

**CITY AUDITOR ANNUAL PROPOSED GENERAL FUND BUDGET  
RECOMMENDATIONS REPORT TO CITY COUNCIL**

November 10, 2020



**In accordance with Article V Sec 503(b) of the City of Reading Home Rule Charter,  
I hereby submit my Non-Binding recommendations to City Council for consideration**

**Maria M. Rodriguez  
READING CITY AUDITOR**

## Executive Summary

This year's 2021 General Fund budget process has had some fresh challenges due to Covid-19 pandemic. As a result of this pandemic, dwindling revenue streams has magnified the already stressed budget. Because of this, my report recommendations and review on the revenue part of the budget will be the main focal point.

Due to the administration's fiscal prudence, the 2021 proposed General Fund budget has \$2,000,000 expenses less than the 2020 budget. As a result, there is a need of \$2,000,000 less in revenue. Even with the expense reductions, the city administration is proposing to increase Property Tax by 10% and use a fund balance transfer of \$2,957,837.00 in order to balance the General Fund Budget as required by state law. My report will provide non-binding recommendations that could result in reducing or eliminating the need for Real Estate Property Tax increase in 2021. **The proposed non-binding recommendations could result in additional savings of \$ 2,141,900.00**

### **RECOMMENDATION # 1**

Background: The 2019 draft audit indicates a fund balance for the Capital Projects Budget of \$15,954,973.00, which include \$1.5 million for Street Paving Fund. Most recent on January 27, 2020, a transfer of \$1.5 million was approved by City Council from the general fund balance to the Street Paving Fund under Capital Projects Funds; and as of October 31, 2020, the Liquid Fuels account has a balance of \$7,428,108.36.

**Recommendation:** The \$1.5 million that was transferred this year to the Street Paving Fund could be reallocated to help reduce the proposed Real Estate Property Tax Increase. The need for the increase in street paving funds could be revisited after the funds from the Liquid Fuels account has been drawn down.

**Fiscal impact: + \$ 1,500,000**

## **RECOMMENDATION #2**

Background: The Reading Water Authority and the Parking Authority are two components of the City finances. Due to the lease agreement with RAWA, the 2020 budget showed a transfer of \$10.7 million and \$850,000.00 from the RPA.

For the last two years, the administration has overestimated the budgeted revenue from the Reading Parking Authority by \$450,000.00, and for 2021 budget, the administration is proposing only \$400,000.00.

**Recommendation:** A multi-year contract with the RPA, so this will allow the administration to accurately budget for this revenue line item.

Fiscal impact: not determined due on going talks with RPA.

## **RECOMMENDATION # 3**

Background: Reviewed and adjusted revenue funds by referring to this year's trending forecast of to date revenue collection.

**Recommendation:** Consider the following revenue changes:

- \$ 240,000 increase to Per Capita Tax Prior,
- \$ 120,000 reduction to Business Privilege Tax Prior,
- \$ 20,000 increase to Business Privilege License,
- \$ 50,000 reduction to Cable Franchise Fees,
- \$ 50,000 increase to Housing Inspection
- \$ 79,000 increase to Health and Safety Inspection
- \$ 42,900.00 increase related to Heart and Lung benefits in the Fire department and prescription reimbursement
- \$200,000 increase to the RPA-Rental if a lease with the RPA is executed before the final budget is approved

**Fiscal impact: total revenue adjustments + \$461,900.**

## **RECOMMENDATION# 4**

Background: The administration is proposing 2.5% wage increase for both management and collective bargaining represented employees.

**Recommendation:** Reducing wage increase to 2% which is identical to 2020 budget. The proposed wage increases should be placed separately in a consistency fund until labor agreements are finalized so the year to date spending forecasting can be more reflective of trending.

