



City of Reading Budget Guide

January 2018

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Reading City government is critical to everyone who lives, works, owns property in or visits this southeastern Pennsylvania city of 88,000 people. Reading is the largest municipality in Berks County by population and it is the seat of the County government, so City government impacts thousands of people who live outside Reading in the surrounding communities.

City government is responsible for public safety functions like police patrol and fire suppression that make Reading a safer place to live, work or do business. City government is responsible for maintaining many of the roads, street lights and sewer systems that residents and visitors rely upon every day. City government has other functions, like code enforcement and zoning, intended to make Reading cleaner, more attractive and more prosperous. And it has responsibility for collecting and managing the money that funds these services in accordance with Pennsylvania law, City ordinances and resident preferences.

Financially speaking, City government is a complex organization. In 2016, the City spent \$149 million across multiple funds on the services listed above

and its obligations to its vendors, creditors and retired employees. To cover these expenditures, the City government collected revenues from taxes, fees, service charges, fines, and intergovernmental aid.

Like other Pennsylvania governments, Reading's challenge is to balance its annual expenditures against its available revenues, and to maintain that balance on a recurring basis. The primary tool that City government uses to meet that challenge – and the legal tool for funding the services that touch people's daily lives – is the annual City budget.

This Guide will help you better understand the City of Reading budget – what it is, what it does and what it means. It will help you understand how the City's elected and appointed officials put the budget in place and how they use it throughout the year. And it will help you understand your role in the process – how the taxes and fees you pay support City government which in turn provides municipal services to you.

Budget Process

The City of Reading's government is organized according to a Home Rule Charter adopted in 1996. Reading uses a mayor-council form of government with eight elected officials.

The **Mayor** holds the executive, administrative and law enforcement powers of City government and is responsible for its daily operations. Legislative powers are held by **City Council** with six members elected by geographic district and a Council President selected by city wide election. The **City Auditor**, who is also selected through city wide election, has oversight of City government finances independent of the Mayor and Council.

Subject to City Council approval, the Mayor appoints a **Managing Director** who is the chief administrative officer. The Managing Director supervises the following departments:

Administrative Services (Finance, HR, IT)

Police

Community Development

Public Works

Fire and Rescue Services

Subject to Council approval, the Mayor also appoints the **City Solicitor** who is the head of the Law Department. The City's annual budget allocates money to these departments and other parts of City government, including the Reading Public Library, the Board of Ethics, the Charter Board and the Human Relations Commission.

Budget process: Executive Branch responsibilities

According to the City's Charter, the Mayor prepares and presents to City Council an annual budget that is "a complete financial plan of all City funds and activities for the ensuing fiscal year¹." The Mayor also submits to Council a Capital Improvement Program with the proposed projects for the next year and a budget message that explains the proposed budget. According to the City's charter, the Mayor must submit these items to City Council at least 90 days before the start of the next year.

While the charter assigns these duties to the Mayor, he or she is supported by others in the Executive branch. Department directors submit their proposed budgets to the Managing Director and Director of Administrative Services for review, adjustment and consolidation into one document. They are also responsible for projecting the amount and types of revenue that will be available to fund government spending the next year. The budget calendar on the next page shows this process in more detail.

¹ Article IV, Section 904. Reading's fiscal year follows the calendar year.

Budget Calendar

Date	Event
June	Department directors submit strategic plan documents to the Managing Director (MD)
Mid-July	Department directors submit budget documents to the MD and Administrative Services Director (ASD)
July - September	ASD and staff prepare projections of tax and non-departmental revenues. Department directors prepare projections for revenues related to their operations
Mid-July through Mid-August	MD and ASD review department budgets with department directors
Mid-August	MD and Community Development Director present Community Development Block Grant (CDBG) action plan to the City Council Finance Committee
September	Revenue estimation committee meets to discuss projections for major tax revenues. Committee includes City Council members and City Auditor
September	MD and ASD amend department budgets and compile them into a comprehensive expenditure budget reflecting Mayor's strategic priorities
October 1	Mayor submits budget, Capital Plan and budget message to Council

Once City Council receives information from the Administration, the City Council Clerk prepares a budget summary for publication in a newspaper of general circulation. City Council holds a public hearing on the operating budget 15-30 days after the publication of that summary and a separate public hearing on the Capital Program.

During October and early November, Council's Committee of the Whole holds public meetings with the Managing Director, Administrative Services Director and any relevant department staff to review the proposed budget. The City Auditor participates in those meetings and prepares non-binding recommendations for Council's consideration according to the Home Rule Charter.

Council generally concludes its budget review in early November and votes to approve or reject the budget and Capital Program around Thanksgiving. In addition to the budget itself, Council votes on ordinances setting the Capital Program, the major tax rates for the next year and the number of positions by department.

If Council does not adopt a budget by December 15, then the Mayor's original proposed budget becomes the official budget for the next year. According to the City Charter, "in any year following a municipal election year the Council may, within forty-five (45) days after the start of the fiscal year, revise the budget and tax levies adopted by the previous Council."²

² Article IX, Section 906.

Act 47's Impact on the Budget

In November 2009, the Secretary of Pennsylvania's Department of Community and Economic Development (DCED) designated Reading as a distressed municipality according to the criteria in the Municipalities Financial Recovery Act (Act 47 of 1987). At the request of then Mayor Thomas McMahon, DCED reviewed the City's financial performance and found that its spending exceeded its revenues by a large enough margin and for a long enough period that the City should be placed under Commonwealth oversight.

The Secretary then appointed Public Financial Management (PFM) as the City's "Recovery Coordinator." PFM is responsible for developing multi-year financial and strategic "Recovery Plans" to help bring City government's finances back into balance and move it toward true long term financial recovery. City Council adopted the first Recovery Plan in 2009 and an Amended Recovery Plan in 2014.

The 2014 Amended Recovery Plan has a provision that allows the City of Reading to seek approval from the Berks County Court of Common Pleas to levy an earned income (or wage) tax on commuters who work in Reading but live elsewhere. Pennsylvania local governments generally can only tax the income of their own residents. Act 47 municipalities like Reading can use this commuter tax for a limited period of time subject to the limits in Pennsylvania law, the provisions in their Recovery Plan and County Court approval.

The City's 2018 budget has a 0.3 percent commuter tax – 0.1 percent for City operations and 0.2 percent for capital improvements – as provided in the 2014 Amended Recovery Plan. Most commuters will pay a total earned income tax of 1.3 percent in 2018, with 1.0 percent going to their home municipality and 0.3 to the City of Reading.

According to Act 47, the Amended Recovery Plan sets the maximum amounts that the City can spend each year on total compensation for the employees in each labor union and those employees who are not represented by a union. These maximum allocations apply to the employees' salaries, any other forms of cash compensation and the City's share of employee health insurance costs. Employee compensation is determined through collective bargaining between the City and its labor unions, and those negotiations are also subject to the Amended Recovery Plan's limits.

In October 2014, the Pennsylvania General Assembly amended Act 47 to add the following budget related deadlines for Act 47 communities.

