



In accordance with Article V Sec 503 of the City of Reading Home Rule Charter, I have reviewed the 2023 proposed annual budget submitted by the Mayor, and I hereby submit my non-binding recommendations to City Council for consideration.

Maria M. Rodriguez, CFE
City Auditor
November 21, 2022

2023 General Fund Budget

For the 2023 fiscal year, the Administration is proposing a General Fund balanced budget of \$100.7 million that requires a transfer of \$1.8 million from the General Fund unassigned balance to cover the anticipated increases in payroll. And no property tax increase is being proposed. In comparison to the 2022 Budget, the 2023 General Fund budget is showing an increase of about \$5.3 million. There will be an increase in outlay for the financial software licensing due to the transition from USL to Tyler Munis. However, the majority of the budget increase is a result of labor negotiations from unions and a suggested raise for Management employees. The percentage increases are as follows:

- Police 8%
- Fire 7%
- ASFME 4%
- Management 5%

Reading Area Water Authority Transfer and Reading Parking Authority Agreement

The Reading Area Water Authority (RAWA) and the Reading Parking Authority (RPA) are two component units that contribute to the City's finances. The 2023 proposed budget reflects a transfer of \$10.8 million as a result of the lease arrangement that RAWA has with the City. In addition, the City will receive about \$1.7 million from the RPA in accordance with the terms of the agreement between the City and the RPA.

Sewer Fund Transfer

Through the course of the last twelve years, the City was only permitted to transfer \$3 million from the Sewer Fund to the General Fund. And most recently, the Department of Justice (DOJ) gave verbal permission for the City to transfer \$4.5 million for the 2023 year budget, which is an increase of \$1.5 million above the previous \$3 million.

In the event that the City does not receive written confirmation from the DOJ, and the DOJ rescinds the transfer of these additional funds, the Administration should have a contingent plan for replacing the \$1.5 million to balance the 2023 General Fund budget.

As a result of these transfers throughout the years, and the revenue received from the RPA, the City's General Fund has a positive balance of \$41.3 million as of December 31, 2021, of which \$33.5 million is unassigned. These significant sources of revenue helped the City to exit Act 47 in July of 2022.

General Fund Revenue

Property Tax Revenue

The 2023 proposed budgeted for Property Tax shows an increase of \$140,768 when compared to the 2022 budget and an increase of \$1.1 million from the 2021 budget. As of 10/31/2022, the City has recorded \$24.7 million (or 97%) of the total budgeted amount for this line item.

Due to the pandemic in 2020, the Administration opted to give an extension on the collection of property taxes, which resulted in a higher collection than normal in 2021. Therefore, I believe that the Administration has budgeted properly.

Account Description	2023 Proposed Budget	2022 Final Budget	YTD 10/31/2022	2021 Final Budget	YTD 12/31/21
Discount/Allowance	(384,031.00)	(383,557.00)	(386,740.93)	(367,000.00)	(393,802.59)
Property Tax Current	23,041,829.00	23,013,390.00	22,427,040.74	22,691,955.00	23,476,237.78
Property Tax Prior	2,379,966.00	2,349,282.00	2,193,829.42	1,720,100.00	2,588,804.77
Penalty and Interest	734,687.00	652,568.00	518,316.19	604,000.00	705,004.17
Total Revenue	25,772,451.00	25,631,683.00	24,752,445.42	24,649,055.00	26,376,244.13

The table below demonstrates that the last millage rate increase occurred in 2021 and has remained at 18.129% since that time.

Year	2023 Proposed	2022	2021	2020-2017	2016	2015-2014	2013	2012
Millage Rate	18.129	18.129	18.129	17.689	17.689	15.689	15.689	14.334
% Change	0%	0%	2.49%	0%	12.75%	0%	9.45%	0%

Real Estate Transfer Tax Revenue

The Real Estate Transfer Tax rate is 3.5%. Since 2016, the revenue collected from this line item has exceeded the respective budgeted target amounts for those years.

Although the City’s real estate market is still relatively strong, inflation and higher interest rates could affect the revenue collected for the Real Estate Transfer Tax in the near future. Therefore, I agree with what the Administration has proposed for 2023.