**Fiscal impact: reduction in wages +\$180,000**

**TOTAL FISCAL IMPACT RECOMMENDATIONS + \$ 2,141,900.00**

### **Property Tax rate increases in the City of Reading since 2010**

<b>YEAR</b>	<b>2021 Proposed</b>	<b>2020-2017</b>	<b>2016</b>	<b>2015-2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>MILLAGE RATE</b>	19.459	17.689	17.689	15.689	15.689	14.334	14.334	11.945
<b>% CHANGE</b>	10.01%	0%	12.75%	0%	9.45%	0%	20%	0%

**For the 2021 budget, the administration is indicating that a 10% property tax increase will generate an extra \$1,486,441**

### **Property Tax Revenue**

	<b>2021 Proposed Budget</b>	<b>2020 Budget</b>	<b>YTD Revenue 9/30/2020</b>	<b>YTD Revenue Variance</b>	<b>2019 Budget</b>	<b>YTD Revenue 12/31/2019</b>	<b>YTD Revenue Variance</b>
<b>Property Taxes -GF</b>	26,047,441.00	24,561,000.00	21,364,142.12	(3,196,857.88)	24,238,200.00	24,688,714.96	450,514.96
<b>Property Taxes- Library</b>	267,000.00	267,000.00	245,453.69	(21,546.31)	267,000.00	283,340.97	16,340.97
<b>Total Property Taxes</b>	26,314,441.00	24,828,000.00	21,609,595.81	(3,218,404.19)	24,505,200.00	24,972,055.93	466,855.93

## **EARNED INCOME TAX**

The current Earned Income Tax rate for the City of Reading is 2.1% and the administration is keeping the same rate for 2021. The Earned Income Tax share of the Reading School District is 1.5% and is combined with the City rate. Reading residents are paying a total of \$3.60% for EIT

Due to the Covid-19 pandemic, the EIT revenue budget is facing some challenges in 2020. It is expected the fiscal effects of the pandemic will continue in 2021 and under this condition, the administration is proposing to decrease the total Earned Income Tax Current & Prior revenue budget to \$23,256,020.0 in 2021 which is \$5,104,980.00 less than \$28,361,000.00 budgeted in 2020.

## **CAPITAL FUND BUDGET**

The 2021 fiscal year will be the sixth consecutive year that the City has been allocating EIT revenue from both Residents and Non-Residents to fund the Capital Projects Programs under fund #34 with is a part of ACT 47 exit plan. The rate for EIT non-residents is 0.3%. The total amount collected for non-residents plus 0.3% out of 2.1% rate from Residents are allocated to Capital Projects. The percentages are in compliance with Act 47 Plan, listed on page #62 of the plan.

On page #13-footnotes of Act 47 Exit Plan-PFM projected \$23.1 million for 2021, and they stated that “The resident EIT rates include the growing portion shifted to the Capital Project Fund beginning in 2016”. That being said, the administration is proposing \$23,256,020.00 for EIT/EIT Prior revenue budget for 2021. This amount is almost the same amount that PFM has projected which is listed on the Act 47 exit plan report.

**The chart below indicates the % shifted to Capital Projects since 2016 has increased from 0.1% to 0.3%.**

<b>YEAR</b>	<b>General Fund</b>	<b>Capital Projects</b>	<b>Residents - EIT RATE</b>
<b>2016</b>	2.0%	0.1%	2.1%
<b>2017 &amp; 2018</b>	1.9%	0.2%	2.1%
<b>2019 &amp; 2020</b>	1.8%	0.3%	2.1%
<b>2021</b>	1.8%	0.3%	2.1%

The 2019 audit draft is showing a Fund balance for Capital Projects of \$15,954,973.00, and on January 27, 2020, a transfer of \$1.5 million to the Street Paving Fund from the General Fund was approved by City Council.

**GF - Earned Income Tax and Earned Income Tax Prior**

	<b>2021 Budget</b>	<b>2020 Budget</b>	<b>YTD 09/30/2020</b>	<b>Variance</b>	<b>2019 Budget</b>	<b>YTD 12/31/2019</b>	<b>YTD Variance</b>
<b>Earned Income Tax</b>	13,826,020.00	16,861,000.00	9,450,218.41	(7,410,781.59)	16,500,000.00	15,279,791.10	(1,220,208.90)
<b>EIT Prior</b>	4,510,000.00	5,500,000.00	5,943,902.67	443,902.67	5,500,000.00	6,469,594.80	969,594.80
<b>Total</b>	<b>18,336,020.00</b>	<b>22,361,000.00</b>	<b>15,394,121.08</b>	<b>(6,966,878.92)</b>	<b>22,000,000.00</b>	<b>21,749,385.90</b>	<b>(250,614.10)</b>