Deadline	Required action
120 days before year end	The City begins developing a budget that complies with the Recovery Plan
75 days before year end	The Mayor submits a budget to the Recovery Coordinator for review
45 days before year end	Recovery Coordinator returns the budget to the City with any modifications necessary to comply with the Recovery Plan
30 days after budget passage	The Recovery Coordinator notifies DCED whether the City has adopted a budget that complies with the Recovery Plan

Budget Building Blocks: Funds and Accounts

The City's budget is separated into funds according to generally accepted accounting principles. Each fund should have at least the same amount of revenue as expenditures each year. The difference between revenues and expenditures in a fund is its "annual result." If revenues exceed expenditures, then the positive annual result is a surplus. If expenditures exceed revenues, then the negative annual result is a deficit.

The City Charter requires the Mayor to submit a balanced budget where "total proposed expenditures shall not exceed the total estimated income."³ City ordinances describe that goal in more detail as follows

The City's objective is to achieve and maintain a structurally balanced budget in all funds such that recurring revenues fund recurring expenditures. The City shall maintain a reserve containing a minimum of 20% of regular general fund operating expenditures based on the annual General Fund budget of City or a minimum of \$22,000,000 whichever is higher...

Each line in the budget starts with a numeric code that tells the reader which fund is used and which City department is responsible for the item. Here are examples of revenue account codes (property tax) and expenditure account codes (salaries).

Fund	Dept	Division	Object	Complete Code	Account Name	Amount
01	00	00	3010	01-00-00-3010	Property Tax Current Year	\$21,533,400
20	00	00	3010	20-00-00-3010	Property Tax Shade Tree Fund	\$251,560
01	02	09	4000	01-02-09-4000	Mayor's Office Salaries	\$158,800
20	07	02	4000	20-07-02-4000	Shade Tree Fund Salaries	\$46,300

The City's 2018 operating budget has nine funds, and the largest is the **General Fund**. The City uses the General Fund to track revenues and expenditures related to several of its daily operations – police patrol, fire suppression, street cleaning, code enforcement, etc. The General Fund also contains most of the revenues and expenditures that the City uses for its own administrative needs – payroll, purchasing, human resources, etc. The General Fund is discussed in more detail later in this guide.

³ Article IX, Section 904.

Shade Tree Fund (20)

The City levies a 0.2-mill real estate tax to maintain trees, bushes and shrubs on publicly owned properties. That revenue and its use are tracked in this special revenue fund.

Capital Improvement Fund (34)

As required in the City's Amended Recovery Plan, a portion of the earned income tax on residents and commuters is set aside to fund capital projects in this fund. These projects involve the purchase, construction, replacement or rehabilitation of infrastructure (roads, bridges, buildings) or other assets that meet the City's definition for capital projects except for the large sewer treatment plant construction project, which is paid by the Sewer Fund.

Liquid Fuels Fund (35)

The Commonwealth of Pennsylvania collects revenue from the state sales tax on motor fuel and then distributes a portion of that revenue to eligible municipalities, like Reading. The City holds that revenue in this special revenue fund and then uses it for street paving, ice and snow removal and related activities.

Water Fund (50)

Reading's primary water supply sits eight miles north of the City at Lake Ontelaunee. City government owns a system for collecting, purifying, pumping and distributing water to Reading residents, businesses and other property owners. The City government leases that system to the Reading Area Water Authority (RAWA) and uses this enterprise fund to track financial activity related to the system, including RAWA's annual lease payment.

Self-Insurance Fund (52)

The City is self-insured for worker's compensation, general liability and property damage. The City transfers money from other funds to this Self-Insurance Fund and then pays insurance claims out of it. Since most operations are supported by the General Fund, that fund makes the largest contribution to the Self-Insurance Fund. The City is also self-insured for active and retired employee health insurance, but those expenditures are tracked primarily in the General Fund or wherever the employee's salary is or was budgeted.

Sewer and Sewer Retail Funds (54 and 55)

The City government owns and operates a wastewater treatment plant on Fritz Island which is designed to treat 28.5 million gallons of sewage per day originating from Reading and 11 other municipalities. Four pumping stations (three in the City, one near West Reading) support the treatment plant. City government uses these enterprise funds to track financial activity related to that system. The fund's primary source of revenue is sewer treatment fees paid by residents, businesses and other property owners. Starting in 2016, the City uses the Sewer Fund (54) to track activity related to the wastewater treatment plant, including the major reconstruction project, and the Sewer Retail Fund (55) to track activity related to City rate payers.

Fund	Account Name
01	General Fund
20	Shade Tree Fund
34	Capital Improvement Fund
35	Liquid Fuels Fund
50	Water Fund
52	Self-Insurance Fund
54	Sewer Fund
55	Sewer Retail Fund
56	Solid Waste Fund

Solid Waste Fund (56)

The City provides residents with curbside collection of recyclable materials and regulates curbside garbage collection. The City uses this enterprise fund to track financial activities related to that work.

Along with showing the relevant fund, the budget account codes also show the department and division within City government that is responsible for the line item. This is especially useful on the expenditure side.

The chart to the right shows account codes for each department in the General Fund and the organizational chart on the next page shows the division codes within each department. Most of the City's non-departmental expenditures are either debt service payments or fees paid to an organization that collects taxes on the City's behalf.

Modified accrual accounting

The numbers in the City's General Fund budget are recorded using the **modified accrual basis of accounting**.

This means the City records revenues when they are "available or measurable," regardless of when the actual cash is collected. So, if the City receives cash in January 2019 for a tax that was levied in November 2018, the City will record that money as revenue in 2018. The City generally records expenditures when they are incurred, regardless of when the actual cash payment is made.