Account Description	2023 Budget Proposed	2022 Budget	YTD 10/31/22	2021 Budget	YTD – 2021
Real Estate Transfer Tax	6,000,000.00	5,500,000.00	7,785,680.44	4,700,000.00	8,792,035.75

Earned Income Tax (EIT) Revenue

The current Earned Income Tax rate for the City of Reading is 2.1%, and the Administration is preserving the same rate for 2023. The Earned Income Tax share for the Reading School District is 1.5%, and, combined with the City’s rate, City of Reading residents are paying a total of 3.6% for EIT.

For the 2023 budget, the Administration is proposing a revenue increase of \$2.1 million for EIT compared to the 2022 budget. Although the majority of the EIT Prior Year is recorded during the first quarter of the year, and in reviewing the EIT revenue for November and December of 2021, I believe that the budget for the Earning Income Tax could be increased by \$300,000 based on this historical trend.

Account Description	2023 Budget Proposed	2022 Budget	YTD 10/31/22	2021 Budget	YTD 12/31/2021
Earned Income Tax	16,152,000.00	15,512,120.00	13,073,075.12	15,512,120.00	15,265,023.40
EIT Prior Year	6,971,000.00	5,500,000.00	6,624,363.53	4,730,000.00	5,874,084.66
Total	23,123,000.00	21,012,120.00	19,697,438.65	20,242,120.00	21,139,108.06

Business Privilege Tax Revenue

The Administration is proposing a budget of \$1,870,000 for the Business Privilege Tax revenue for 2023. As of 10/31/22, \$1.9 million has been recorded, and I believe that the budgeted revenue amount for this line item is reasonable given the uncertainty of the economy and the impact of the potential recession on businesses.

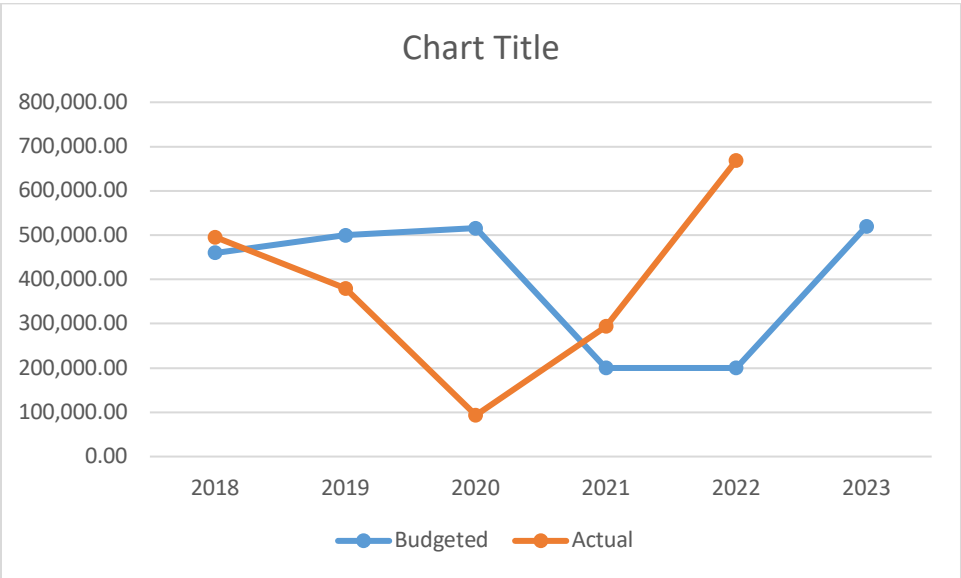
Account Description	2023 Proposed Budget	2022 Budget	YTD 10/31/22	2021 Budget	YTD 12/31/21
Business Privilege Tax	1,790,000.00	1,708,800.00	1,867,784.08	1,385,600.00	1,794,755.39
Business Privilege Tax Prior	80,000.00	80,800.00	55,942.92	80,800.00	81,648.69
Total	1,870,000.00	1,789,600.00	1,923,727.00	1,466,400.00	1,876,404.08

Admission Fees Tax Revenue

As of October 31, 2022, the Admission Fees Tax has recorded revenue of \$668,426.64, which is the highest amount that has been recorded since 2019. For the 2023 budget, the Administration is proposing \$520,000 for this revenue line item. I believe that if this revenue line item continues in the same path for 2023 as it did in 2022, this revenue line item can be increased by an extra \$100,000.