**Capital Project –Earned income Tax and Earned Income Tax Prior**

	<b>2021 Budget</b>	<b>2020 Budget</b>	<b>YTD 09/30/2020</b>	<b>YTD Variance</b>	<b>2019 Budget</b>	<b>YTD 12/31/2019</b>	<b>YTD Variance</b>
<b>Earned Income Tax</b>	3,977,000.00	4,850,000.00	3,050,787.40	(1,799,212.60)	4,850,000.00	4,947,193.20	97,193.20
<b>EIT Prior</b>	943,000.00	1,150,000.00	1,842,544.52	692,544.52	1,150,000.00	1,203,643.67	53,643.67
<b>Total</b>	<b>4,920,000.00</b>	<b>6,000,000.00</b>	<b>4,893,331.92</b>	<b>(1,106,668.08)</b>	<b>6,000,000.00</b>	<b>6,150,836.87</b>	<b>150,836.87</b>

	<b>2021 Proposed Budget</b>	<b>2020 Budget</b>	<b>YTD- 09/30/2020</b>	<b>YTD Variance</b>	<b>2019 Budget</b>	<b>YTD 12/31/2019</b>	<b>YTD Variance</b>
<b>EIT TOTAL</b>	<b>23,256,020.00</b>	<b>28,361,000.00</b>	<b>20,287,453.00</b>	<b>(8,073,547.00)</b>	<b>28,000,000.00</b>	<b>27,900,222.77</b>	<b>99,777.23</b>



<b>Per Capita Tax Prior</b>	60,000.00	60,000.00	209,493.27	149,493.27	30,000.00	273,192.77	243,192.77
<b>Bus Priv Tax - Prior Year</b>	200,000.00	213,150.00	45,462.81	(167,687.19)	210,000.00	100,805.29	(109,194.71)
<b>Business Privilege License</b>	280,000.00	280,000.00	252,799.90	(27,200.10)	280,000.00	309,476.91	29,476.92

On my last report to Council dated October 26, 2020, I mentioned that the **Cable Franchise Fees** revenue most likely is not meeting its budget expectations in 2020, and this revenue could be under budget by about \$52,000.00, in 2020. Due to a decrease in revenue in the last two years, it will be more realistic not to budget more than \$825,000.00 in 2021.

<b>Account Description</b>	<b>2021 Proposed Budget</b>	<b>2020 budget</b>	<b>YTD - 9/30/2020</b>	<b>Variance</b>	<b>2019 budget</b>	<b>12/31/2019</b>	<b>Variance</b>
<b>FRANCHISE FEES</b>	875,000.00	875,000.00	617,817.84	(257,182.16)	875,000.00	823,620.71	(51,379.29)

**The User Fees** is the revenue collected for the services provided by the Reading Fire Department/EMS. Most of the 2019 revenue was expected to be received in 2020, which explains why about \$1.4 million of the revenue collected in 2020 was accrued to 2019.

Due to the Pandemic, the revenue for the **User Fees** is going to be lower than expected and \$3,000,000.00 will not be collected in 2020. However, staff from the Fire department has been in communication with the company who collects this revenue and they feel optimistic that 3 million will be collected in 2021.

### User Fees

<b>Account Description</b>	<b>2021 Proposed Budget</b>	<b>2020 Budget</b>	<b>YTD 9/30/2020</b>	<b>Variance</b>	<b>2019 budget</b>	<b>YTD 12/31/2019</b>	<b>Variance</b>
<b>USER FEES</b>	3,000,000.00	3,156,000.00	1,644,296.68	(1,511,703.32)	3,095,000.00	3,333,157.10	238,157.10

**The Property Maintenance Department** has a couple revenue line items that we should be looking into it. This year inspections were not done for four months due to the Pandemic. This explains why revenue is lower than expected and perhaps the administration could collect some of this year revenue next year.