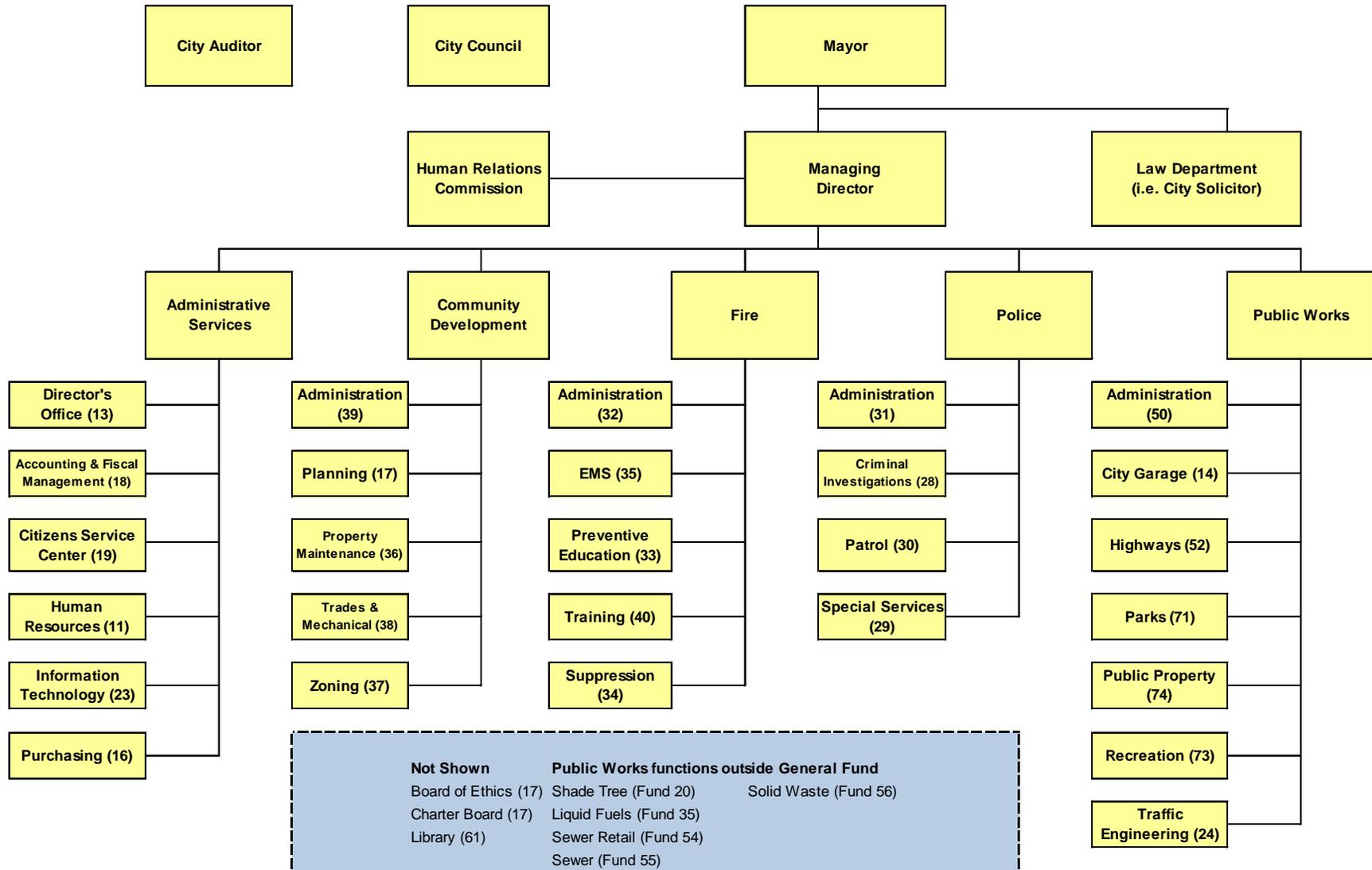
Separate of the budget, the City also monitors its cash flow position to ensure there is enough cash available to pay obligations when they are due.

General Fund Department Codes

Dept	Account Name
01	Office of the Mayor
02	City Council
03	City Auditor
04	Managing Director
06	Administrative Services
07	Public Works
08	Police
09	Fire
10	Community Development
12	Law
13	Library
14	Non-Departmental
17	Board of Ethics/Charter Board
18	Human Relations Commission

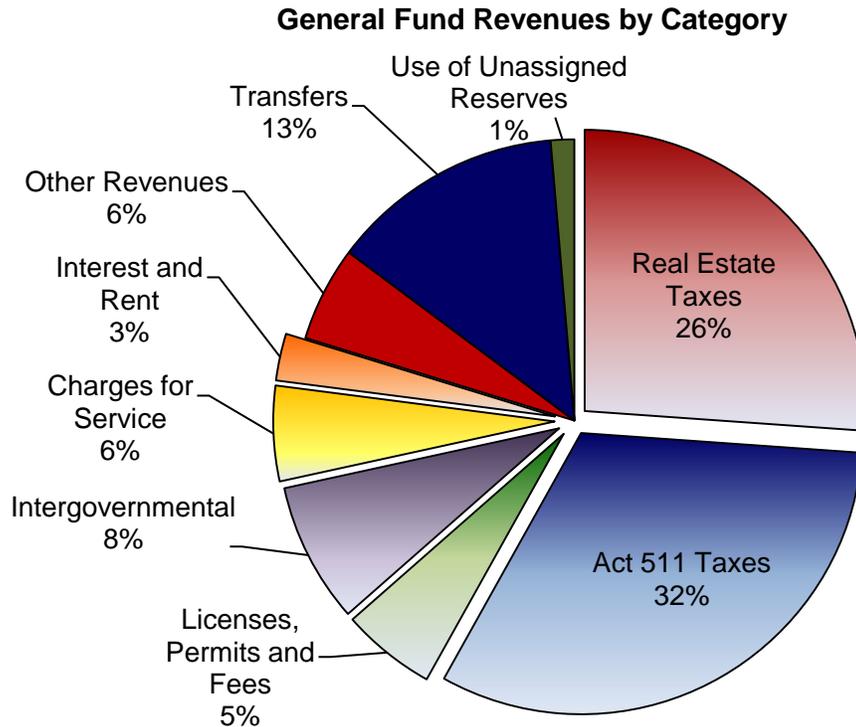
City of Reading Organizational Chart 2018

This organizational chart shows the departments and divisions within City government's executive branch. The numbers in parentheses are the division codes used in the City's budget account codes.



Revenues: Where does City government get its money?

Reading City government uses a mix of revenues to fund the services it provides, compensate its employees and pay its debt and other obligations. Locally generated taxes account for more than half of the revenue in the General Fund, which is the City's largest. Other funds, like the Sewer Fund or the Water Fund, rely more on user charges. This section describes the major sources of revenue in the City's General Fund so the reader understands where City government gets its money, why it uses those sources and how much it expects to collect in 2018.



	2016 ⁴ Actual	2017 Budget	2018 Budget	2017 to 2018 Variance (\$)	2017 to 2018 Variance (%)
Real Estate Taxes	23,725,437	24,098,454	24,208,460	110,006	0.5%
Act 511 Taxes	29,411,711	28,340,000	29,635,000	1,295,000	4.6%
Licenses, Permits and Fees	5,358,069	5,482,300	5,024,300	(458,000)	-8.4%
Intergovernmental	7,835,107	7,878,494	7,466,870	(411,624)	-5.2%
Charges for Service	5,325,490	5,215,168	5,069,230	(145,938)	-2.8%
Interest and Rent	1,467,780	1,436,000	2,504,000	1,068,000	74.4%
Other Revenues	5,552,312	5,529,500	5,059,160	(470,340)	-8.5%
Transfers	12,275,000	12,275,000	12,460,500	185,500	1.5%
Use of Unassigned Reserves	0	850,000	1,250,000	400,000	47.1%
General Fund Total	90,950,905	91,104,916	92,677,520	1,572,604	1.7%

⁴ The 2016 figures used throughout this Guide are the unaudited results provided by the City during the quarterly financial reporting process.

Real Estate Taxes

\$24.2 million (26% of budget)

The real estate tax is City government's largest source of revenue. It represents about a quarter of all General Fund revenue. Berks County determines the value of the land and buildings for each parcel of property in the City (i.e. "assessment") and then the City sets the tax rate charged to the property owner ("millage"). The assessed value of a property may differ from its market value, which is what the property would be worth if the owner sold it.

The City charges a millage rate of 17.689 per \$1,000 of assessed value including 0.2 mills for the Shade Tree Fund and 0.2 mills for the Reading Public Library. City tax payers also pay real estate taxes to Berks County and the Reading School District. The table to the right gives an example of how those millage rates translate into an annual tax bill.

For 2018, the City budgets \$24.2 million in real estate tax revenue in the General Fund, including \$2.3 million from prior years. Berks County collects current and prior year real estate tax revenues for the City.

