



CITY COUNCIL

Committee of the Whole

Monday, November 27, 2023

Hybrid Meeting

Agenda

The City Council Committee of the Whole meetings are filmed and can be viewed LIVE while the meeting is taking place via the attached Zoom link and dial-in phone number, on Facebook and on BCTV MAC Channel 99.

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I. Auditor's Budget Recommendations

5:00-5:30 pm

II. Agenda Review

III. Adjourn



In accordance with Article V Sec 503 of the City of Reading Home Rule Charter, I have reviewed the 2024 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 27, 2023

2024 General Fund Budget

For the 2024 fiscal year, the Administration originally proposed a General Fund balanced budget of \$109.3 million on or around October 5, 2023, with no property tax increase. This budget amount has increased to \$111.3 million, which will require a transfer of \$5.3 million from the General Fund unassigned balance to cover the anticipated increases in payroll and other operating expenses. In comparison to the 2023 Budget, the 2024 General Fund budget is showing an increase of approximately \$7.3 million. There will be an

increase in outlay for financial software licensing, and other increases because of union labor negotiations, plus the proposed raises for management employees. The percentage increases for salary are as follows:

- Police 5%
- Fire 5%
- ASFME 4%
- Management 3.5%

According to the budget presentation, the police department is proposing a couple of changes within the department by adding the following positions that will cost the City about \$700,000 more with no benefits cost included.

- One (1) Officer and one (1) Lieutenant to the Special Services Division.
- Three (3) Investigators and one (1) Officer position to the Investigations Division
- Two (2) full-time Police Social worker positions in the Adm Division
- One (1) full-time IT Specialist position in the Special Services Division.

Currently, the police department has seventeen vacant positions, including thirteen (13) Police Officers. However, they expect to hire seven or eight officers next year and the Patrol Division department will be operating at full capacity with 119 Police officers. In general, the police department will consist of 175 employees. Please see the vacant positions listed below.

- 1 - chief
- 1 - Lieutenant
- 1- Sergeant
- 1 - Investigator
- 13 - Officers

TRANSFER TO THE GENERAL FUND

Components Unit of the City's Finances

The Reading Area Water Authority (RAWA), the Reading Parking Authority (RPA), and the Reading Redevelopment Authority are three component units that are part of the City's financial statements reporting entity. As a result of the 2023 lease arrangement that exists between RAWA and the City, the 2024 proposed budget reflects a transfer of \$10,498,149. In addition, the City will receive about \$1.7 million from the Reading Parking Authority (RPA) in accordance with the terms of the agreement between the City and the RPA.

Other Transfers

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 for the current year 2023 budget, the Department of Justice (DOJ) gave verbal permission for the City to transfer \$4.5 million instead; which was an increase of \$1.5 million above the previous \$3 million. However, as of today, the City has not received written confirmation from

the DOJ and the administration decided to transfer just three (3) million which will cause a revenue shortfall to the 2023 general fund budget.

The 2024 budget also proposes a transfer of \$4.5 million. To avoid the same situation of 2023 with this budget transfer, if 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 2024 General Fund budget, or only \$3 million should be budgeted.

As a result of the sewer and RAWA transfers throughout the years, these additional sources of revenue were significant for the City to exit Act 47 in 2022. The chart below shows that expenditures have exceeded revenues for the last three consecutive years with the highest revenue shortfall in 2020 due to the pandemic. As recommended by the outside consulting firm, Zelenkofske Axelrod LLC (ZA) for the ARPA Fund; up to \$12.3 million can be transferred to the General Fund from the ARPA fund due to the loss of revenue in 2020.

	2022-Actual	2021 Actual	2020 Actual
Total Revenues	89,679,994.00	83,874,162.00	76,065,178.00
Total Expenditures	95,967,091.00	90,787,840.00	88,397,989.00
Difference	(6,287,097.00)	(6,913,678.00)	(12,332,811.00)

Due to the revenue collected from Real Estate Transfer Tax, Earned Income Tax, Property Taxes, the transfers, and the unfilled vacant positions, the 2022 audit draft shows that the City General Fund ended with a surplus of \$6,897,848 from operations. The General Fund ended with a Balance of approximately \$48.2 million, of which \$25.4 million is unassigned. Although the City General Fund balance is financially well-positioned, the current high inflation that we are experiencing could affect the City’s finances, and a transfer from the ARPA fund to the City’s General Fund would benefit it in the long run.