## Property Maintenance Revenue Accounts

Account Description	2021 Proposed Budget	2020 budget	YTD - 9/30/2020	Variance	2019 budget	12/31/2019	Variance
<b>Housing Inspection- Current</b>	380,000.00	400,000.00	95,415.00	(304,585.00)	403,000.00	399,900.97	(3,099.03)
<b>Housing Inspection - Prior</b>	200,000.00	203,000.00	173,925.34	(29,074.66)	200,000.00	259,041.83	59,041.83
<b>Health &amp; safety Inspection</b>	71,000.00	71,000.00	(12,225.00)	(83,225.00)	71,000.00	109,569.57	38,569.57

The Reading Water Authority and the Parking Authority are two components of the City finances. Due to the lease agreement that RAWA has with the City, the 2020 budget showed a transfer of \$10.4 million and \$850,000.00 from the RPA.

For the last two years, the administration has overstated the budgeted revenue from the Reading Parking Authority by \$450,000.00, and for 2021 budget, the administration is proposing only \$400,000.00 in revenue. I believe that a multi-year contract should be in place with the RPA, stating how much the RPA will pay annually, so this will allow the administration to be more accurate in budgeting for this revenue line item. I am confident that if the contract with the RPA is executed soon, this will allow the administration to increase the revenue budget for this line item.

## Parking Authority

Account Description	2021 Proposed Budget	2020 budget	YTD - 9/30/2020	Variance	2019 budget	12/31/2019	Variance
Rental - Parking Authority	400,000.00	850,000.00	400,000.00	(450,000.00)	850,000.00	400,000.00	(450,000.00)

Other line items that could bring possible more revenue are the **Heart and Lung/Fire Reimbursement and Prescription Drug Reimbursement.**

In 2019, the City received \$213,883.14 from Self Insurance to pay for **Heart and Lung/Fire Reimbursement**. Also in 2019, \$511,102.66 was received for **Prescription Drug-Reimbursement**. That being said, the revenue for Heart & Lung could be increased to \$125,000 and \$480,000 for Prescription Drug Reimbursement.

**Heart and Lung/Fire Reimbursement and Prescription Drug Reimbursement**

Account Description	2021 Proposed Budget	2020 budget	YTD - 9/30/2020	Variance	2019 budget	12/31/2019	Variance
<b>Heart and Lung Fire/Reimb</b>	102,200.00	102,200.00	118,629.54	16,429.54	100,000.00	213,883.14	113,883.14
<b>Prescription Drug Reimbursement</b>	459,900.00	459,900.00	393,456.00	(66,444.00)	450,000.00	511,102.66	61,102.66

**In summary, I am asking the administration to consider the following revenue changes: a \$ 240,000 increase to Per Capital Tax Prior, a \$ 120,000 reduction to Business Privilege Tax Prior, a \$ 20,000 increase to Business Privilege License, a \$ 50,000 reduction to Cable Franchise Fees, a \$ 50,000 increase to Housing Inspection – Prior, a \$ 79,000 increase to Health and Safety Inspection, a combined \$ 42,900.00 increase related to benefits; and a \$200,000 increase to the RPA-Rental if the agreement with the RPA is executed before the final budget is approved Overall, the increase to revenues would be \$461,900.**

**Expenses**

Most of the General Fund expenditures are fixed. The highest expenses of the General fund are: Salaries & Wages, Pension, Fringe Benefits, operating expenses, and debt service.

**The positions ordinance is listing two new full time positions and four (4) part time:**

1. Recycling/Trash - Sustainability Coordinator -\$51, 956.00
2. City Clean Coordinator - \$60,000.00
3. Sewer-Retail/ GIS System Analyst (3) part time positions at \$36,400 totaling \$109,200.00 a year
4. Sewer-Retail/Part time -Laborer - \$21,840.00

I would like to thank you Mayor Eddie Moran, Managing Director, Abraham Amoros, Finance Director, Jamar Jelly and his staff, all department directors, division managers and staff; and City Councilmembers for their dedication, and commitment to have a balance budget for 2021.

Although we still facing many fiscal challenges, even with the Pandemic and the exit of Act 47, let's hope that the decisions taken via this budget process will not negatively impact the health, safety and welfare of our citizens, business people and employees.