Sample Real Estate Tax calculation

This is a sample real estate tax bill calculation for a house assessed at \$67,600

	Mills	Taxes Due
Berks County tax	7.372	\$498
Reading School District tax	16.920	\$1,144
Total City tax rate	17.689	\$1,196
Total tax rate/bill	41.981	\$2,838

Act 511 Taxes

\$29.6 million (32% of budget)

Like most Pennsylvania cities, Reading uses the Commonwealth's Local Tax Enabling Act (Act 511 of 1965) to levy taxes on City residents and commuters who work in Reading but live elsewhere.

The largest of these taxes is the **earned income tax (EIT)**. In 2018, City residents will pay a 3.6 percent EIT with 1.5 percent going to the Reading School District, 1.9 percent to the City for operations and 0.2 percent to the City's capital improvement fund for projects like large vehicle purchases and facility improvements. Commuters who work in Reading but live outside the City will usually pay a 1.3 percent EIT with 1.0 percent going to their home municipality (usually split between local government and school district), 0.1 percent going to the City of Reading for operations and 0.2 percent to the City's capital improvement fund.

The City's ability to tax commuters is tied to its status as a distressed municipality under Act 47 oversight.⁵ The City has until the end of 2019 to exit Act 47 oversight successfully. To do so, the City needs to demonstrate it can balance its operating budget without the revenue from the commuter tax. Therefore the City started shifting a portion of the commuter tax from operations to the capital fund in 2016.

⁵ Please see page 4 for more discussion on this point.

Since Reading is a Home Rule community, City government has control over the resident EIT tax rate. It can change the tax rate without seeking court approval or relying on the additional taxing powers in Act 47.

For 2018, the City budgets \$22.7 million in EIT revenue. That includes money collected from residents and commuters in current and prior years.

Resident EIT Rate				
	City Tax for Operations	City Tax for Capital	RSD Tax	Total Tax
2014	2.1%	0.0%	1.5%	3.6%
2015	2.1%	0.0%	1.5%	3.6%
2016	2.0%	0.1%	1.5%	3.6%
2017	1.9%	0.2%	1.5%	3.6%
2018	1.9%	0.2%	1.5%	3.6%
2019	1.8%	0.3%	1.5%	3.6%

Commuter EIT Rate				
	City Tax for Operations	City Tax for Capital	Home Jurisdiction Tax	Total Tax
2014	0.3%	0.0%	1.0%	1.3%
2015	0.3%	0.0%	1.0%	1.3%
2016	0.2%	0.1%	1.0%	1.3%
2017	0.1%	0.2%	1.0%	1.3%
2018	0.1%	0.2%	1.0%	1.3%
2019	0.0%	0.3%	1.0%	1.3%

Other taxes that the City levies under Pennsylvania Act 511 include:

- The City levies a 3.5 percent **real estate transfer tax** on the value of real estate transferred by deed, long-term lease or other arrangements. The Commonwealth adds 1.0 percent and the Reading School District adds another 0.5 percent for a 5.0 percent total real estate transfer tax. The City budgets \$3.4 million for this revenue in 2018, not including the additional amounts paid to the Commonwealth or School District.
- The City levies a **business privilege tax** on the gross receipts of all entities engaged in commercial activities for gain or profit in Reading. The tax is 0.5 mills on wholesale businesses, 0.75 mills on retail businesses and 1.5 mills on other businesses. The City budgets \$2.0 million for this revenue in 2018.
- The City levies a **local services tax** on anyone working in Reading who earns more than \$12,000 per year⁶. Employers are required to collect the LST from all employees who work in Reading, regardless of where they live. The City budgets \$1.3 million for this revenue in 2018.
- The City levies a \$20 **per capita tax** on each City resident who is at least 18 years old. The Reading School District adds another \$10 for a total annual per capita tax of \$30. The City budgets \$330,000 for this revenue in 2018.

⁶ The total tax is \$52 a year with \$47 going to the City and \$5 to the Reading School District.

Pennsylvania laws shape Reading's tax policy

Pennsylvania law limits the types of taxes Pennsylvania cities can use and, in some cases, the maximum rate they can charge. For example, Reading is using the maximum tax rate allowed by state law for its local services and business privilege taxes. Pennsylvania law governs the City's use of a commuter earned income tax and generally does not allow cities like Reading to use a sales tax. As a Home Rule municipality, Reading has more control over its resident earned income tax rate, real estate transfer tax and per capita tax.

Licenses, Permits and Fees

\$5.0 million (5% of budget)

City ordinances require businesses and individuals to take certain actions to ensure the health, safety and quality of life for their customers, residents and visitors to Reading. This includes securing the appropriate license or permit related to the activity and paying the associated fee. The City also levies fines for violations of the City's traffic code and quality-of-life ordinances. This category contains the revenues from those fees and fines.

The largest item in this category is the **rental housing permit fees** that landlords pay annually and account for \$0.9 million in the 2018 budget. The second largest item is cable franchise fees which account for \$0.9 million. The City budgets another \$575,000 for traffic fines and non-criminal violations of City code.

Intergovernmental Revenue

\$7.5 million (8% of budget)

The City receives grants and other financial aid from the federal, state and county governments. Usually this intergovernmental aid can only be used for a specific purpose. The largest item in this category is the \$3.6 million in **State pension aid** that the City receives from the Commonwealth to help pay its Minimum Municipal Obligations to the employee pension plans. The Commonwealth distributes this aid to local governments based on their eligible employee head count, the total amount of State revenue available and other factors.

Service Charges

\$5.1 million (5% of budget)

Similar to the license and permit fees, the City has other fees that charge the cost of providing a service to the individual or organization that directly benefits from it. The largest item in this category is the \$2.9 million in **emergency medical service (EMS) transport fees** for people who use the City's ambulance system. The Service Charges category also includes fees charged to property owners for **rental property inspections** (\$650,000), the **Borough of Kenhorst payment for City police coverage** (\$462,000), and an **admissions tax** of 5.0 percent on tickets for events at the Santander Arena, Santander Performing Arts Center and FirstEnergy Stadium (\$460,000).

Interest and Rent

\$2.5 million (3% of budget)

City government leases its parking meters to the Reading Parking Authority's (RPA). In addition to the lease, the RPA makes a supplemental contribution to the General Fund. The City budgeted a total of \$1.9 million for both payments. As a separate municipal authority, the RPA manages and operates all public on-street (parking meters) and off-street (surface lots and garages) parking in Reading.

Other Revenues

\$5.1 million (5% of budget)

This is a catch-all category for revenues not grouped elsewhere. The largest item is the **contributions that employees make toward the premium costs of their health insurance coverage**, budgeted at \$2.1 million. Employees make these premium contributions each month, separate from any copayments, coinsurance or deductibles that they pay when they receive medical care. City government records the employee contributions as revenue and then records the health insurance claim costs as expenditures.⁷ This category also has \$1.2 million to reimburse the General Fund for costs associated with the sewer system.

Transfers into the General Fund

\$12.5 million (13% of budget)

The City transfers money to the General Fund from other funds to support its daily operations. The largest item is the \$9.5 million transfer from the Water Fund, which is a portion of RAWA's lease payment to the City. The City also transfers \$3.0 million from the Sewer Fund under the terms of a 2005 federal consent decree related to the wastewater treatment plant.

