



In accordance with Article V Sec 503 of the City of Reading Home Rule Charter, I have reviewed the 2022 proposed annual budget submitted by the Mayor, and I hereby submit my non-binding recommendations to City Council for consideration.

Maria M. Rodriguez, CFE
Reading City Auditor
November 15, 2021

Executive Summary

For the fiscal year of 2022, the administration has proposed a General Fund budget balance of approximately \$95 million, which includes a transfer of approximately \$2.5 million out of the General Fund balance, with no Property Tax increase.

This budget has an increase of about \$2.5 million compared to the 2021 budget. The majority of this increase is due to the labor negotiations that materialized in 2021.

Due to the City's deadline to implement the Act 47 Exit Plan by the end of 2022, this is the last year that the City will be allowed to collect 0.3% of non-resident Earned Income Tax, unless the State grants an extension. If the State does not approve or extend the non-resident EIT, the Capital Projects budget will have a negative impact in the near future; however, at the last presentation, in regards to the CARES Act Fund, the administration is planning to use part of this fund for Capital Projects. By using the maximum amount that the CARES Act Fund will allow for Capital Projects, this will alleviate the burn of the Capital Fund Balance for the next couple of years.

The Reading Water Authority and the Reading Parking Authority are two components of the City finances. Due to the lease agreement that RAWA has with the City, the 2021 budget showed a transfer of \$10.4 million.

General Fund (GF) Revenue

Property Tax Revenue

Property Tax rate increases in the City of Reading since 2011:

YEAR	2022 Proposed	2021	2020-2017	2016	2015-2014	2013	2012	2011
MILLAGE RATE	18.129	18.129	17.689	17.689	15.689	15.689	14.334	14.334
% CHANGE	0%	2.49%	0%	12.75%	0%	9.45%	0%	20%

The 2022 budget proposed an increase of \$619,975 in revenue for the line item of Property Tax Prior compared to the 2021 budget. However as of 10/31/2021, the City has already recorded revenue of \$2.2 million for this line item. In this case, I believe that the 2022 budget target for this line item will be met.

However, for the Penalty and Interest revenue of the 2022 budget, the administration is proposing an increase of \$117,648. And as of 10/31/2021, only \$493,902.98 has been recorded in revenue for this line item. I believe that increase could be a little high.

Account Description	2020 Budget	YTD - 2020 Revenue Recorded	2021 Budget	YTD 10/31/21 Revenue Recorded	2022 Budget Proposed
Discount & Allowance	(362,000.00)	(329,463.10)	(362,000.00)	(389,395.54)	(361,578.00)
Property Tax Current	21,890,000.00	22,016,340.16	22,440,955.00	21,899,772.85	22,756,674.00
Property Tax Prior	2,433,000.00	2,054,679.99	1,703,100.00	2,248,173.02	2,323,075.00
Penalty & Interest	600,000.00	309,130.97	600,000.00	493,902.98	717,646.00
Discount & Allowance - Library	(5,000.00)	(3,809.04)	(5,000.00)	(4,391.91)	(4,079.00)
Property Tax Current - Library	251,000.00	254,537.15	251,000.00	247,003.33	256,716.00
Property Tax Prior - Library	17,000.00	22,491.01	17,000.00	25,738.92	26,207.00
Penalty & Interest - Library	4,000.00	4,025.15	4,000.00	5,368.07	7,916.00
Total Revenue	24,828,000.00	24,327,932.29	24,649,055.00	24,526,171.72	25,722,577.00

Real Estate Transfer Tax

The Real Estate Transfer Tax rate is 3.5%, and since 2016, the revenue collected has exceeded the budgeted target amount.

For 2020, the City recorded \$6,591,062.41 of Real Estate Transfer Tax. And as of 10/31/2021, the City has recorded \$7,112,161.01. Although the administration has been conservative in budgeting for this revenue line item, which I agree with, because of the large surplus of revenue that this line item has generated over the last two years, I believe that the budgeted amount for this line item could be increased by an additional \$300,000 to \$5.5 million, instead of \$5.2 million.

Account Description	2020 Budget	YTD - 2020 Revenue Recorded	2021 Budget	YTD 10/31/21 Revenue Recorded	2022 Budget Proposed
Real Estate Transfer Tax	4,200,000.00	6,591,062.41	4,700,000.00	7,112,161.01	5,200,000.00

Earned Income Tax

The current Earned Income Tax rate for the City of Reading is 2.1%, and the administration is preserving the same rate for 2022. The Earned Income Tax share of the Reading School District is 1.5%, and combined with the City rate, Reading residents are paying a total of 3.60% for EIT.

Due to the pandemic, the EIT revenue amounts budgeted for in 2020 and 2021 faced some challenges. As a result, the administration opted to be more conservative and budgeted less revenue for this line item than what had been budgeted for in prior years. Due to the revenue recorded in 2020 and what has already been recorded as of 10/31/21, I believe that the revenue line item for EIT Prior Year could be increased by at least \$100,000.

Account Description	2020 Budget	YTD - 2020 Revenue Recorded	2021 Budget	YTD 10/31/21 Revenue Recorded	2022 Budget Proposed
Earned Income Tax	16,861,000.00	14,486,552.74	15,512,120.00	11,059,526.83	15,512,120.00
EIT Prior Year	5,500,000.00	6,163,059.77	4,730,000.00	5,701,777.86	5,100,000.00

Capital Projects Fund

Due to the Exit Plan of ACT 47, the 2022 fiscal year will be the last year that 0.3 % of non-resident EIT revenue can be allocated to fund the Capital Projects Programs under Fund 34. Also, another 0.3% out of 2.1% from EIT Tax - Resident will be allocated to the Capital Fund Projects. These percentages are in compliance with Act 47 Plan, listed on page #62.

