Administration to correct various findings identified in the external audit.

Members of the Public Safety Committee arrived at this time.

Ms. Goodman-Hinnershitz noted the need for an action plan to address the many findings identified in the external audit. She stated that if the auditor can provide better monitoring of the Administration's work to correct these findings the auditor can than advise Council accordingly.

Mr. Spencer read from the management letter noting that Herbein & Co. suggests that the Auditor's office perform a review of journal entries, monitor account reconciliation, monitor utility billing, and perform internal audits.

Ms. Kelleher stated that City Council in the late 90's reduced the personnel in the Auditor's office to two (2), the elected Auditor and an assistant. She stated that this reduction was made due to the lack of work product from the Auditor's office.

Mr. Waltman agreed with the need for the Auditor to provide an annual plan that includes internal audits in various departmental areas and functions.

Ms. Kelleher noted the need for the Auditor's office to complete capital audits as required by the charter. Mr. Waltman agreed and suggested that the Auditor develop a policy.

#### Report on Collection of Delinquent Trash/Recycling/ Taxes/Fees

Mr. Hottenstein stated that the Administration put out an RFP for these functions and hired two (2) firms, who are currently under contract. He stated that both firms require information from IT, which should be delivered by September. He expressed the belief that the delay in providing the information to the collection firm should not delay collection activities. Mr. Geffken explained that part of the difficulty in providing the information to the two (2) collection firms is to find a proper inter-face or bridge between the City system and the firm's system.

Mr. Waltman questioned the amounts of delinquent trash and recycling accounts. Mr. Hottenstein stated that he is unsure of the amount.

#### Utility Billing & Manager

Mr. Geffken noted the Administration's work to create a centralized billing program, hire a manager and create an improved billing program. Ms. Kelleher inquired about the Administrations progress on finding a

method to consolidate billing. She stated that the City currently sends out separate bills for trash, recycling, water, property taxes, per capita taxes, earned income taxes, and a variety of other notifications and billings to city tax payers. She stated that City Council has been asking for a consolidated billing package for approximately 10 yrs. She noted that approximately eight (8) to ten (10) years ago, consolidated billing would have saved the City approximately \$300K – \$400K annually.

Mr. Fuhs requested an analysis of a utility billing system versus departments doing individual billing. He inquired what the cost benefit would be.

As no further business was brought forward the Finance Committee meeting adjourned at approximately 7:10pm.

*Respectfully submitted by Linda A. Kelleher CMC, City Clerk*

#### **FOLLOW-UP ISSUES**

- Recommendation for contract award for independent contractor to undertake collection activities as required by Resolution 131-2008 – first report from contractor due June 1<sup>st</sup>.
- Review – Blue Ribbon Panel Report
- Update on Utility Billing issues & hiring Utility Billing Manager
- Maximus Recommendations
  - Ordinance to enact zoning fee increases
- Report unexpended CDBG funds
- Analysis of utility billing system outsourcing vs departmental
- Review Auditor Annual Plan
- Set value for Capital Audits

City of Reading  
 Summary of 2007 Findings and Recommendations

	2006	2005	2004
2007 Findings:			
07-1 Modified Accrual/Full Accrual Basis of 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			
M	SAS Pronouncements/Internal Control Documentation	M		
M	Financial Analysis & Accrual Reporting	M		
M	Journal Entries	M		
M	Program Loans & Other Receivables	M	M	
M	Accounting Manual & Cross-Training of Key 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.

## **2. Information Systems Assessment**

Many of the areas which the panel identified as potential opportunities rely heavily upon the availability of accurate and timely information. Information systems are vital in managing any organization. However, information systems are only as good as the underlying business processes upon which they depend. When an organization loses trust in their data, it becomes difficult to perform valid analysis and make well informed management decisions.

Typically IT is considered by some as a major enabler for working and collaborating within an organization and across organizational borders. The core system used by the city is the Hansen system. It is an extremely powerful municipality management application. However, this application is not fully utilized and where it is used, the data integrity is suspect. For example, the Hansen system has approximately 140,000 individual resident records, but in reality, the total population is closer to 81,000. This lack of data integrity compromises many different reports and hinders effective business analysis.

A common theme among the personnel we interviewed was a lack of training on the Hansen system. This includes the modules currently in use by various departments. Due to tension among IT and the functional departments, the lack of training is not being addressed.