Other Funds

The 2018 budget has eight funds in addition to the General Fund. Please see page 6 for a brief explanation of each fund and their major revenue sources. Please also note that the table below includes **money carried over from prior years** since that is the City's budgeting convention, even though that money is not revenue from a traditional accounting perspective.

Revenues – All Budgeted Funds

	2016 Actuals	2017 Budget	2018 Budget	2017 to 2018 Variance (\$)	2017 to 2018 Variance (%)
Real Estate Taxes	23,725,437	24,098,454	24,208,460	110,006	0.5%
Act 511 Taxes	29,411,711	28,340,000	29,635,000	1,295,000	4.6%
Licenses, Permits and Fees	5,358,069	5,482,300	5,024,300	(458,000)	-8.4%
Intergovernmental	7,835,107	7,878,494	7,466,870	(411,624)	-5.2%
Charges for Service	5,325,490	5,215,168	5,069,230	(145,938)	-2.8%
Interest and Rent	1,467,780	1,436,000	2,504,000	1,068,000	74.4%
Other Revenues	5,552,312	5,529,500	5,059,160	(470,340)	-8.5%
Transfers	12,275,000	12,275,000	12,460,500	185,500	1.5%
Carryover from prior year	0	850,000	1,250,000	400,000	47.1%
General Fund Total	90,950,905	91,104,916	92,677,520	1,572,604	1.7%
Shade Tree Fund	285,466	251,923	276,560	24,637	9.8%
Liquid Fuels Fund	1,947,230	2,551,500	3,955,000	1,403,500	55.0%
Water Fund	11,927,679	11,812,997	12,053,630	240,633	2.0%
Self-Insurance Fund	3,215,490	3,785,013	3,791,406	6,393	0.2%

⁷ Please see page 16 for more discussion of the City's fringe benefit costs.

	2016 Actuals	2017 Budget	2018 Budget	2017 to 2018 Variance (\$)	2017 to 2018 Variance (%)
Sewer Fund ⁸	18,074,429	25,981,880	26,841,970	860,090	3.3%
Sewer Retail Fund	23,793,938	23,066,430	25,053,770	1,987,340	8.6%
Recycling/Trash Fund	7,267,505	6,199,302	6,183,820	(15,482)	-0.2%
Capital Fund	2,574,694	3,365,527	4,444,160	1,078,633	32.0%
Total Revenues	160,037,337	168,119,488	175,277,836	7,158,348	4.3%

⁸ This total excludes proceeds from the PENNVEST loan (\$51.3 million in 2018), which the City records as revenue in this fund.

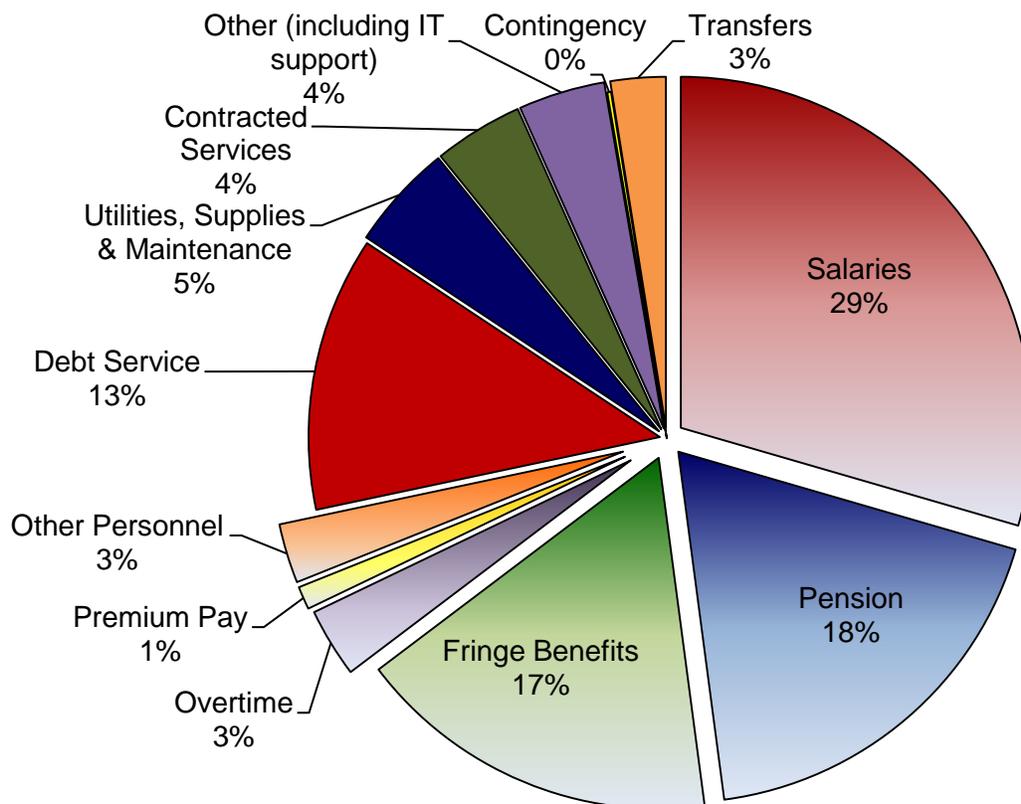
Expenditures: How does City government spend its money?

Reading's City government is responsible for public safety, public works and community development functions that touch the lives of Reading residents, business owners, commuters and visitors every day. City government is responsible for collecting and managing the money that fund these services in accordance with Pennsylvania law, City ordinances and resident preferences. And City government has internally focused functions, like human resources and purchasing, that are integral to most large organizations.

By its nature, City government is labor intensive, especially for the operations supported by the General Fund. Therefore Reading, like many other cities, makes most of its General Fund expenditures on the employees who deliver municipal services. Personnel expenditures cover employee salaries and wages and other forms of cash compensation, like overtime. They also cover employee benefits, like employer-provided health insurance or the City government's annual contribution to the three employee pension plans.

This section describes the major expenditure categories in the City's General Fund so the reader can understand how the City spends the money it collects and how much it expects to spend in 2018. This section first describes the City's expenditures by category, cutting across departmental boundaries. The next takes a closer look at the department by department allocation.

General Fund Expenditures by Category



	2016 Actual	2017 Budget	2018 Budget	2017 to 2018 Variance (\$)	2017 to 2018 Variance (%)
Salaries	26,379,774	27,175,897	27,336,160	160,263	0.6%
Pension	14,232,924	14,885,760	17,064,150	2,178,390	14.6%
Fringe Benefits	13,435,858	14,834,469	15,554,477	720,008	4.9%
Overtime	3,479,880	2,934,520	2,952,100	17,580	0.6%
Premium Pay	936,433	990,713	981,117	(9,596)	-1.0%
Other Personnel	2,009,934	2,492,118	2,538,410	46,292	1.9%
Debt Service	18,840,171	12,065,128	11,712,390	(352,738)	-2.9%
Utilities, Supplies & Maintenance	3,608,290	5,031,708	4,520,360	(511,348)	-10.2%
Contracted Services	3,410,190	3,785,699	3,809,300	23,601	0.6%
Other (including IT support)	2,762,631	4,445,338	3,696,103	(749,235)	-16.9%
Contingency	0	181,646	160,594	(21,052)	-11.6%
Transfers	3,036,045	2,281,920	2,352,359	70,439	3.1%
Total General Fund	92,132,129	91,104,916	92,677,520	1,572,604	1.7%

Cash Compensation for Full-Time Employees

\$31.3 million (34% of budget)

The first six categories in the table above are related to employee compensation at a total budgeted cost of \$66.4 million in 2018. **Salaries** for full-time employees account for about 29 percent of total General Fund expenditures. Other forms of cash compensation include payments for working **overtime** (\$3.0 million) and **premium payments** for working holidays or longevity (\$1.0 million).