As shown in the tables below, the 2023 proposed budget for Admission Fees Tax Revenue is less than the actual amount that has been recorded as of 10/31/2022.

Admission Fees Tax Revenue	2018	2019	2020	2021	2022	2023
Budgeted	460,000.00	500,000.00	515,500.00	200,000.00	200,000.00	520,000.00
Actual	495,013.50	379,893.26	93,299.16	293,470.66	668,426.64	



General Fund Expenditures

Most of the General Fund expenditures are fixed. The largest expenditures of the General fund are:

- Salaries & Wages, Pension
- Fringe Benefits
- Operating Expenses
- Debt Service

Overtime Pay and CD Contracted Services

In reviewing the 2022 overtime expenditures for the Police and Fire departments listed below, the Administration might want to review these expenditure line items more closely and be more realistic in budgeting for them in 2023.

Departments	2023 Proposed Budget	2022 Budget	YTD 10/31/2022
Police Criminal Investigation Overtime	510,000.00	510,000.00	526,128.55
Special Services/ Overtime Civilian	400,000.00	325,000.00	583,781.38
Police Patrol/Overtime	1,137,300.00	1,137,300.00	1,192,832.50
Police Patrol/PT Wages	327,600.00	138,400.00	39,408.75
Fire Suppression/Overtime	550,890.00	550,890.00	651,803.71
Fire Training/Overtime	12,000.00	10,000.00	16,281.05
CD/Administration/Contracted Services	440,573.00	100,000.00	19,834.74

Other City Fund Budgets

Capital Projects Fund Budget

Before July 1, 2022, the Capital Projects Budget was funded by a 0.3% Non-resident Earned Income Tax rate that was assessed against Non-resident commuter taxpayers and a 0.3% Resident Earned Income Tax rate (from the 2.1% rate) that was assessed against City resident taxpayers. As a result of the exit of Act 47 in July of 2022, the City is no longer collecting the Non-resident Earned Income Tax. This will have a negative impact on the Capital Projects budget in the near future. However, the 0.3% of Resident EIT revenue that was assigned to capital projects will continue to be collected and allocated to the budget for capital projects.

The Capital Projects budget can also benefit from the provisions of the CARES Act (Coronavirus Aid, Relief, and Economic Security Act). The Administration is proposing to use about \$10.1 million of the ARPA Fund in the 2023 budget to facilitate the completion of capital projects.

The proposal is as follows:

- \$2,650,000 to the Public Work Department/Parks
- \$5,406,000 to the Public Works/Public Property
- \$1,260,000 to the Police/Patrol Department
- \$800,000 to the Fire-Suppression Department

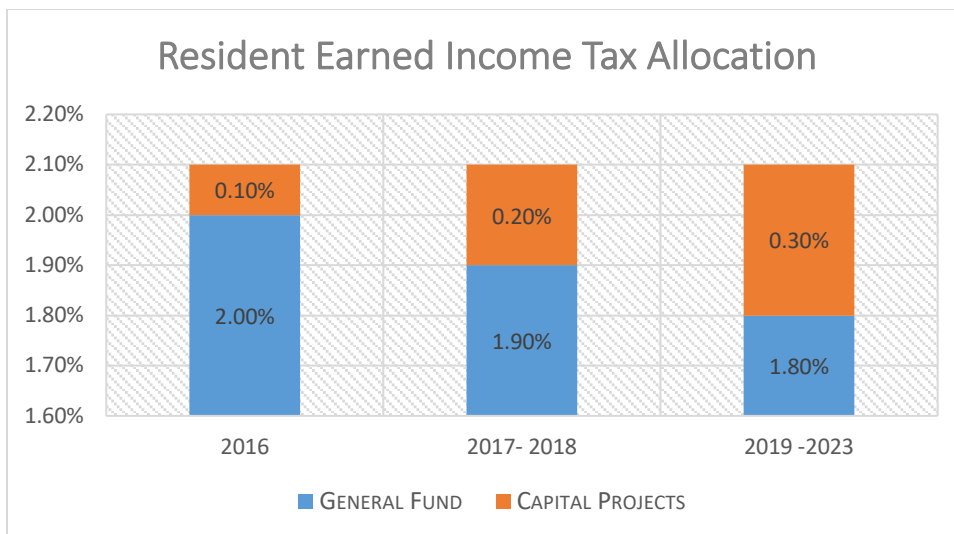
The 2021 draft audit report shows a Capital Projects fund balance of \$10.5 million. However, to avoid stressing the Capital Projects fund budget, the Administration should maximize the allowable amount from the CARES ACT Fund. This adaption will help to alleviate the revenue shortfall from the elimination of the Non-resident EIT.