City administrators have invested millions of dollars in financial software that tracks budget and expenses in real time - 24/7. The Administration expects that all department directors, division managers and secretaries have been trained in and have access to this system and can check their budget anytime. In addition, the Administration assumes that all directors have been told they are in charge of their budgets and they are responsible for spending and budget management. However, we found more than one instance where personnel, including department directors who are responsible for multi-million dollar budgets, are not utilizing this technology, and sadly were not even aware that such information or tools were available or could be accessed.

Listed below are three examples of numerous inefficiencies that have resulted due to the lack of collaboration between IT and the functional departments.

- **RAWA (Reading Area Water Authority)**

The lack of collaboration between RAWA and IT has resulted in inefficient strategies being employed. The water authority has decided to contract an outside company to develop a parallel system to manage billing. This is estimated to cost \$200k, however, without internal project management controls and cooperative involvement of IT; it is highly likely the initial cost will grow. In addition, that figure is also probably low as it does not include the long term cost of sustainability, such as maintenance of integration points and redundant functionality.

- **PDS (Personnel Data System)**

A software project to upgrade the Personnel Data System (PDS) system for the HR department was initiated in Nov 2007 by the IT department. The project was delayed multiple times and eventually handed over to the HR Director in Jun 2009. This project transition was handled poorly and it appears that little if any standard business project management methodology was employed. The project continues to linger and currently parallel systems are maintained resulting in extra work with no value added. In our interviews with the HR personnel, it was not clear what the business drivers were for the PDS project. In brief discussions with the HR personnel, it was noted that the current version met their functional requirements.

- **Recycling and Solid Waste**

The Recycling and Solid Waste department has approximately \$2.5 MM in uncollected fees. An agreement with an outside collection agency, Portnoff, has been in place since April 2009. However, to date, Portnoff, is not able to process these open receivables as they do not have the account information required. The IT department has estimated 10 FTE days to build the required interface. This is currently been scheduled in September. In the meantime, the accounts continue to age and new accounts continue to turn past due.

There are many other issues as well regarding level of service at a smaller scale, but in aggregate, result in huge losses. Business case studies indicate business process inefficiencies can result in operational costs up to 15-30% of budget.

It is important to note that our assessment is based upon a limited number of interviews with various departments. Therefore, it is extremely difficult to quantify the full extent of the losses associated with inefficient business processes and/or the ineffective use of information systems. However, we identified numerous deficiencies which lead us to conclude that severe problems exist at many levels. These deficiencies result in increased operational expense and a lower level of customer service for the citizens of Reading.

During our inquiry, it was noted and observed that the IT group and functional areas have a severely dysfunctional relationship. Without thoroughly addressing this underlying systemic problem any long-term sustainable solutions are compromised. A long term cultural shift is needed to address this challenge that will require a visible and sustained commitment from leadership.

In brief summary, substantial IT investment (estimated by the City to be more than \$6 million) is currently in place and therefore the tools are available for the

city departments. The main impediment to effectively utilizing the existing technology is severe organizational dysfunction.

We recommended that the following actions to correct these issues:

- Define roles and responsibilities which identify ownership of technology and information. It is very clear that neither the IT or functional departments agree on their roles. There is a definite lack of transparency between the IT and functional departments.
- Identify business process owners for the main processes. Due to the point above, it appears that some of the departments do not understand that they own the processes.
- Review business processes and establish Standard Operating Procedures (SOPs). There is a large amount of institutional knowledge that has not been formalized. In roles that are performed by multiple parties, a lack of consistency exists. In addition, this makes it difficult when job transitions occur.
- Formalize process for projects and work exceeding a Level of Effort threshold to address requirements, design, construction and implementation phases. This one of the largest cost components in major IT projects. Many case studies are available detailing the pitfalls of not having formal project management for IT implementations.
- Formalize methodology for prioritizing work which is communicated to all departments.
- Develop sustainable training programs. Existing systems in IT are extremely powerful with a rich set of functionality. However, there is a lack of formalized training, which prevents the full usage of the functionality.
- Develop a long-term collaborative approach between IT and functional groups. This is a critical aspect of what is needed to reduce operational costs and become an effective organization. We are recommending the hiring of an independent third party to facilitate and initiate this effort, but it is also highly dependent upon management commitment. It is recommended that this third party provide reports on a regular basis to the Mayor and Council.

- Currently, there is little ownership by the City of the data and IT systems. Because the City does not provide clear requirements to IT, and does not assume ownership of the processes, business and development requirements are often not clear, resulting in costly rework and delay in implementation of solutions. As a result, critical business needs are not being met, resulting in a significant breakdown in communications between the City departments and IT. The negative dollar impact to the City is evidenced by uncollected taxes due, lost revenue in RAWA, and other fees not collected. These lost opportunities total in the millions of dollars as quantified in other areas of this report.