City Pension Contribution

\$17.1 million (18% of budget)

The City has three employee pension plans – one for police, one for firefighters and one for all other employees. By Pennsylvania law the City is required to make annual contributions to those plans, which are calculated by the City and reviewed by an external actuary. The City's contribution is based on the actuary's biennial review of the pension plans' assets, liabilities and other factors that determine plan funding levels. The \$17.1 million pension contribution budgeted in the General Fund for 2018 is the City's full contribution to the police and fire plans and most of the contribution for the non-uniformed employees. Other funds, like the sewer fund, cover the rest of the non-uniformed employee plan contribution.

Fringe Benefits

\$15.6 million (17% of budget)

City government provides **medical, prescription drug, dental, vision and life insurance coverage to its current employees**. The City and its employees share the premium costs for medical and prescription drug coverage, with the City paying the majority of those costs. Employees usually pay the full premium costs for dental and vision coverage and then may pay other costs through copayments, coinsurance or deductibles when they receive medical care.

The City also provides **medical and prescription drug coverage for retired employees** and their spouses until they reach age 65 and are eligible for Medicare. Retired employees may also share the premium costs associated with their insurance coverage depending on their date of retirement and the terms of their collective bargaining agreements.

The City is self-insured so it pays the actual cost of claims until the cost of a single illness or injury reaches \$150,000 at which point the City has additional “stop loss” coverage. If the total claim costs are higher than budgeted for the year, then the City may spend more than the \$15.6 million budgeted in the General Fund. If total claim costs are lower than budgeted for the year, then the City may spend less than \$15.6 million.

The City budgets the full cost of these benefits for active and retired employees, including the employee’s portion. Then the City records the employee premium contributions as revenue in the General Fund.

Other Personnel Costs **\$2.5 million (3% of budget)**

This is mostly the City’s share of federal payroll taxes or wages for temporary, seasonal or part-time employees.

Debt Service **\$11.7 million (13% of budget)**

The City budgets \$11.7 million in the General Fund to make principal and interest payments on its debt. The City budgets another \$14.4 million in its Sewer and Sewer Retail Funds to repay debt related to that system and the wastewater treatment plant project.

Utilities, Supplies and Maintenance **\$4.5 million (5% of budget)**

The largest individual line items in this category cover the City’s spending on **street lighting** (\$1.2 million), **telephones** (\$456,000), **light and power** at City facilities (\$474,000 combined) and **motor vehicle gasoline** (\$383,000 combined). This category also includes several smaller line items for supplies, maintenance agreements or repairs.

Contracted Services **\$3.8 million (4% of budget)**

This category covers many of the arrangements where the City pays another organization to provide service under a contractual agreement. The largest subset of these contracts are with **tax collection agencies** that collect earned income, business privilege and other taxes on behalf of the City (\$609,000). Other large items in this category include Public Works’ contracts for **building repairs** (\$585,000), the City’s contribution to the **Reading Recreation Commission** (\$500,000), and Police’s **telecommunication contracts** (\$278,000).

Other Operating Expenses **\$3.7 million (4% of budget)**

This is a catch-all category for expenditures not grouped elsewhere. The largest individual items are an allocation for **sidewalk improvement** (\$440,000), the **contribution to the Reading Public Library** (\$362,000) and **information technology machinery and equipment** (\$236,000).

Transfers out of the General Fund

\$2.4 million (3% of budget)

Just as the City transfers money into the General Fund from other funds to support its daily operations, the opposite is also true. The largest item in this category is the **transfer to the Self-Insurance Fund** where the City pays claims for worker's compensation, general liability and property damage.

In 2015, the City built a \$2.3 million **contingency** into its budget to handle any unanticipated shortfalls. The 2017 and 2018 budget have a small one, \$182,000 and \$161,000 respectively.

Other Funds

The 2018 budget has eight funds in addition to the General Fund. Please see page 6 for a brief explanation of each fund and their major expenditures.

Expenditures – All Budgeted Funds

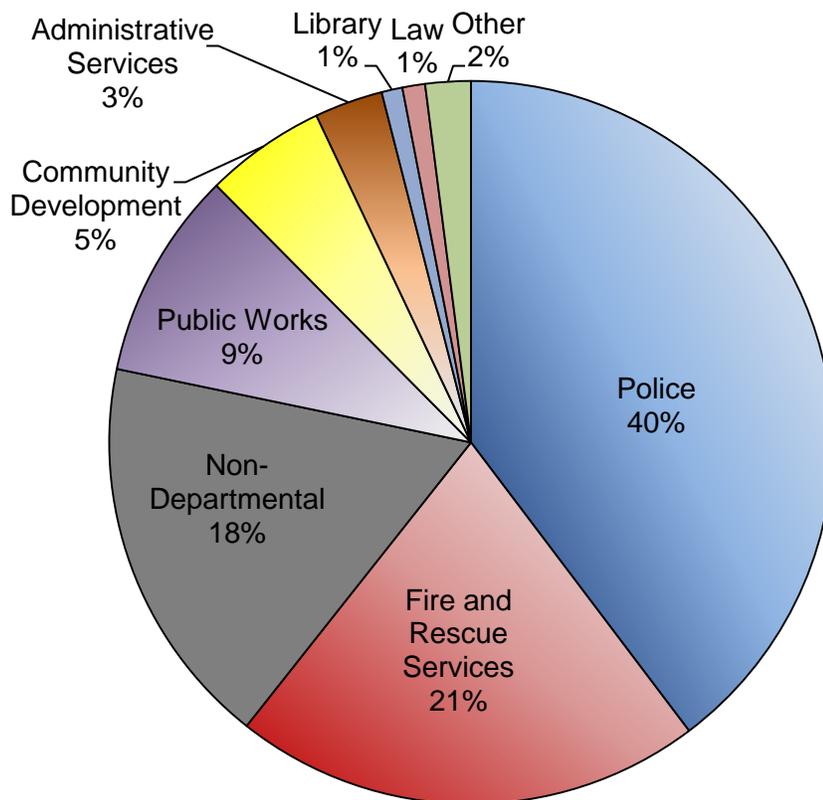
	2016 Actual	2017 Budget	2018 Budget	2017 to 2018 Variance (\$)	2017 to 2018 Variance (%)
Salaries	26,379,774	27,175,897	27,336,160	160,263	0.6%
Pension	14,232,924	14,885,760	17,064,150	2,178,390	14.6%
Fringe Benefits	13,435,858	14,834,469	15,554,477	720,008	4.9%
Overtime	3,479,880	2,934,520	2,952,100	17,580	0.6%
Premium Pay	936,433	990,713	981,117	(9,596)	-1.0%
Other Personnel	2,009,934	2,492,118	2,538,410	46,292	1.9%
Debt Service	18,840,171	12,065,128	11,712,390	(352,738)	-2.9%
Utilities, Supplies & Maintenance	3,608,290	5,031,708	4,520,360	(511,348)	-10.2%
Contracted Services	3,410,190	3,785,699	3,809,300	23,601	0.6%
Other (including IT support)	2,762,631	4,445,338	3,696,103	(749,235)	-16.9%
Contingency	0	181,646	160,594	(21,052)	-11.6%
Transfers	3,036,045	2,281,920	2,352,359	70,439	3.1%
General Fund	92,132,129	91,104,916	92,677,520	1,572,604	1.7%
Shade Tree Fund	446,166	251,923	276,560	24,637	8.9%
Liquid Fuels Fund	518,522	2,551,500	3,955,000	1,403,500	35.5%
Water Fund	12,549,440	11,812,997	12,053,630	240,633	2.0%
Self-Insurance Fund	3,401,115	3,785,013	3,791,406	6,393	0.2%
Sewer Fund ⁹	19,943,364	28,665,280	29,494,870	829,590	2.8%
Sewer Retail Fund	12,587,677	23,066,430	25,053,770	1,987,340	7.9%
Recycling/Trash Fund	5,883,959	6,199,302	6,183,820	(15,482)	-0.3%
Capital Fund	1,258,421	3,365,527	4,444,160	1,078,633	24.3%
Total Expenditures	\$148,720,795	\$170,802,888	\$177,930,736	\$7,127,848	4.0%