GENERAL REVENUE FUND ANALYSIS

Property Tax Revenue

The 2024 proposed budget for Property Tax is approximately \$25.2 million, which shows a decrease of \$530,065 when compared to the 2023 budget. Due to the low turnout to tax claims property, the administration is budgeting less for Property Tax Prior in 2024. In 2022, about \$26.3 million was collected in revenue for Property Tax, therefore, there was a surplus of \$681,195, and Property Taxes generated about a quarter of the City’s general fund revenue during that year.

As of 10/31/2023, the City has recorded approximately \$24.0 million, or 95% of the total budgeted amount, for Property Tax, and the City is on track to meet this year's target.

Account Description	2024 Proposed Budget	2023 Final Budget	YTD 10/31/2023	2022 Final Budget	YTD 12/31/22 Revenue
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Discount & Allowance	(384,597.00)	(384,031.00)	(390,084.04)	(383,557.00)	(386,740.93)
Property Tax Current	23,177,728.00	23,041,829.00	22,200,239.66	23,013,390.00	23,684,513.84
Property Tax Prior	1,724,892.00	2,379,966.00	1,661,343.18	2,349,282.00	2,442,733.62
Penalty & Interest	724,363.00	734,687.00	518,585.91	652,568.00	572,371.76
Total Revenue	25,242,386.00	25,772,451.00	23,990,084.71	25,631,683.00	26,312,878.29

Property Tax rate increases in the City of Reading since 2014.

The table below demonstrates that the last millage increase occurred in 2021 and it has remained at 18.129. In 2021 the administration proposed to increase Real Estate Tax by 10%. However, the administration and City Council opted to take the nonbinding recommendation made by the City Auditor, and the Real Estate Tax rate was only increased by 2.49%.

Year	2024 Proposed	2023	2022	2021	2020-2017	2016	2015-2014
Millage Rate	18.129	18.129	18.129	18.129	17.689	17.689	15.689
% Change	0%	0%	0%	2.49%	0%	12.75%	0%

Earned Income Tax (EIT)

The current Earned Income Tax rate for the City of Reading is 2.1%, and the Administration is preserving the same rate for 2024. Out of the 2.1%, 1.8% is assigned to the General Fund, and 0.3% is allocated to the Capital Projects Fund. The Earned Income Tax share for the Reading School District is 1.5%, and combined with the City’s rate, the City of Reading residents are paying a total of 3.60% for EIT.

For the 2024 budget, the Administration is proposing a revenue increase of about \$2.6 million for EIT when compared to the 2023 budget. Although the majority of the EIT Prior Year revenue is recorded during the first quarter of the year, and based on this historical trend, I believe that the 2024 proposed budget of \$26 million is reasonable.

Account Description	2024 Proposed Budget	2023 Budget	YTD as of 10/31/2023	2022 Budget	YTD 12/31/22
Earned Income Tax	18,578,300.00	16,452,000.00	14,660,552.11	15,512,120.00	18,009,845.88
EIT Prior Year	7,486,600.00	6,971,000.00	7,708,034.53	5,500,000.00	6,782,788.57
Total	26,064,900.00	23,423,000.00	22,368,586.64	21,012,120.00	24,792,634.45

Real Estate Transfer Tax

The Real Estate Transfer Tax rate is 3.5% on the value of real estate transferred transactions for the year 2024, the administration is proposing a budget of \$6.2 million. This budget has an increase of \$200,000 when compared to the 2023 budget. However, in 2022 and 2021, \$8.9 and 8.7 million respectively were recorded for Real Estate Transfer Tax. The highest collection was in 2022 when this line item ended with a

surplus of about \$3.4 million. For the year 2023, \$6 million was budgeted, and as of October 31, 2023, \$6,732,593.78 has been recorded.

Even though the administration has been conservative in budgeting for this revenue line item, which is a good thing to do, the revenue collected for the Real Estate Transfer Tax is significant to balance the City General Fund budget. Although it seems that less revenue will be collected in 2023 compared to the revenue collected in 2022, the 2024 proposed budget of \$6.2 million seems reasonable. The City’s real estate market is still relatively strong, but inflation, inventory, and higher interest rates could affect the revenue collection for the Real Estate Transfer Tax in coming years.

