

THE CHARTER BOARD OF THE CITY OF READING

IN RE: Investigation of : Complaint Filed: November 10, 2009
Ryan Hottenstein :
: :
: :
: Investigation No. 26

FINAL OPINION AND ORDER

I. FINDINGS OF FACT

1. On or about November 10, 2009, Ernest H. Schlegel, Jr. a resident of the City of Reading filed a Charter Board complaint alleging that Ryan P. Hottenstein (“Hottenstein”), in his capacity as the Managing Director of the City of Reading, violated the City of Reading’s Charter (“Charter”) in the following respects:

- a. failing to submit a five (5) year financial plan in violation of Charter § 406(4);
- b. placing Information Technology Director Henry Tangredi on administrative leave with pay in violation of Charter § 406;
- c. failing to list Chris Kanezo, a full-time budget analyst, on a Full-Time Position Ordinance in violation of Charter § 406; and
- d. failing to enforce department head residency requirements in violation of Charter § 406.

2. Thereafter, the Investigative Officer undertook an investigation of the allegations of the complaint and issued a Findings Report which he served on March 10, 2010.

3. The Findings Report concluded that:

- a. Hottenstein did not provide a five year financial plan to the Mayor in accordance with Charter § 406(4);¹
- b. Hottenstein’s placement of Mr. Tangredi on administrative leave did not necessarily violate any particular provision of the Charter;

¹ The citations herein to the specific subsections of the Charter will differ from those cited by the Investigative Officer in that the Board cites to a certified copy of the Charter.

- c. Hottenstein did not list the position of Budget Analyst as required by Charter §§ 406 and 904 or Administrative Code § 1-122(1)(J), nor was Mr. Kanezo identified as occupying that position;
- d. Hottenstein did not fail to enforce the Charter's residency requirement as required by Charter § 406(1).

4. The Investigative Officer's Findings Report at p. 9, ¶ 40, concluded that Hottenstein violated Charter §§ 406 and 904² only with respect to "a." and "c." above.

5. Hottenstein, through counsel, requested an evidentiary hearing.

6. Thereafter, Hottenstein, his counsel, and the Investigative Officer executed a Stipulated Administrative Settlement ("Stipulation") wherein the parties agreed:

"First, the Findings Report submitted by the IO [Investigative Officer] dated March 10, 2010 are accepted, acknowledged and not disputed by Hottenstein.

Second, the Parties agree that the penalty of admonition as provided by Section V(B)(2)(ii)(a) of the Charter Board Ordinance is an appropriate and accepted penalty, and is recommended to the Board by the Parties.

Third, the Parties agree and do not object to the Charter Board issuing a Final Opinion and Order adopting the Findings Report submitted by the IO, the penalty recommended by the Parties, and addressing any Charter related conclusions regarding analysis and interpretation of the Charter of the City of Reading.

Fourth, the Parties agree that the evidentiary hearing requested by Hottenstein and scheduled for May 11, 2010 is unnecessary."

See Stipulated Administrative Settlement at ¶ 2, attached hereto as Appendix "1."

7. The Charter Board approved the Stipulation on May 18, 2010. *See* Appendix "1."

8. In accordance with the Stipulation, the Charter Board adopts and incorporates herein the Findings Report served March 10, 2010 by the Investigative Officer.

² The Investigative Officer cites to Charter § 905, however, the Board believes the citation should have been to § 904, as § 905 is out of context in this instance.

II. CONCLUSIONS OF LAW

A. Questions Presented

1. Should the five year financial plan which is required to be submitted to the Mayor on an annual basis by the Managing Director pursuant to Charter § 406(4) be in the form of a substantive, comprehensive and formal document, and available to the public?

2. Does the Charter and Administrative Code mandate that the City of Reading's personnel structure be formally documented, accounted for, and clearly identified by the Managing Director?

The Charter Board answers both of these questions affirmatively.

B. Discussion

By adopting the Charter, City residents required professional management of local government hallmarked in part by proactive fiscal vision and transparent fiscal discourse. These were not merely vague hopes, but rather implemented by specific Charter sections mandating specific high standards of Administrative conduct. In one of these sections, Charter § 406(4), the Managing Director is required to "prepare and submit to the Mayor on an annual basis a five year financial plan and budget."