⁹ This total excludes the construction costs associated with the new sewer treatment plant (\$51.3 million in 2018).

Spending by Department¹⁰

Public safety accounts for the majority of Reading City government's spending in its General Fund, as it does in most Pennsylvania cities. The Police Department has the largest budget within the General Fund at \$36.8 million and the Fire Department, which includes ambulance service, is next with \$19.4 million. Public Works has \$8.6 million in the General Fund, excluding much larger amounts allocated for sewer and waste water treatment in other funds. The Non-Departmental category shown below is mostly the City's debt service and interfund transfers.

General Fund Expenditures by Department



Note: Spending on the following units is combined in "Other" for graphic illustration purposes – Managing Director, City Council, Office of the Mayor, Human Relations Commission, City Auditor, Board of Ethics and Charter Board.

¹⁰ The 2018 budget allocates information technology costs to the departments that use those services, which is reflected in the graph below and throughout this document. Other City documents may show IT costs grouped together within the Department of Administrative Services, which would make the budget for Administrative Services larger and the budgets for other departments smaller.

General Fund Expenditures by Department

	2017 Budget	2018 Budget	Variance (\$)	Variance (%)
Police	35,756,412	36,793,598	1,037,186	2.9%
Fire and Rescue Services	18,270,556	19,414,379	1,143,823	6.3%
Non-Departmental	16,429,208	16,322,592	(106,616)	-0.6%
Public Works	8,229,473	8,635,276	405,803	4.9%
Community Development	5,681,306	5,000,680	(680,626)	-12.0%
Administrative Services	2,951,978	2,828,131	(123,847)	-4.2%
Library	1,062,078	864,750	(197,328)	-18.6%
Law	903,940	938,560	34,620	3.8%
<i>Managing Director</i>	478,939	484,154	5,215	1.1%
<i>City Council</i>	430,460	507,150	76,690	17.8%
<i>Office of the Mayor</i>	430,073	413,300	(16,773)	-3.9%
<i>Human Relations Commission</i>	227,921	231,980	4,059	1.8%
<i>City Auditor</i>	192,572	195,470	2,898	1.5%
<i>Board of Ethics/Charter Board</i>	60,000	47,500	(12,500)	-20.8%
General Fund Total	91,104,916	92,677,520	1,572,604	1.7%

Within the General Fund, City government is divided into five operating departments that report to the Managing Director who reports to the Mayor. The responsibilities of those operating departments are briefly described below.

Police **\$36.8 million (40% of budget)**

The Reading Police Department handles law enforcement responsibilities such as patrol, criminal investigation and emergency dispatch for police-related calls. The Department also oversees the part-time school crossing guards.

Fire and Rescue services **\$19.4 million (21% of budget)**

The Reading Fire and Rescue Services Department is responsible for fire suppression, fire prevention, special rescue and emergency medical services. In addition to fire and EMS calls, the Department responds to incidents involving hazardous materials and motor vehicle accidents.

Public Works (Operations) **\$8.6 million (9% of budget)**

The Public Works Department has four divisions – Operations, Wastewater, Utilities and Solid Waste. Only the Operations Division budget is in the General Fund. Operations handles repair and maintenance for the buildings, streets, bridges, parks and other public spaces owned by City government. It also has the municipal garage for City government’s vehicles.

Community Development

\$5.0 million (5% of budget)

Community Development works to ensure the City's business owners, landlords and residents maintain their properties in accordance with community and legal guidelines. This includes zoning, code enforcement, land use planning, historical preservation, rental housing inspection, building plan review and trade licensing functions. The Department also promotes economic and community development in Reading and oversees City government's use of its federal Community Development Block Grant (CDBG) funding.

Administrative Services

\$2.8 million (3% of budget)

The Department of Administrative Services manages the City's finances (budgeting, accounting and treasury functions), purchasing, human resources and information technology. The Department also manages the Citizens Service Center that is the primary means for handling citizen inquiries related to issues other than public safety.

In addition to these operating departments, **City Council** holds the legislative powers of the City and the **City Auditor** has oversight of City government finances independent of the Mayor and Council. Led by the City Solicitor, the **Law Department** provides legal services for the Mayor, City Council and the operating departments.

The **Reading Public Library** is governed by a Board of Directors with the City government, County government and the Reading Public Library Corporation each appointing five members. The Reading Public Library is part of the larger Berks County Public Library System and has its own budget separate of City government. While the Library Board oversees day-to-day operations, City government owns the four library facilities and employs 10 of the employees at the Reading Public Library.

Please see page 8 for an organizational chart of City Government.

Head count: How many full-time positions does the City government have?

The tables below show the total number of budgeted full-time positions in each department since 2012 according to the position ordinances passed each year. Some positions are listed within the General Fund, but another fund actually pays the employee's compensation. The City also has part-time positions not shown here.

General Fund Division	2013 Full-time	2014 Full-time	2015 Full-time	2016 Full-time ¹¹	2017 Full-time	2018 Full-time
Office of the Mayor ¹²	4	4	4	4	4	4
City Council	3	3	3	3	3	3
City Auditor	2	2	2	2	2	2
Managing Director	3	3	3	3	2	2
Human Relations Commission	3	2	3	2	2	2
Solicitor	6	6	6	6	6	6
Director of Administrative Services	4	4	4	4	4	3
Accounting	7	8	5	5	5	6
Citizens Service Center	10	11	10	10	10	10
Information Technology	9	9	9	9	9	9
Human Resources	4	4	7	7	7	7
Mailroom	0	0	0	0	0	0
Purchasing	1	1	1	1	1	1
Administrative Services subtotal	35	37	36	36	36	36
Public Works Administration	2	4	5	8	8	7
Garage	8	10	10	10	10	10
Engineering	0	0	0	0	0	0
Highways	17	16	15	15	15	15
Parks	9	8	8	6	6	6
Public Property	5	7	7	7	6	7
Recreation	0	0	0	0	0	0
Public Works subtotal (General Fund only)	41	45	45	46	45	45

¹¹ The 2016 position count comes from the amended ordinance adopted in early 2016.