The 2020 audit draft is showing a fund balance for Capital Projects of \$16,817,152. If the administration maximizes the amount being utilized from the CARES Act Fund, which is about \$9.9 million for Capital Projects, this will alleviate the fund balance of the Capital Projects for the next couple of years. The chart below shows the revenue YTD that has been allocated to the Capital Fund in 2020 and as of 10/31/21.

The chart below indicates the % shifted to Capital Projects since 2016, which shows an increase from 0.1% to 0.3%:

YEAR	General Fund	Capital Projects	Residents - EIT RATE
2016	2.0%	0.1%	2.1%
2017 & 2018	1.9%	0.2%	2.1%
2019 & 2020	1.8%	0.3%	2.1%
2021	1.8%	0.3%	2.1%
2022	1.8%	0.3%	2.1%

Capital Projects	2021 Budget	YTD 10/31/2021	YTD Variance	2020 Budget	YTD 12/31/2020	YTD Variance
Earned Income Tax	4,171,000.00	3,527,052.30	(643,947.70)	4,850,000.00	4,653,663.06	(196,336.94)
EIT Prior	989,000.00	1,818,573.45	829,573.45	1,150,000.00	1,880,847.63	730,847.63
Total	5,160,000.00	5,345,625.75	185,625.75	6,000,000.00	6,534,510.69	534,510.69

Business Privilege Tax

The administration is proposing a budget of \$1,558,800 for the Business Privilege Tax Current revenue line item for 2022. Due to the increase in revenue for this line item in 2020, and since \$1.6 million has already been recorded as of 10/31/2021, I believe that the budgeted revenue amount for this line item can be increased by \$100,000 to \$1,658,800 instead of \$1,558,800.

In 2020, the City recorded \$82,830.67 in revenue for Business Privilege Tax Prior. And as of 10/31/2021, the City has recorded only \$59,171.71 in revenue for this line item. To be more in line with what has been recorded previously, the administration has opted to budget less revenue for this line item compared to amounts that had been budgeted for prior to the pandemic.

Account Description	2020 Budget	YTD - 2020 Revenue Recorded	2021 Budget	YTD 10/31/21 Revenue Recorded	2022 Budget Proposed
Business Privilege Tax	1,877,750.00	1,785,380.94	1,385,600.00	1,662,573.16	1,558,800.00
Business Privilege Tax Prior	213,150.00	82,830.67	80,800.00	59,171.71	80,800.00

Occupational Tax, Traffic Fines Motor Codes, and Grants & Gifts - Human Relations

The following budgeted line items are showing that less revenue has been recorded compared to what had been budgeted.

In 2020, \$200,000 was budgeted for Occupational Tax Prior, but only \$30,627.46 was recorded in revenue for this line item. In 2021, the same amount was budgeted, and as of 10/31/2021, only \$5,910.54 has been recorded. I recommend that no more than \$50,000 be budgeted for this revenue line item in 2022.

For The Traffic Fines Motor Codes revenue, there has been a revenue decrease due to the agreement that was executed in March of this year between the City and the Parking Authority. For this reason, the budgeted revenue for this line item should be decreased to \$50,000, unless there are plans for the Police Department to continue, as in the past, ticketing for parking.

The proposed budget for the Grants & Gifts revenue line item for the Human Relations Commissions is \$75,000. However, as of 10/31/2021, no revenue has been recorded yet.

Account Description	2020 Budget	YTD - 2020 Revenue Recorded	2021 Budget	YTD 10/31/21 Revenue Recorded	2022 Budget Proposed
Occupational Tax - Prior Year	200,000.00	30,627.46	200,000.00	5,910.54	200,000.00
Traffic Fines Motor Codes	347,480.00	192,475.00	330,106.00	24,048.50	313,601.00
Grants & Gifts - HRC	75,000.00	64,994.27	75,000.00	-	75,000.00

The Revenue of the Admission Fees Tax

Due to the pandemic, this revenue line item had a huge decrease in 2020. And as of 10/31/2021, the City has recorded \$100,607.25 in revenue for this line item. I believe it would be a good idea for the administration to talk to the Santander Arena to see if more events are being scheduled in 2022.

Account Description	2020 Budget	YTD - 2020 Revenue Recorded	2021 Budget	YTD 10/31/21 Revenue Recorded	2022 Budget Proposed
Admission Fee Tax	515,500.00	93,299.16	200,000.00	100,607.25	200,000.00

In summary, I am making the following non-binding recommendations for the 2022 GF revenue budget:

- a \$300,000 increase to the Real Estate Transfer Tax;
- at least a \$100,000 increase to the EIT Prior Year;
- a \$ 100,000 increase to the Business Privilege Tax;
- a \$ 150,000 reduction, minimum, to Occupational Tax Prior Year;
- a \$ 263,601 reduction to the Traffic Fines Motor Codes; and
- a review of the Grants & Gifts for HRC be performed to see if the \$75,000 proposed budget amount for this line item will be received in 2022.

General Fund (GF) Expenses

Most of the General Fund expenditures are fixed. The highest expenses of the General fund are: Salaries & Wages, for which the administration is proposing a 3.5% increase; Pension; Fringe Benefits; Operating Expenses; and Debt Service.