While over \$6mm has been invested in new technology over the past few years, a much greater return on that investment could be realized if City workers were trained on system applications, data management, IT requirements, etc.

We recommend that the full dollar impact of lost opportunity be quantified. IT and the City must develop a plan of action, perhaps with outside help, to ensure that IT is being leveraged to its fullest potential in order to improve operating efficiencies, reducing costs of operation, and increasing revenues collected. Knowledge of, and the power of, system applications must be broadened within the departments so that IT is viewed as a solution rather than a roadblock.

These recommendations are being made based upon the information we received from various personnel. A more thorough in-depth analysis and review could alter these recommendations.

### **3. Operations and Process Improvement**

*Recently, AFSCME, in partnership with the City, completed three process reviews that could account for an annual positive \$1.2mm impact, either from cost reductions or revenue increases. The Panel recognizes this effort as an important step in implementing the processes and culture of continuous improvement within the City. Process reviews like these should be considered in all departments as a way to re-invent how we do business. At the same time, department managers should be trained in the review process, as well as in the process of implementing continuous improvement strategies throughout the organization. The use of a city-employed business improvement specialist or consultant could help bring the potential financial impact into the short term.*

There are opportunities for the City to increase revenues and improve quality and efficiency of public services while decreasing the costs. These opportunities have not been fully explored by the City due to a lack of resources, resistance to 'interference' with standard Management practices and mistrust between and among political subdivisions and public sector labor unions.

Privatization of services is typically promoted as a means, sometimes the only means, to improve public services. Reading is no exception in this regard. In response, public service workers and their unions have become more sophisticated and aggressive in their methods and rationale for preserving public service jobs by improving public services. While privatization will remain an attractive option for some, a variety of other effective alternatives to reduce cost and improve quality and efficiency of services are available as well.

In an effort to seriously explore effective alternatives to privatization, AFSCME Local 2763 and the city established, via their labor agreement, a fund (the "Exhibit F. Fund") created with worker contributions and an equal match from the City. Established in 1994, but largely ignored until 2007, the Fund today totals over \$200,000. Updated and more detailed language was negotiated with this Administration in 2007 which outlines the Fund's objectives:

- Analyze and study the cost, quality and efficiency of services
- Retain services in-house when warranted by cost comparison with outside vendors
- Promote the regionalization of services when it makes sense
- Promote sharing of services with other governmental entities when core competency warrants
- Analyze and study outsourced services for cost, quality and efficiency
- Expand well functioning, existing services to generate new revenue
- Introduce new services to generate new revenue

Several important features were built into the new controlling contract language which clearly distinguish it from typical Labor/Management projects:

- The project was initiated by the union, not the employer
- Transparency and information sharing is required

- Employee lost time is compensated from the Fund, not from general revenues
- A significant gain sharing provision, modeled on private consultant rates, rewards successful initiatives once verified by audit
- The project's purposes are consistent by design with recommendations from DCED, PEL, 10,000 Friends of PA and other public policy experts
- All associated costs are shared equally by the parties, including consulting fees

The project became fully operational in May 2007 and is now referenced as "Public Service Works" (PSW).

The panel has examined the recommendations and research of PSW to date and found the following:

- 1.) A redesigned trash collection system was implemented at City, RPA, RAWA, and DID facilities which is estimated to cost \$50,426 less than the current service and \$24,560 less than proposed outsourcing.
- 2.) An in-depth analysis (recommended by PEL in 1999 but never carried out) of vehicle towing estimates that a City run vehicle towing operation has the potential to generate \$512,289 in new revenue based on 2006 data.
- 3.) A less detailed and as of yet incomplete analysis of household recycling estimates the City can provide the service in-house at a saving of \$650,957 under the current \$1.3 million contracted cost.

The total projected revenue gain from these three efforts is \$1.18 million.

There are several other services contracted for review by PSW, including fleet maintenance and traffic line painting. The fleet project has been stalled for 15 months due to IT issues and the traffic line painting review was delayed by a disagreement or misunderstanding over eligibility for its inclusion in the project.

In addition, the city is nearing an agreement with the Reading School District (RSD) to institute a joint recycling program which will cost the RSD substantially less than it would otherwise. The return to the City in this case would be small, but it establishes a foundation for future cooperative efforts and for an expanded City recycling service.