In ascertaining the content of the phrase "a five year financial plan," the Board must of course look to the intent of the authors of the Charter. 1 Pa. C.S. § 1921. In light of the Charter's many other mandates for professional institutions and management practices, it is inconceivable that the authors intended the five year financial plan to be anything other than a comprehensive, substantive and formal document, that would provide realistic guidance in the City's financial decision making. Moreover, a high level of detail is required of the Mayor's

Budget Message by Charter § 903, and we see no reason why these same characteristics were not intended to apply to the five year financial plan as well. *See* Charter § 903.

The Board, holds, therefore, that the five year plan must include, at a minimum, the following level of detail:

- a. A projection and explanation of expenditures and revenue streams, including anticipated changes within the coming five year period;
- b. A discussion of proposed programmatic changes including new, expanded, or abolished services;
- c. A projection and explanation of the City's debt position projected over the coming five years;
- d. A summary of assets and holdings of the City; and
- e. Such other material that will inform the administration, City Council, and the public of the comprehensive fiscal position of the City for the coming five years.

The Board notes that the Act 47 Executive Summary, prepared by Public Financial Management and filed with the City Clerk on May 28, 2010, provides an example of such a forecast in a clear and concise format. *Municipalities Financial Recovery Act Recovery Plan*, Filed May 28, 2010, pp. 1-8.

Furthermore, although Charter § 406(4) states the five year financial plan is submitted directly to the Mayor, the contents of the plan certainly are public records and must be available to the citizens of the City. The Charter upholds each citizen's right to understand the fiscal position of the City in conjunction with its municipal goals – both present and future. Charter §§ 903 and 905 underscore the public nature of the Mayor's budget message and the citizens' right to participate in the budgetary process. Since understanding the issues presented in the five year financial plan is essential to the budgetary process, it is implicit that the five year plan be a public document available to all citizens.

Also inherent within the Charter is the transparent accountability of the City's executive branch regarding personnel structure and expenditures. The executive branch, including the Managing Director, is accountable to City Council in as much as they are not at liberty to create positions outside of the approved personnel plan. The Board notes the current difficulty in determining the exact nature of the City's personnel structure, including the current number of personnel, as recently expressed during the Act 47 due diligence process. This untenable situation bespeaks the necessity of mutual transparency and accountability between the executive and legislative branches of the City's government, and illustrates the fiscal mischief which results from non-compliance to these important principles. It is an integrated process wherein personnel is a budgeted item that must accurately be accounted for under Charter §§ 406, 903 and 904 and the Administrative Code §§ 1-222 (1)(J) and 1-186 (9)(c)(2)(d).

C. Conclusions of Law

1. The Charter requires the Managing Director to issue on an annual basis a five year financial plan and budget, which, relative to the five year financial plan, must include all information traditionally found in a document projecting financial information for intermediate and short term municipal planning, such as that found in the Act 47 Executive Summary, attached hereto as Appendix "2,"³ and as outlined herein. Furthermore, this five year financial plan must be a public document, available to all citizens.

2. All positions in City government must be listed on the Annual Position Ordinance. The Administration may not create any employment position without Council approval via inclusion in the Annual Position Ordinance.

³ The Act 47 Executive Summary Constitutes the first 8 pages of the *Municipalities Financial Recovery Act Recovery Plan*. The entire *Recovery Plan* is not attached as part of Appendix "2."

III. DETERMINATION OF THE BOARD

In accordance with the Findings Report and the Stipulated Administrative Settlement, the Board determines that Hottenstein did violate Charter § 406(4) and § 904(d).

IV. PENALTIES IMPOSED

A. Admonition. As a consequence of Hottenstein's violation of the Charter and upon agreement of the parties as stated in the Stipulated Administrative Settlement, the Board imposes the penalty of admonition in accordance with Section V(B)(2)(ii)(a) of the Charter Board Ordinance.

B. Considerations of the Board

Although the parties stipulated to the penalty of admonition, *see* Stipulated Administrative Settlement at Appendix "1," the Board did consider each of the factors set forth in Section V(B)(2)(a)(i) of the Charter Board Ordinance in accepting the parties' recommendation and agreement regarding the penalty imposed herein. The Charter provisions at issue do not provide significant guidance on the detail and content needed for a five year financial plan, or the manner of presentation; nevertheless, if Hottenstein attempted to comply with the Charter, and it is not clear that he did, his attempts were insufficient, even considering the lack of detail in the Charter. Regarding the listing of City employees, although the Administrative Code is clear that a Position Ordinance is required annually and the Charter places it in conjunction with budget preparation, both are silent on the timing of listing each employee on the roll of employees. Finally, Hottenstein's violations, in the Board's opinion, were likely not the result of deliberate acts meant to violate the Charter.