Account Description	2024 Proposed Budget	2023 Budget	YTD as of 10/31/2023	2022 Budget	YTD 2022	YTD 2021
Real Estate Transfer Tax	6,200,000.00	6,000,000.00	6,732,593.78	5,500,000.00	8,917,892.00	8,792,036.00

Business Privilege Tax Revenue

The Administration is proposing a budget of \$2,161,000 for Business Privilege Tax revenue for 2024 which has an increase of \$291,000 when compared to the 2023 budget. As of 10/31/23, about \$2 million has been recorded, and it seems that the budgeted revenue amount for this line item is realistic due to the high collection in 2022 and so far for this current year, 2023.

Account Description	2024 Proposed Budget	2023 Budget	YTD 10/31/2023	2022 Budget	YTD 12/31/22
Business Privilege Tax	2,100,000.00	1,790,000.00	2,021,742.13	1,708,800.00	2,054,433.00
Business Privilege Tax Prior	61,000.00	80,000.00	53,373.50	80,800.00	63,497.00
Total	2,161,000.00	1,870,000.00	2,075,115.71	1,789,600.00	2,117,930.00

Admission Fees Tax Revenue

As of October 31, 2023, the Admission Fee Tax has recorded \$873,828.73 in revenue, which is the highest amount that has been recorded in years. For the 2024 budget, the administration proposes \$700,000 for this revenue line item. If this revenue line item continues the same trend as it has in 2023, this revenue line item can be increased by an additional \$100,000 in 2024. As shown in the tables below, the 2024 proposed revenue budget is less than the actual as of 10/31/2023.

Account Description	2024 Budget Proposed	2023 Budget	YTD 10/31/2023	2022 Budget	YTD 12/31/22
Admission Fees Tax	700,000.00	650,000.00	873,828.73	200,000.00	831,648.00

Revenue Under Police Department

The revenue collected for the MDJ is recorded under the police department. The chart below illustrates that \$342,950 has been budgeted for the last consecutive three years, including the budget for the year 2024. Due to the low revenue collected in 2022, and \$123,043.04 collected as of October 31, 2023, I would recommend not to budget more than \$200,000 for this revenue line item in 2024.

Account Description	2024 Budget Proposed	2023 Budget	YTD 10/31/2023	2022 Budget	YTD 12/31/22
Magisterial District Court	342,950.00	342,950.00	123,043.04	342,950.00	186,264.00

Capital Projects Fund

Before July 1, 2022, the Capital Projects 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 of July 2022, pursuant to the exit of Act 47, the City of Reading no longer collects a 0.3% Non-resident EIT. As a result, no revenue was recorded for the last six months of 2022 from Non-resident EIT Tax.
- Nevertheless, the 0.3% rate assessed against Resident EIT will continue to be allocated to the Capital Projects budget. For the 2024 budget, the administration is proposing that the proceeds of \$500,000 received from the Birdsboro Power Plant be directly transferred to the Capital Projects Fund budget to avoid a negative impact due to the elimination of the non-resident EIT collection.
- In addition, the administration is proposing a fund transfer of \$7,181,502.00 to cover the 2024 expenditures for Capital Projects.

Even though the 2022 draft audit shows a Capital Projects fund balance of \$14.3 million, to avoid stressing this fund balance, the administration should maximize the allowable amount from the ARPA Fund assigned to Capital Projects. This adaption will help to alleviate the revenue shortfall as the 2024 Capital Projects proposes about \$12 million in expenditures as listed below.

- \$500,000 to Admin Services IT
- \$200,000 to Shade Tree
- \$850,000 to PW Streets
- \$2,057,395 to PW Parks
- \$4,050,000 to PW Properties
- \$2,351,607 to the Police Department
- \$1,281,000 to the Fire Department
- \$40,000 to Trades & PMI/CD
- \$750,0000 to Public Works Adm

The chart below shows the EIT budget vs revenue assigned to Capital Projects

Account Description	2024 Proposed Budget	2023 Budget	YTD 10/31/2023	2022 Budget	YTD 12/31/2022
EIT	3,054,700.00	2,517,000.00	2,498,927.50	3,394,756.00	4,651,725.72
EIT Prior	1,247,800.00	778,000.00	1,501,102.88	1,639,000.00	2,228,880.98
Total	4,302,500.00	3,295,000.00	4,000,030.38	5,033,756.00	6,880,606.70