In light of the potential for significant revenue enhancement demonstrated and documented by the PSW project, our Panel makes the following recommendations with regard to operations:

1. Complete the IT work necessary to computerize and track all elements of fleet maintenance and small engine repair. Carry out the fleet study as originally intended and implement changes as may be recommended by the joint committee. If efficiencies and quality can reasonably be projected to improve, and costs can be reduced, then negotiations with the RSD should be reopened to provide them with fleet maintenance on a fee for service basis.
2. Finalize negotiations with RSD to establish a joint recycling service which is 'cost neutral' to the city. If successful, examine the feasibility of expanding the service to include other entities, including non-profits.
3. Update the towing analysis. If revenue projections remain significant, begin a study to determine feasibility of in-sourcing the service operated by civilian police department employees. The duration of the new RFP for towing should be limited to two years -- 2010 and 2011.
4. Assess the cost of a regionally funded and administered library system, accounting for redundancies and overlapping services. If efficiencies, quality improvement and cost reductions can reasonably be projected, steps should be taken to bring about regionalization.
5. Assess the cost of city Recreation Division and consider transferring the service to RSD, possibly as part of a package to include fleet maintenance.
6. Subject the IAFF 1803 proposal on expanded EMS to a review similar to the PSW process to verify revenue projections. If significant revenue is reasonably projected, expand the service as may be recommended by the joint study committee.
7. Apply for an available \$25,000 grant from DCED to pursue service sharing more vigorously.

8. 'Market' and promote the availability of City services on a contract basis to other entities with facilitation and assistance from The Center for Community Leadership at Albright College.
9. Codify all shared service and fee-for-service agreements with other entities using standard business procedures and formats. Provide for dispute resolution through arbitration.
10. Ensure full compliance with Act 177, The Pennsylvania Intergovernmental Cooperation Act of 1996, in all shared service agreements.
11. Assess the costs of operating larger city parks on the periphery and examine the feasibility of transferring operation of these parks to the county.

The Panel recognizes this effort as an important step in implementing the culture of continuous improvement within the City. While a more intensive review needs to be performed, total impact of the opportunities described could double the \$1.18 million in savings estimated for the initial three programs described.

Other means and vehicles are available to assess, restructure, and improve public services. These would include the recently proposed hiring of a business analyst, the ACT 47 public hearing process, a management initiated continuous improvement process and structured, objective self-criticism and peer review among managers. It is not suggested that the PSW or some similar program can replace or serve the same purposes as these other approaches. However, PSW is the only program which can be fully funded with dedicated revenue and which is already operational. A process of this sort, which directly involves and rewards workers in planning and improving their work processes, would serve as part of a complimentary, check and balance arrangement with a greater likelihood of success.

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The Panel examined additional operations of the City to see what's working and what's not. We reviewed some City operations and functions but believe that it is essential that a continuing formal process be instituted City-wide which assesses all City services in a fair, objective and transparent process as to their cost and efficiency. Part of that process should include the formation of truly separate divisions with independent accounts and accountability.

The following recommendations are based on observations and conversations with City personnel and others follow:

#### 4. Tax Policy

- **Sales Tax**

We endorse a local option sales tax that permits the County to impose a sales tax for the relief of financially distressed municipalities.

- **Per Capita**

Reading's per capita tax is currently \$15 per person. \$5 goes to the City and \$10 goes to the School District. The tax grosses about \$80,000 for the City, although costs of billing, collection, and file maintenance erode the financial return to the City. The City is obligated to collect the tax on behalf of the School District. Approximately 32,000 people are billed and about 16,000 pay. The database for the Per Capita Tax is based on earned income tax filing.

The Per Capita Tax is definitely a nuisance tax. Fifty percent collection rates are poor. If the tax could be eliminated, depending on the City's obligation to the RSD, it might be in the best interest of the City and actually save the City money.

- **Income Tax**

Reading's Earned Income Tax Rate is 2.7%. 1.2% goes to the City and 1.5% to the School District. City officials reported tax revenues that demonstrate poor and insufficient collection rates. An immediate and more thorough examination should be conducted on these collection efforts. We believe the results of better collection could generate significant funds. Although lack of data prohibits us from quantifying the dollar number, we believe that it could be in excess of \$1 million.