The chart below shows the proposed EIT revenue for the 2023 Capital Projects budget.

Account Description	2023 Proposed Budget	2022 Budget	YTD 10/31/2022	2021 Budget	YTD 12/31/2021
EIT	2,517,000.00	3,394,756.00	3,752,431.21	4,171,000.00	4,891,852.24
EIT Prior	778,000.00	1,639,000.00	2,165,875.69	989,000.00	1,877,843.28
Total	3,295,000.00	5,033,756.00	5,918,306.90	5,160,000.00	6,769,695.52

The chart below shows the % EIT rate that has increasingly shifted to Capital Projects since 2016. Since 2016, the rate has increased from 0.1% to 0.3%.

Year	Resident - EIT Rate	General Fund	Capital Projects
2021-2023	2.10%	1.80%	0.30%
2019-2020	2.10%	1.80%	0.30%
2017-2018	2.10%	1.90%	0.20%
2016	2.10%	2.00%	0.10%



Shade Tree Fund Budget

Since 2012, Shade Tree has been funded by shifting 0.01103% from the property tax revenue that has been collected. As of December 31, 2021, the Shade Tree Fund ended with a negative balance of \$59,814. Per the 2023 proposed budget, the operating expenses for the Fund are approximately \$363,703, which is \$77,402 more than the \$286,301 in revenue that has been proposed. I recommend that additional revenue be transferred to Shade Tree to prevent a negative Fund balance going forward.

Account Description	2023 Proposed Budget	2022 Budget	YTD 10/31/2022	2021 Budget	YTD 12/31/2021
Discount/Allowance	(4,284.00)	(4,279.00)	(4,313.34)	(4,100.00)	(4,392.08)
Property Tax Current	257,035.00	256,716.00	250,129.17	251,560.00	261,830.84
Property Tax Prior	26,549.00	26,207.00	24,627.77	23,000.00	29,404.39
Penalty and Interest	7,001.00	2,568.00	5,253.45	4,900.00	7,683.37
Total Revenue	286,301.00	281,212.00	275,697.05	275,360.00	294,526.52

Recommendations

Due to the elimination of the Non-resident EIT and the news of a potential recession, the City still faces many fiscal challenges ahead.

In summary, I am making the following non-binding recommendations for the 2023 General Fund budget:

- Earned Income Tax revenue budget could be increased by \$300,000.
- Admission Fees Tax revenue can be increased by \$100,000.
- Overtime expenditures should be budgeted more realistically for the Police and Fire departments.
- Additional revenue be transferred to Shade Tree to prevent a negative Fund balance going forward.
- The \$200,000 that has been proposed for Traffic Code under the Police Administration budget should be removed due to the agreement between the City and the Reading Parking Authority per Resolution No 181-2020, which states, "The Authority shall retain all revenue from parking tickets issued by Police Officers."
- The Administration should have a plan in place to replace the additional \$1.5 million transfer from the Sewer Fund, which has been included in the proposed budget, in case the City doesn't receive a written confirmation from the DOJ.

Closing Statement

As we work towards a final budget, the hope is that the 2023 budget provides a positive impact on the health, safety, and welfare of the residents.

I would like to thank Mayor Moran and his Administration for their work and cooperation during this budget process.

I would also like to thank all Council Members for their dedication, commitment, and effort in reviewing the proposed budget.

Finally, I would like to acknowledge my staff in the Audit office for their commitment in serving the interest of the City of Reading through our work.