Admonition is an appropriate penalty.

V. ORDER

The Charter Board enters the Order attached hereto as Exhibit "A."

CITY OF READING CHARTER BOARD

By: *Susan J. Gibson*
Susan Gibson, Chair

Date: *June 18, 2010*.

THE CHARTER BOARD OF THE CITY OF READING

IN RE: Investigation of : Complaint Filed: November 10, 2009
Ryan Hottenstein :
: Investigation No. 26

ORDER

AND NOW, this 18th day of June, 2010, upon the Stipulated Administrative Settlement entered into by the Parties, and approved by the Charter Board of the City of Reading on May 18, 2010, and after considering the Findings Report issued by Investigative Officer David K. Brennan, Esquire, served March 10, 2010, the Board finds that Ryan P. Hottenstein, as Managing Director of the City of Reading, did violate Charter § 406(4) and § 904(d), as more fully set forth in the Board's Final Opinion and Order entered in this matter. In accordance with the Final Opinion and Order and the Stipulated Administrative Settlement, the following is **ORDERED**:

A. Mr. Hottenstein shall be admonished in accordance with Section V(B)(2)(ii)(a) of the Charter Board Ordinance; and

B. Copies of the Charter Board's Final Opinion shall be transmitted to the following:

1. Mr. Ryan P. Hottenstein
2. Charles D. Younger, Esquire
3. David K. Brennan, Esquire, Investigative Officer
4. Complainant, Ernest H. Schlegel, Jr.
5. Honorable Thomas McMahon, Mayor of the City of Reading

CITY OF READING CHARTER BOARD

By: Susan J. Gibson
Susan Gibson, Chair

Exhibit "A"

THE CHARTER BOARD OF THE CITY OF READING

IN RE: Investigation of
Ryan Hottenstein

Complaint Filed: November 10, 2009

Investigation No. 26

STIPULATED ADMINISTRATIVE SETTLEMENT

Upon the stipulation and agreement of the Investigative Officer of the Charter Board of the City of Reading ("IO") and Ryan Hottenstein ("Hottenstein"), through his counsel, Charles D. Younger, Esquire, (collectively "the Parties"), the Parties submit the following to the Charter Board of the City of Reading and enter into this Stipulated Administrative Settlement ("Stipulation"):

1. The Parties have conferred in preparation of the pre-hearing conference scheduled for May 4, 2010 for the purpose of narrowing the issues to be presented at the evidentiary hearing scheduled May 11, 2010.

2. During said conference, the Parties reached agreement on several matters, as follows:

- (a) First, the Findings Report submitted by the IO dated March 10, 2010 are accepted, acknowledged and not disputed by Hottenstein.
- (b) Second, the Parties agree that the penalty of admonition as provided by Section V(B)(2)(ii)(a) of the Charter Board Ordinance is an appropriate and accepted penalty, and is recommended to the Board by the Parties.
- (c) Third, the Parties agree and do not object to the Charter Board issuing a Final Opinion and Order adopting the Findings Report submitted by the IO, the penalty recommended by the Parties, and addressing any Charter related conclusions regarding analysis and interpretation of the Charter of the City of Reading.
- (d) Fourth, the Parties agree that the evidentiary hearing requested by Hottenstein and scheduled for May 11, 2010 is unnecessary.

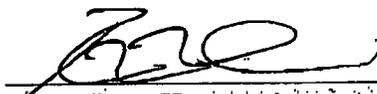
3. Hottenstein hereby agrees to and accepts the imposition by the Charter Board of the penalty of admonition, and the Charter Board, on the basis of the Findings Report submitted by the IO and accepted, acknowledged and not disputed by Hottenstein, will impose the penalty of admonition in its Final Opinion and Order.

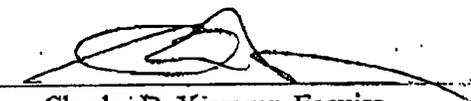
4. Hottenstein hereby withdraws his request for an evidentiary hearing, which request the IO does not contest, and the Charter Board accepts.

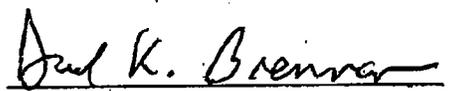
5. As a result of the foregoing, the evidentiary hearing scheduled for May 11, 2010 is canceled.

6. Hottenstein hereby waives any and all appeal rights which may relate to this matter and agrees that he is barred from appealing or otherwise challenging the Charter Board's Final Opinion and Order.