- **Business License and Business Privilege tax**

The number of business licenses in the city vary greatly (as much as 25%) from year to year even though zoning applications do not support these large fluctuations. In fact, the number of businesses with permits dropped by about 2000 since the business license fee was raised in 1999. If the problem is with the collection, and not closure of these businesses, the annual license fee income would be about \$110,000 and the annual business privilege tax income would be approximately \$664,000 based on the current average of \$332.02 received annually per business.

Further analysis is warranted.

- **Land Value Tax**

During our discussions, we spent considerable time reviewing the Land Value Tax. We met with representatives of The Center for the Study of Economics (CSE) to discuss the tax and how it might impact Reading. A summary of information presented by CSE is attached. Upon our first review, we find merit in exploring implementation of a Land Value Tax. We believe that a more in-depth analysis of the Tax idea is warranted, and recommend that Council and the Mayor analyze the impact of the LVT on Reading. That analysis should be made public by October 15<sup>th</sup>, debated, and acted upon if appropriate.

As Council and the Administration analyze the LVT in comparison to Reading's current real estate property tax structure, the following questions should be answered:

- Which tax system best spurs private investment?
- Which tax system allows for the most efficient and economical means of collection?
- Which tax system attracts more homeowners to the city?
- Which tax system offers the best incentive to maintain housing stock?
- How might a LVT be rolled out so not to disrupt the city's real estate industry?
- Could a LVT be phased in?
- How does the City Charter provide for LVT?
- What current City taxes could be eliminated if the LVT were put in place?
- Which tax system is more equitable to Reading homeowners and businesses?

## **5. Legal**

The City needs to show more restraint before expending funds for litigation. We examined a handful of recent lawsuits filed by the City. Based on data provided by the City, we found a pattern of excess that we believe to be unnecessary and wasteful. In particular, lawsuits that are litigated on behalf of the City by "outside" counsel have racked up huge bills.

The easiest way to cut back on these costs is to refrain from unnecessary litigation. For example:

- The Antietam Lake Lawsuit (Council vs. Mayor, County, and Council) cost the City \$86,641 in outside legal fees.

Refraining from suing the County, particularly when the City is looking to establish more regional partnerships, would also be in the best interest of the City.

- The City suit vs. the County DA over the use of drug forfeiture funds cost the City \$101,000 in outside legal fees.

In addition, we suggest limiting the Charter Board's expenditures on litigation. Three recent suits they've filed have cost the City \$340,000. Their budget is \$60,000. They include:

- Charter Board and Council vs. PA Statewide Latino Coalition \$225,000
- Former CD Director, Adam Mukerji's residency issue: \$75,000, and
- Former City Councilman, Angel Figueroa's residency issue: \$40,000

Over the past several years, these City-generated inter and intra-governmental lawsuits alone accounted for more than \$625,000. When you examine the resolutions of these cases, we believe that the City got little or nothing for its money.

## **6. Parks Maintenance**

- Compare costs to private sector and reduce as necessary
- Solicit churches and non-profits to assume maintenance responsibilities at nearby parks as part of community building effort
- Partner with the County to sell, trade, transfer, or deed designated City parks, particularly those which are outlying
- Implement fees and eliminate services as needed

## **7. Fire/EMS**

- Expand the volunteer fire services to include fire inspections as well as regular fire service
- Determine how to best run the department with a balanced budget, using in-house expertise, where income from fees and services eventually funds the department

## **8. Zoning, Codes, and Building Trades**

- The Codes and Building Trades functions should be fully self-sufficient without income transfers from community development and without fee increases until better accountability can be instituted for inspectors and non-paying rental units.
- The City must get a better handle on the number of rental units through a block-by-block inspection process. The census bureau reports 16,110 rental units in the City that should all be paying permit fees and business taxes. Currently, less than 8,000 units are registered and paying. If all

units were accounted for and paying it would result in a revenue gain of approximately \$1,200,000 per year.

- Create a system of accountability that can easily be monitored by managers (i.e. assign codes areas where one or two inspectors are responsible for all properties in the area).
- Implement an amnesty program that allows unregistered rentals to get their permits by paying their last two years of fees and business taxes without any penalties, or face having their property declared illegal when the city does a block-by-block inspection. This program should be widely advertised and tenants should know that a landlord cannot legally collect rent in the city without the property license. While this amnesty program may seem distasteful as it does provide some level of reward for unregistered units it does two important things. First, it establishes a base line for all registered rental units in the city. Second, it provides a significant increase in income through payment of the last two years fees as well as an increase in ongoing annual revenue.
- Institute a program that requires City properties to be inspected by Codes and Zoning **before** title transfer. This would make the current owners accountable for the condition of the property and the number of rentals permitted. An appropriate fee similar to what the private sector would charge could offset the costs. The current system of inspecting six months after the sale and making the new owner responsible promotes disrepair and illegal conversions.
- Create a comprehensive development plan and a new zoning ordinance that reflect the changes needed for city redevelopment in the desired direction. For example, the zoning ordinance should greatly limit a property owner's ability to add additional residential units to a property. The ordinance should also lower parking requirements from matching suburban shopping mall requirements to reflect the urban character of the city and promote walkable neighborhoods.