¹² One of the four positions was not funded in 2015.

General Fund Division	2013 Full-time	2014 Full-time	2015 Full-time	2016 Full-time ¹¹	2017 Full-time	2018 Full-time
Police - Criminal Investigations	30	29	30	30	30	30
Police - Special Services	30	29	29	29	29	29
Police – Patrol	131	133	132	132	132	132
Police – Administration	3	3	3	3	4	4
Police subtotal	194	194	194	194	195	195
Fire Administration	7	7	7	7	7	7
Fire Special Services (Preventive Education)	4	4	4	4	4	4
Fire Training	1	1	1	1	1	1
Fire Suppression	89	109	100	92	92	92
Fire EMS	31	31	32	33	33	33
Fire subtotal	132	152	144	137	137	137
Community Development Administration	2	2	3	3	2	2
Planning	1	1	1	0	0	0
Property Maintenance	32	32	28	28	28	28
Trades	7	7	8	8	8	8
Zoning	4	4	4	5	5	5
Community Development subtotal	46	46	44	44	43	43
Library	10	10	10	10	10	10
Total General Fund	479	504	494	487	485	485

Other Funds

Fund	2013 Full-time	2014 Full-time	2015 Full-time	2016 Full-time ¹³	2017 Full-time	2018 Full-time
Community Development – HUD Funded	7	7	6	4	4	4
Shade Tree Fund	2	2	2	2	2	2
Self-Insurance Fund	1	1	1	1	1	1
Sewers	21	18	19	19	19	19
Wastewater Treatment Plant	47	45	44	44	44	44
Recycling & Trash	17	19	18	17	17	18
Water	0	0	0	0	0	0
Capital Fund	0	0	0	0	0	0
Total Other Funds	95	92	90	87	87	88
ALL FUNDS	574	596	584	574	572	573

¹³ The 2016 position count comes from the amended ordinance adopted in early 2016.

Five-year Capital Improvement Plan (CIP)

In 2015 the City began using a more formal process to identify and prioritize projects involving the purchase, construction, replacement or rehabilitation of infrastructure (e.g. roads, bridges, buildings), large vehicles or other assets that meet the City's definition for capital projects. The list below shows projects tentatively scheduled through 2022 with the estimated annual expenditure for each one over the next five years. The Administration prepares this five-year list of capital projects and City Council approves it by ordinance during the budget process each year. The projects and annual allocations are subject to amendment.

Project	Fund Requesting Project	Total Budget	2018	2019	2020	2021	2022
Public Works							
Traffic light Project - "Green light Go"	Public Works -Traffic Engineering	\$211,160	\$211,160				
Mower with Broom & Plow	Public Works - Parks	\$50,000	\$50,000				
Ford F350 with V Plow for Snow Plowing	Public Works - Streets	\$55,000	\$55,000				
Pagoda Fire Tower -staircase maintenance	Public Works - Public Property	\$135,000	\$135,000				
Schlegel Pool	Public Works - Public Property	\$200,000	\$200,000				
North 5th Street Railroad Bridge - painting	Public Works - Public Property	\$75,000	\$75,000				
Schuylkill River Trail Project	Public Works - Public Property	\$911,000	\$911,000				
Estimated Grant Revenue for Schuylkill River Trail Project	Public Works - Public Property	(\$500,000)	(\$500,000)				
Estimated CDBG Funds for Schuylkill River Trail Project	Public Works - Public Property	(\$300,000)	(\$300,000)				
Reading Public library Fire Alarm	Public Works - Public Property	\$35,000	\$35,000				
Reading Public library Roof Replacement	Public Works - Public Property	\$150,000	\$150,000				
Main Library Facade Repair	Public Works - Public Property	\$75,000	\$75,000				
SW Library Branch HVAC	Public Works - Public Property	\$265,000	\$265,000				
Estimated Grant Revenue for SW library (to be applied for)	Public Works - Public Property	(\$65,000)	(\$65,000)				
Sidewalk Repairs for City-Owned Property	Public Works - Public Property	\$250,000	\$250,000				
City Hall Roof Replacement	Public Works - Public Property	\$1,200,000	\$200,000	\$500,000	\$500,000		
City Hall HVAC Replacement	Public Works - Public Property	\$500,000	\$250,000	\$250,000			
Fire Station Building Repairs	Public Works - Public Property	\$200,000	\$200,000				
EMS Building Repairs	Public Works - Public Property	\$50,000	\$50,000				
First Energy Stadium Repairs	Public Works - Public Property	\$102,000	\$102,000				
10th & Spruce building Roof Replacement	Public Works - Public Property	\$60,000	\$60,000				
City Park Basketball Courts	Public Works - Public Property	\$50,000	\$50,000				
Public Works Total		\$3,709,160	\$2,459,160	\$750,000	\$500,000	\$0	\$0

Project	Fund Requesting Project	Total Budget	2018	2019	2020	2021	2022
Fire							
New Fire Station Project - Downtown station	Fire - Suppression and/or Emergency Medical	\$1,800,000	\$400,000	\$600,000	\$800,000		
New Fire Station Project - 9th & Marion	Fire - Suppression and/or Emergency Medical	\$1,800,000	\$400,000	\$600,000	\$800,000		
Station Improvements	Fire - Suppression and/or Emergency Medical	\$20,000	\$20,000				
Fire Staff Vehicle Replacements (2 units)	Fire - Suppression	\$267,000	\$70,000	\$75,000	\$37,000	\$85,000	
Fire Apparatus Replacement	Fire - Suppression	\$2,400,000	\$100,000	\$500,000	\$600,000	\$600,000	\$600,000
EMS Medic/Ambulance Replacements	Fire- Emergency Medical	\$850,000	\$170,000	\$170,000	\$170,000	\$170,000	\$170,000
Fire Total		\$7,137,000	\$1,160,000	\$1,945,000	\$2,407,000	\$855,000	\$770,000
Police							
Vehicles	Police - Patrol	\$1,800,000	\$400,000	\$350,000	\$350,000	\$350,000	\$350,000
Police Command Post Vehicle Replacement	Police	\$175,000	\$175,000				
Police Total		\$1,975,000	\$575,000	\$350,000	\$350,000	\$350,000	\$350,000
Administrative Services							
IT Upgrade	Admin. Services - Information Technology	\$550,000	\$250,000	\$100,000	\$100,000	\$100,000	
Administrative Services Total		\$550,000	\$250,000	\$100,000	\$100,000	\$100,000	\$0
Revenues from future capital reserves		\$0	\$0	\$0	\$0	\$0	\$0
Total Capital Budget		\$13,371,160	\$4,444,160	\$3,145,000	\$3,357,000	\$1,305,000	\$1,120,000