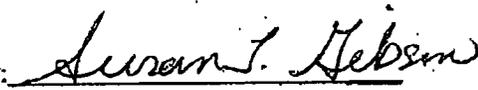
7. Hottenstein agrees and affirms that he entered into this Stipulation of his own free will, voluntarily, without compulsion or duress, without any representations or promises from the IO or the Charter Board, and with the advice of counsel of his own choosing.


Ryan Hottenstein

By: 
Charles D. Younger, Esquire
Counsel for Ryan Hottenstein


David K. Brennan, Esquire
Investigative Officer
City of Reading Charter Board

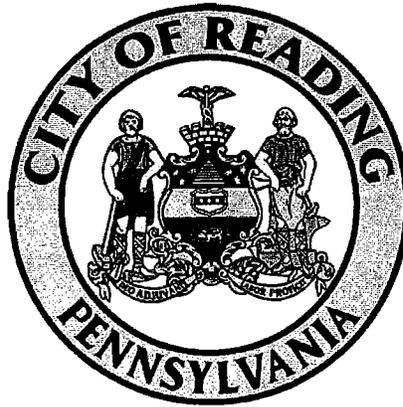
APPROVED AND ACCEPTED BY THE CHARTER BOARD OF THE CITY OF READING, THIS 18th DAY OF MAY, 2010.

By: 
Susan Gibson, Chair

Municipalities Financial Recovery Act

Recovery Plan

City of Reading
Berks County, Pennsylvania



Prepared on behalf of the

Commonwealth of Pennsylvania
Department of Community and Economic Development
Governor's Center for Local Government Services

As Filed with the City Clerk on May 28, 2010

Public Financial Management
Two Logan Square, Suite 1600
18th and Arch Streets
Philadelphia, PA 19103-2770
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Executive Summary

Executive Summary

The City of Reading is in a severe financial crisis and it must take immediate action to preserve its fiscal health while continuing to provide basic services to residents, businesses and visitors. Failure to act now will soon lead to catastrophic results. The depth and immediacy of the crisis cannot be overstated.

Reading's most recent audit, covering fiscal year 2008 and dated July 20, 2009, notes that "... the city is facing a cumulative structural deficit that will exceed any remedy or form of corrective action, unless substantial reform is achieved in the near future."

After repeated failures to correct its structural deficit, and a continued downward financial spiral, the Mayor of Reading asked the Commonwealth of Pennsylvania's Secretary of the Department of Community and Economic Development to designate the City as financially distressed under Act 47. In November 2009 the Secretary approved the distress determination, saying the City's "pattern of operating deficits is unsustainable and if left unabated will force the city to significantly reduce or eliminate fundamental services that may adversely affect the health, safety, welfare, and quality of life of the citizens." As a result, in December 2009 the Secretary appointed a Coordinator led by Public Financial Management, Inc. to develop a financial Recovery Plan to bring the city back to fiscal health.

The Coordinator's investigation confirmed the City's critical financial situation. Information provided by the City shows an annual deficit in 2007 that grows each year thereafter. The 2009 annual result is a shortfall of \$11.1 million (or a net negative gap of \$9.0 million after the application of a reported fund balance entering 2009).

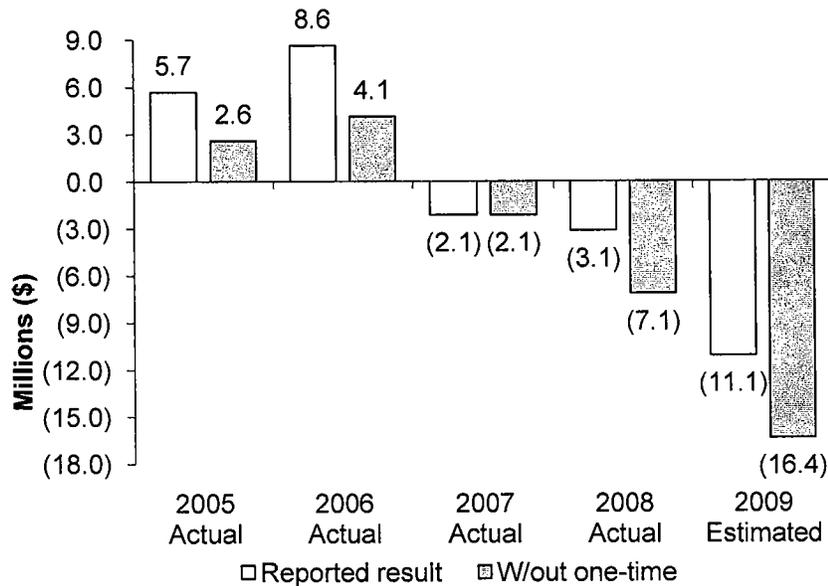
General Fund Results, 2005 - 2009

	2005 Actual	2006 Actual	2007 Actual	2008 Actual	2009 Estimated
Total revenues	61,406,747	71,954,252	61,728,209	77,192,065	73,237,619
Total expenditures	55,721,065	63,317,112	63,857,745	80,324,606	84,324,039
Surplus / (Deficit)	5,685,682	8,637,140	(2,129,536)	(3,132,541)	(11,086,420)