The chart below shows the % EIT rate that has been shifted to Capital Projects since 2016. Since 2016, the rate of shift 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%

General Fund Expenditures

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

- Salaries/Wages and Pension
- Fringe Benefits
- Operating Expenses
- Debt Service

Overtime Pay

In reviewing the overtime for the departments of police and fire, I recommend that the Administration looks closely at the overtime expenditures for these departments. As of 10/31/23, Fire-EMS has exceeded its overtime budget by \$483,719.47, and only \$628,000 is proposed in the 2024 budget.

DEPARTMENT	2024 Proposed Budget	2023 Budget	YTD 10/31/2023	Variance
Police Criminal Investigation Overtime	600,000.00	510,000.00	599,757.15	(89,757.15)
Special Services/ Overtime Civilian	520,000.00	400,000.00	614,722.51	(214,722.51)
Fire Prevention Education	45,000.00	45,000.00	70,736.13	(25,736.13)
Fire Suppression/Overtime	750,000.00	750,000.00	796,147.79	(46,147.79)
Fire Suppression/Longevity	146,870.00	105,775.00	176,238.15	(70,463.15)
Fire-EMS	628,000.00	628,440.00	1,112,159.47	(483,719.47)

OTHER FUNDS BUDGET

OTHER FUNDS	2024 Proposed Budget
20-Shade Tree	357,439.00
35-Liquid Fuels Fund	2,506,698.00
42-Street Paving Fund	1,086,315.00
43-City Facility Construction - Fire	650,000.00
43-City facility Construction - CD	400,000.00
Self-Insurance	4,114,160.38

- For the Shade Tree fund, the administration is proposing a 2024 budget of \$357,439. The 2022 draft audit shows that this fund ended with a negative balance of \$118,978. To prevent this fund from continuing with a negative balance, the administration is proposing to transfer \$250,000 out of the General Fund balance in 2024.
- The proposed budget for the Liquid Fuels Fund is about \$2.5 million in 2024. According to the 2022 draft audit, this fund ended with a fund balance of about \$4 million. The 2023 allocation for this fund has not been received, and as of November 17, 2023, this fund has a cash balance of \$409,095.84. Therefore, for future paving projects, this fund needs to be revisited.
- When the 2024 budget for the Street Paving Fund was originally submitted on or around 9/30/23, no expenditures were recorded in this fund, but now \$413,685 has been expended in 2023 which will be paid out of this fund. Therefore, this budget expenditure has been revised down to \$1,086,315 plus \$1.5 million for 2024 street paving.
- For the City Facility Constructions fund, the administration is proposing expenditures of \$1,050,000 for the 2024 budget. Most of the work at the Fire Station on 9th and Marion is near completion, and per my conversation with the Capital Project Manager, about 70% of 2023 projects will be completed by the end of this year.
- Due to an increase in the calculation of the 2024 Minimum Municipal Obligation (MMO), the administration is proposing a transfer of \$600,000 to this fund from the General Fund.
- For the 2024 Self-Insurance Fund, the administration is proposing a budget of about \$4.1 million, which includes a transfer of \$2.9 million from the General fund to ensure that this fund has budgeted enough to cover the 2024 expenditures.

Recommendation

Due to the elimination of the Non-resident EIT and the current recession, the city of Reading still faces many fiscal challenges ahead.

In summary, I am making the following non-binding recommendations for the 2024 General Fund budget:

- Admission Fees Tax revenue line item can be increased by an additional \$100,000.
- Due to the high increase in Overtime Pay expenditures, an increase should be budgeted to decrease the negative variance in overtime, especially in the Fire-EMS department.
- Decrease the revenue of the line item of the Magisterial District Court by \$143,000.
- If at the end of 2024, there are still some ARPA funds that have not been committed, either the Capital Projects Fund or the General Fund balance due to the loss of revenue in 2020 could benefit from it.
- A transfer of \$4.5 million has been budgeted to the General Fund from the Sewer Fund. But if 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 2024 General Fund budget.

Closing Statement

As we work towards a final budget, the hope is that the 2024 budget will provide 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 knowledge my staff in the Audit office, Maria Zabala for her commitment to serving the interest of the City of Reading through our work.