## **9. Library**

- Library services should be regionalized. The city library system and its assets, including real estate, should be transferred to the County, resulting in a savings to the City of at least \$400,000.

## **10. Police**

- Enforce the sick leave plan and manage to deter inappropriate use. In addition, and related to this, the police overtime budget needs to be examined by the elected Auditor, outside auditors, or another relevant examiner.

- Re-establish an auxiliary/reserve officer program that could handle programs like traffic enforcement, and littering citations in the downtown.

## **11. 911 Dispatch**

- The City and County should work jointly to analyze the existing 911 service with a focus on regional solutions and elimination of duplicated services. Joint recommendations should be offered by February 2010. The analysis should examine the potential cost savings for dispatch on a county-wide basis, the mechanics of a regional system, staffing, costs and benefits of maintaining the current system, and revenue, cost and reimbursement strategies. Any system that is put in place must be efficient, equitable, and most importantly meet the citizen's necessary public safety needs.

## **12. Auditor**

We believe that there are numerous opportunities for the Auditor to assist in examining City processes and finances. We suggest that the Auditor develop a schedule of Audits that can be presented to the Administration and Council. To start, we suggest the following be addressed:

- Annual audits of the City's Capital Improvements Budget. Audits are required by the Charter and would help monitor project(s) status on a regular basis.
- Track the fees of outside legal counsel, advisors, consultants, etc. There is certainly waste under this broad category and the Auditor should be the one to bring public attention to the ways in which we spend hundreds of thousands of dollars;
- Analysis of overtime expenditures, sick leave, and temporary wages.
- Examine the manner in which City financial resources are being deployed, identify opportunities to improve operating performance, and prepare written reports recommending improvements such as issuance and use of City cell phones, take home vehicles, etc.
- Collection rates and process analysis for City taxes, particularly Per Capita Tax and Earned Income Tax.
- Review the reliability of financial information and the means used to identify, measure, classify, and report such information.
- Review the established control systems to ensure compliance with policies, laws, and regulations.

## **12. MAXIMUS Study**

The MAXIMUS study recommended a number of fee increases based on the cost to the City of providing certain services to its citizens. It is our understanding that some of these fees are already being increased. Prior to increasing fees, a thorough process review study should be completed.

The MAXIMUS study is based on the assumption that costs to provide the services are acceptable. This is a dangerous assumption that can result in ongoing fee increases that will, in the longer term, not cover costs. However, the Panel does feel that fees should be raised to cover “naturally” increasing costs, and could provide increased annual revenue as follows:

- Recreation: \$445,000
- Traffic Engineering: \$82,000
- Solid Waste: \$26,000
- Fire Special Services: 100,000
- Fire Emergency: \$890,000
- Development and Inspections: \$1,000,000
- Planning: \$115,000
- Zoning: \$44,000\*

*\*The city zoning process is broken causing excessive delays in getting zoning approval for permitted businesses. Additionally, the MAXIMUS study data appears to be flawed in reporting the income from the various types of permits. This department should be fully self-sufficient, but fees should not be changed until a better accounting of income can be determined and the zoning process can be streamlined.*

## **13. Community Development and Housing**

- City revitalization initiatives directed by the Community Development Office and Reading Redevelopment Authority need to be assessed and measured based on their economic impact in order to produce the desired results. This is particularly critical for those projects funded with CDBG dollars which in the past have had sporadic success generating real economic activity and neighborhood improvement.
- The city needs to create a viable 5-10 year comprehensive plan that is realistic, attainable, and focuses on leveraging private sector investment that promotes new city tax revenue. The plan should have specific actions and timetables for completion which will entice private investment to include clearing entire blocks for large scale development or neighborhood improvement parks.
- Reading should find cities that have made major positive changes and model its revitalization after those programs rather than comparing itself to struggling cities.