Based on the Coordinator's analysis to date (and that of the Commonwealth previously), actual results are likely worse after one time measures and accounting anomalies are taken into account. Over the past few years the City has relied on short-term debt solutions, asset sales and one-time payments from the Reading Parking Authority to cover what would otherwise have been annual operating deficits. These measures have only provided temporary relief and have not covered the full gap in some years, creating greater obligations in the future. As a result, the City had to use its fund balance to close its operating deficit in 2007 and 2008 and faces recurring shortfalls every year after 2010.



Reported Results with and without One-Time Fixes



Two other factors have obscured the City's dire financial situation to date.

First, Reading does not have a cash flow report to monitor whether it has sufficient revenues to cover its expenses on an ongoing basis. The City was not able to provide prior year cash data. Instead, the historical figures provided by the City appear to follow an accounting method that credits the City with revenue in one year when it was actually received early in the next year and not available to pay obligations. While this accounting method might be useful in the proper context, it obscures the City's difficulty in meeting cash obligations as they come due.

Next, the City has relied on cash transfers from its Sewer Fund throughout the year, and might not be able to pay bills in many months without interfund loans. Last year the City borrowed approximately \$11 million from the Sewer Fund to cover the operating deficit shown above. It is not clear when that transfer will be fully and permanently repaid absent corrective action recommended in this Recovery Plan.

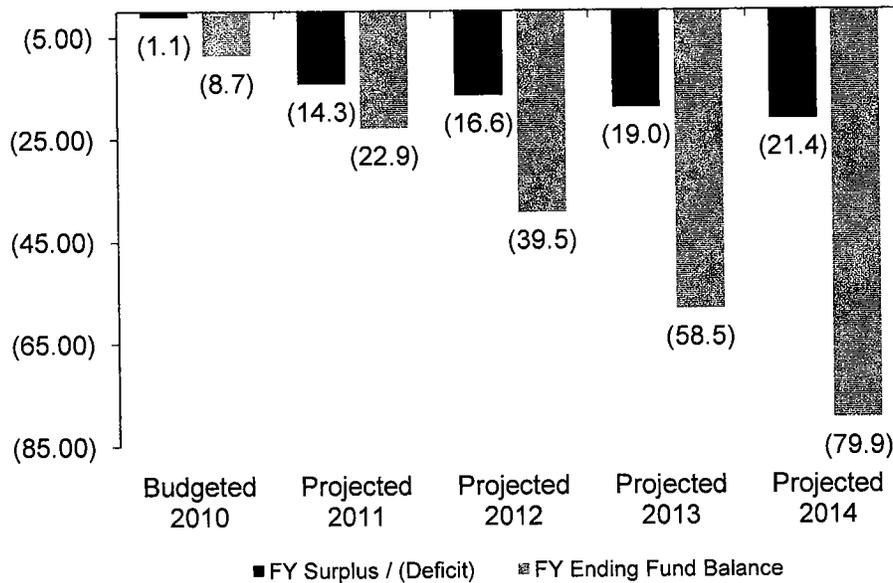
These factors obscure the accurate amount of the City's ongoing operating deficits and cash flow shortfalls, and they emphasize the ultimate conclusion that Reading is in a severe financial crisis that is getting worse. Without the corrective action recommended in this Plan, Reading's financial problems will not be resolved, and it will soon be unable to pay its employees and vendors. The City's bond insurer has already stated its unwillingness to extend further credit to the City without the adoption of a comprehensive financial recovery plan.

As previous studies have found, Reading has high tax rates in most categories, and its residents are among the least wealthy in the region. The City has experienced little structural revenue growth absent tax and service charge increases as property values and resident earnings – Reading's two largest revenue sources – have been stagnant or declining.

The City has a nominally balanced budget in 2010, but it does not address the deficit with which it began the year. The City has no reserve for contingencies (the fund balance was exhausted in trying to close last year's deficit). Even assuming the City breaks its string of annual operating deficits in 2010, the projections in future years are increasingly bleak.