	08	07		08	07		08	07		2007	2006	2005
Acquisition	21%	6%		8%	15%		15%	12%		7%	6%	7%
Administration	11%	16%		12%	14%		17%	12%		6%	15%	7%
Economic Development	2%	4%		14%	6%		-	-		0	7%	0
Housing	49%	40%		21%	19%		54%	54%		14%	35%	7%
Public Improvements	0	3%		29%	31%		1%	9%		46%	5%	32%
Public Services	6%	12%		15%	15%		1%	-		10%	6%	14%
Section 108 Loan Repayment	12%	18%					13%	12%		17%	27%	33%

Note: Allentown and Erie use the municipal fiscal year (July-June) as their program year, Harrisburg uses the federal fiscal year (October-September), and Reading uses the calendar year.

*Acquisition.* In each of the three years shown, real estate acquisition and site preparation activities have amounted to significantly less than ten percent of all CDBG expenditures. This summer, the City's Community Development Director reported to members of the City's Blighted Property Review Committee (BPRC) that \$200,000 would be budgeted for BPRC-related acquisition in the 2009 program year, with \$500,000 to be budgeted for this activity in 2010. These commitments represent a more appropriate commitment to real estate acquisition. In the future, the City Administration should ensure that sufficient funding is budgeted to support acquisition associated with BPRC blight-determination and –certification decisions every year.

*Administration.* Although the percentage of annual expenditures devoted to administration was far lower in Reading than in the other cities for two of the three years shown, the City has not been able to staff the leadership of the Community Development Department on a sustained basis, and the effects of this weakness, in terms of reduced productivity and missed opportunities, probably outweigh the benefits of underspending.

**Recommendation:**

Fully staff housing, planning, and development activities, drawing on the experience of other Pennsylvania cities that have sustained a stronger staff capacity.

*Housing.* For the years shown, Reading has had a much lower level of expenditure on housing than warranted for a city with such well-documented housing problems. In light of the need to preserve older housing stock, the City should offer more financing options.

**Recommendation:**

Substantially increase funding for major systems repair of owner-occupied homes and for moderate rehabilitation of rental properties that require repair in order to achieve code compliance.

*Public Improvements.* Most of the CDBG funds spent on Public Improvements in 2007 (46 percent of all CDBG expenditures that year) were expenditures on Fire Stations and Equipment (38 percent of all CDBG expenditures that year). Based on the information presented in the table above, the other cities shown have either avoided using CDBG funds for this purpose or have been able to spend less on this activity than Reading did.

In addition, a cause-and-effect issue should be considered. Neglected properties are places where fires can start or be started. If housing funds were used to rehabilitate neglected properties for subsequent re-occupancy, then it seems likely that the number of fires, and associated service calls to the Fire Department, would decrease, reducing the amount of funds that would need to be spent on fire stations and equipment.

**Recommendation:**

Research the financing mechanisms used by cities comparable to Reading to finance fire station and equipment improvements.

Compile information about the relationship between neglected occupied and vacant properties and the incidence of fire and develop a strategy for improving conditions at properties that have generated or are most likely to generate Fire Department service calls.

**C. HOME Program Expenditures**

The City has, in effect, committed its HOME program to Our City Reading, Inc. (OCR), in support of OCR housing rehabilitation activities.

According to OCR reports, the OCR program has been effective in substantially rehabilitating vacant houses on viable blocks and in recruiting first-time homebuyers for these houses, who—almost without exception—have not subsequently experienced default or delinquency. The value of the OCR approach should not be underestimated, and this value is enhanced by OCR's ability to self-finance its working capital needs. However, this value is offset by three significant factors.

- a. The totality of the City's commitment to OCR rules out the possibility of using significant amounts of HOME funding to support other activities that might effectively complement OCR's program.
- b. The OCR approach is not consistent with targeted investment. The houses that are rehabilitated by OCR are obtained through the HUD Asset Control Area (ACA) program, and these houses are dispersed throughout the city.

- c. In light of the City's ongoing commitment to OCR and in light of OCR's focus on homeownership, no significant HOME funding is available to support the repair and improvement of existing rental housing, which, in a number of areas of the city, would contribute more to community stability than scattered-site housing rehabilitation.

**Recommendation:**

Based on identified housing needs within the city, establish a realistic division of HOME funds between homeowner and rental housing activities,

Award all HOME funds budgeted for homeowner housing based on a competitive Request for Proposals process.

**D. Strategic Investment**

The following are recommended as starting-points for a policy of strategic investment of housing and community development resources.