City of Reading Baseline Projections (\$ Millions)



Looking forward, expenditures spike in 2011 as debt service and pension payments grow by a combined \$8.6 million. If the City continues this trend, annual deficits will mount and create a cumulative fund deficit that exceeds 90 percent of the City’s operating budget by 2014. The annual deficit will be equivalent to nearly a quarter of the City’s operating budget by 2014.

The repeated one-time actions that have patched annual shortfalls but increased the overall size of the structural deficit have made Reading’s finances unstable, but that is just one of the important issues that must be remedied.

Public confidence in Reading’s ability to conduct its affairs has been shaken by press accounts of poor management at City Hall, tension between the Administration and City Council, and difficult labor-management relations. Reading must act now to restore public confidence; bring short- and long-term revenues into balance; improve the efficiency and effectiveness of its public services; and establish sustainable operating budgets. The Plan provides a difficult but necessary plan of immediate and long-term reform to do so.

Reading’s Recovery Plan

After three public meetings sponsored by the Coordinator, it is clear that City residents, Councilors, the Mayor and many stakeholders share a similar sentiment: they love their city and want it to thrive. Therefore, this Act 47 Recovery Plan is not only focused on the city’s survival, but also on its full recovery, growth and sustainability.

Recovery and growth is possible only if the City first solves the crucial question of how to stabilize its finances. Many have made positive, constructive suggestions for ways to foster economic development and growth in Reading. However, unless the imminent danger of financial collapse is averted, none of these ideas can be implemented. To achieve that end and provide a base from which the City can grow, this Recovery Plan includes the following:

- Change the way services are provided. In tough times, the City cannot keep asking taxpayers to bear an ever-growing burden without also aggressively demonstrating commitment to more efficient, more effective, and less expensive government. Related initiatives include:



- Mandatory reductions in spending on supplies, materials and contracted services
- Restructuring the fire department to provide the same level of fire suppression coverage and improved EMS coverage at a lower cost
- Combining the Parks and Property Maintenance units with the Department of Public Works
- Bring the City into compliance with legal, financial and fiduciary standards:
 - Address the underpayment of the City's 2007 minimum municipal obligation (MMO) to the Police, Fire and Non-Uniformed employee pension plans
 - Repay the City's multi-million dollar obligation to the Sewer Fund
 - Stop providing retirement benefits that exceed those allowed by the Third Class City Code
- Contain the fast-growing employee compensation as applied to non-represented managers and union workers alike:
 - A three year base wage and step freeze
 - Restructure health benefits, including increased employee contributions to monthly premium costs
 - Overtime and premium pay reductions

These recommendations, though difficult, are necessary remedies to bring the City's finances into balance. Without these remedies, recovery is impossible and the City will cease to operate.

Management and Accountability

The Plan establishes a formal performance measurement process applied across all departments that makes it clear what information will be tracked and how. This empowers Council, residents and the Commonwealth by giving them the ability to know if the City is on track for recovery and for holding officials accountable for that progress.

Initiatives include:

- Establishment of City support teams, led by nationally-experienced professionals from the Act 47 Coordinator and including local and regional experts to begin work on key areas including financial management and outreach to the Latino community;
- Regular progress and implementation meetings between the Act 47 Coordinator, representatives of City Council, the Administration and other stakeholders to ensure that this Recovery Plan is implemented and monitor the impact and challenges in doing so;
- Best practices in municipal budgeting, such as enhanced interim reporting, cash flow monitoring and a more fully-developed capital budget and plan; and
- Establishment of regular employee performance reviews.



Improve Housing

Housing is the core of the City's tax base and the daily lives of Reading residents. The City needs to correct the mistakes of the past, do better with current code enforcement responsibilities and have a strategy that guides future work. Initiatives include:

- Clear the City's rental permit inspection and zoning review backlog;
- Expand code enforcement coverage and capacity through schedule changes and improved use of technology;
- Designate a leader within City government in charge of developing, coordinating and implementing a housing strategy; and
- Review the use of federal funding to ensure those resources are supporting a defined strategy.

Rethink City Services

Reading must focus its limited resources on its core municipal services: public safety and public works. In recognition that other areas are too important to just eliminate, the Recovery Plan provides alternatives for providing those services to Reading residents through regional cooperation. It targets areas where the City can stop duplicating the services that others provide and reinvest those resources elsewhere. Initiatives include:

- Transfer tax collection responsibilities to the County and other entities;
- Work with Berks County jointly on information technology needs;
- Build upon existing cooperative efforts in public safety with the Boroughs of Kenhorst and West Reading; and
- Develop regional alternatives to the current model of locally provided – and underfunded – recreation and library services.