- a. *Make downtown-area housing a top priority.* The central business district is the place where most of the most viable businesses and best jobs in the mainstream economy are located. To complement this value, housing investment should be targeted downtown and in neighborhoods immediately adjacent to the downtown area.
- b. *Preserve existing fabric rather than building new.* Cities that have lost population for decades do not need new houses—they need to stabilize and improve the residential blocks that have the best prospects for long-term success in the real estate market. More funding should be used to finance moderate rehabilitation of vacant houses and apartments on otherwise stable blocks and to restore upstairs space in mixed-use properties to their original residential use as part of a downtown and commercial-corridor investment strategy.
- c. *Support the City's housing asset management strategy.* The City should budget enough funding every year to ensure that all properties certified by the BPRC as blighted can be acquired and that rental property owners seeking to comply with the City's code enforcement process have access to rehabilitation financing.
- d. *Upgrade technology to improve collections capability.* The City is missing an opportunity to generate substantial revenues through the collection of fees, fines, and penalties because information-systems technology has not been upgraded, integrated, and adequately staffed. If a technology upgrading plan is organized and implemented effectively, any CDBG funding budgeted for this purpose will be more than offset by the resulting increase in collections.

- e. *Collaborate with county government.* Developers, investors, and contractors would be more likely to pursue business opportunities in Reading if the City of Reading, the County of Berks, and the Reading Redevelopment Authority established a jointly-administered system, based within county government, for a) marketing available real estate for commercial and industrial development, b) financing economic development ventures and c) licensing and permitting businesses. Consolidation of these activities would more effectively link the city to the region and would make it easier for businesses of many types to transact commerce in Reading.

## **15. Develop Comprehensive Departmental Business Plans**

A review of a number of departmental business plans indicates many opportunities. Cross functional dependencies need to be identified in business plans as a driver of eliminating functional “silos”, and promoting greater operating efficiencies. For example, cross-functional process reviews that could lower the cost of providing services should be completed before fees are increased. In addition, IT solutions have been implemented with little plan from the business side to drive such implementation. Lack of effective business planning also results in reactionary, linear thinking: eg: cutting staff with little thought to the overall impact to the business plan, and/or without considering other solutions first. While beyond the scope of this Panel, there is a sense that some plans were created solely for the purpose of having a plan, and were not truly being used to drive the “business”. As a result, accountability is reduced. There were, however, some plans that were comprehensive, with clear goals and objectives, dates, dependencies, etc.

A review of these departmental business operations would be a good place for the City’s Business Improvement specialist to begin to ensure that all plans result in a cohesive goal. Business plans should be developed and updated on an annual basis, and integrated as part of the budgeting process. Volumes, responsibilities, staffing levels, all need to be included, with costs assigned to each program. This is, in effect, a “zero” base approach to budgeting, and favorably impacts cost control through out a given operating year. It is also noted that a number of Department Managers would benefit from training in developing effective business plans. Process mapping should be integrated as well, to identify cross functional dependencies, redundancies, etc. This also supports the process review initiatives.

## **16. Use of Best Demonstrated Practices and Outside Resources**

Many documents, consultant recommendations, past panel reports, etc, were reviewed by this Panel over the past two months. It became apparent that many excellent recommendations have not been implemented, and in reality, some are again being surfaced by this Panel. While part of this lost opportunity relates back to a less than effective planning process as identified above, part is

attributable to a seeming lack of focus on leveraging Best Demonstrated Processes.

We recommend that Reading continue to consult with other Cities that have found solutions to some of our challenges. Looking to Harrisburg for information on the Land Value Tax, or discussing with Bethlehem how they've utilized public funds for city redevelopment would prove to be an invaluable resource.

### **17. Near-Term Revenue Gains & Expense Reductions**

Recommendations we've captured above have some related opportunity for revenue gains and expense reductions. During the course of this Panel's review of City processes, the following near term financial opportunities were identified:

Earned Income Tax	\$1,000,000
Business License Fees	\$110,000
Business Privilege Tax	\$664,000
Impact of Process Reviews	\$1,118,000 to \$2,360,000
RAWA Lost Revenue	\$750,000
Maximus Fee Recommendations	\$2,658,000
Unlicensed Rental Units	\$1,200,000
Library	\$400,000
Total*:	\$7,900,000 to \$9,142,000

*\*This is a combination of one-time and annual savings*

NOTE: The Panel, within our timeframe, was not able to quantify specifically the dollar impact of the IT recommendations, although we believe impact to operating cost savings could most likely range between 15%-30%.