Modifications in this Plan

As a result of public comment on the draft Plan, this Act 47 Recovery Plan includes a variety of changes to reflect local preferences, ideas, suggestions and corrections. Changes to the revenue initiatives are discussed in the next subsection. Changes to the expenditure and policy initiatives include:

- Support for increased hiring of Reading residents;
- Restoration of the funding cut for the Reading Public Library;
- Elimination of the requirement to replace an aerial fire apparatus with a quint;
- Pursuing the cooperative purchasing of employee health insurance;
- A more robust process for examining and potentially implementing new policies and structural changes for service delivery (transfer of functions to authorities, shared services, etc.).



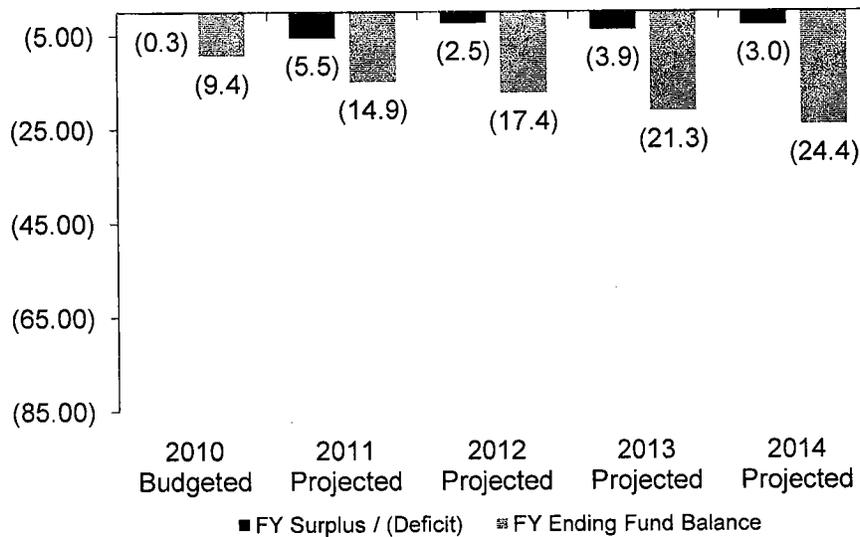
Remaining Gap

Overall, the Act 47 team has identified more than 150 non-tax initiatives, with quantified measures ranging from \$5,000 to over \$3.0 million per year. In the aggregate, these expenditure-focused measures will eliminate much of the City’s recurring deficit. The Recovery Plan also requires the implementation of a variety of revenue-raising initiatives that are innovative and long overdue. Initiatives include:

- Improve collection of current and delinquent taxes;
- Recover costs from private entities that receive enhanced public safety coverage;
- Regularly raise service charges to reflect increases in the cost of providing service; and
- Pursue market-based revenues from leasing and advertising.

These steps, combined with the expenditure initiatives of the Recovery Plan, eliminate most of the City’s projected baseline deficit. However, due to the need to repay the City’s \$9.0 million cash deficit and to eliminate a 2011 shortfall that will occur before all Recovery Plan elements are effective, a gap will still remain, as shown below:

Projections with Initiatives, FY2010 – FY2014



This Act 47 Recovery Plan closes the remaining gap with a package of revenue measures.

Additional Revenues

In order to reach a point from which it can balance its budget, the City needs a short-term infusion of revenue to pay its pension delinquencies and refund borrowing from the Sewer Fund, and also cover the projected 2011-13 shortfalls. Even after the substantial restructuring of City services that form the core of this Recovery Plan, there is not enough left to pay for these existing deficiencies. For example, covering the 2011 combined shortfall of \$14.9 million after the changes already in the Recovery Plan would require the elimination of the entire Fire Department (\$11.1 million plus pension costs) or more than half of the Police Department (\$23.8 million plus pension costs), which is obviously neither practical nor desirable.

Some stakeholders have suggested that the City could pay for these past mistakes by selling assets, including those related to parking, wastewater conveyance and treatment and water distribution. While this could generate a significant short-term gain in revenue, it essentially continues the mistakes of the



past by relying on one-time fixes to address a recurring problem. Given the need to solve the City's structural financial imbalance and not use money from long-term investments to pay for operating deficits, as well as the current uncertain pricing environment for such transactions, the Recovery Plan does not include significant asset sales.

Instead the Recovery Plan proposes to correct most of the short-term legacy delinquencies and the 2011-13 gaps with temporary employment taxes. The tax option is necessary but not desirable, so it is strictly constrained in amount and duration. This is made more certain by the need for the annual approval by the Act 47 Coordinator and Common Pleas Court for non-resident earned income taxes.

In addition to the temporary tax provisions, increased long-term revenues are needed for the City to achieve more permanent fiscal stability. The draft Plan proposed annual property tax increases to meet this need. However, public comments on the draft highlighted strong opposition to this approach. Members of City Council in particular suggested a strong preference for additional recurring revenue from the Reading Parking Authority (RPA) and the Reading Area Water Authority (RAWA) to expand the base and share the burden of financial recovery.

Taking the public comments and additional information provided by City Council and the Administration into account, this Act 47 Recovery Plan therefore includes a revenue package featuring:

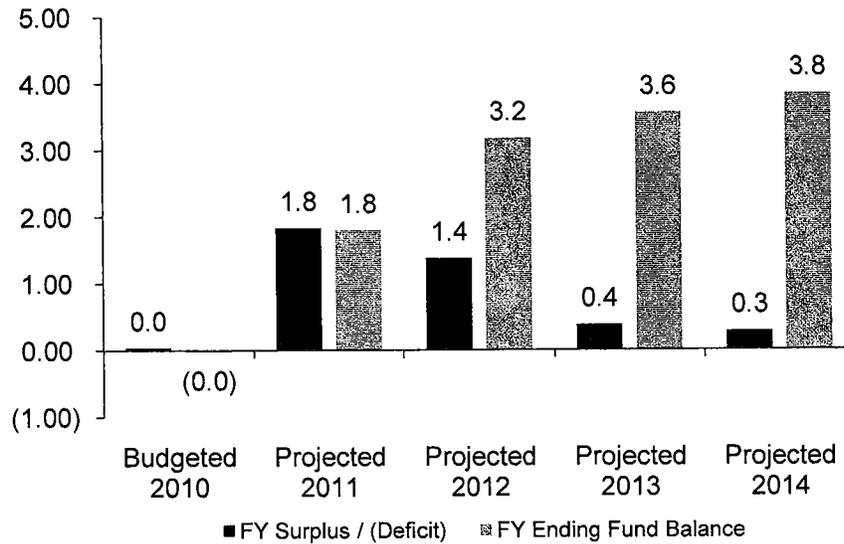
- A temporary increase in the resident earned income tax of 0.4 percent in 2011, 0.2 percent in 2012, and 0.2 percent in 2013;
- A temporary increase in the non-resident income tax of 0.3 percent in 2011, 0.1 percent in 2012, and 0.1 percent in 2013. The non-resident earned income tax is eliminated in 2014.
- A reduction in the current level of resident earned income tax from 1.700 percent to 1.675 percent in 2014.
- Increased contributions to the City from the Reading Parking Authority of \$2.5 million from 2010 through 2014;
- Increased contributions to the City from the Reading Area Water Authority of \$6.95 million from 2010 through 2014;
- A property tax increase of 10 percent in 2014.

If the City is able to exceed projected financial performance, it would have the ability to moderate the 2014 property tax increase or further reduce the resident earned income tax that year. If the City fails to secure additional revenue contributions from the authorities, the Plan includes a failsafe revenue alternative.

Combining this revenue package with the extensive cost-savings measures included in this Recovery Plan, the City is projected to achieve a surplus in each of the next four fiscal years. With careful management, these surpluses will compound and help the City reverse its current negative fund balance and establish a positive fund balance of \$3.8 million by FY2014.



Projected Annual Surpluses and Fund Balance, FY2010 – FY2014



Conclusion

This Recovery Plan includes significant changes to how Reading provides services and how it funds those services. However, without prompt, decisive action, the City of Reading will face far more dire changes. It will soon be unable to pay its employees or creditors, and its access to credit at any reasonable price will be severely curtailed or eliminated.

The City has avoided making the adjustments that will bring true balance to its finances, instead choosing temporary fixes to a structural problem. Those short term measures have not only exacerbated the problem, they are no longer sufficient to address the ongoing deficits. This Plan represents an opportunity to make the hard decisions now so that the City cannot only survive, but also grow tomorrow. It focuses on critical issues – improved accountability, investing resources in housing and changing the way City government operates. It is a Plan focused on Reading’s recovery and its future.

