



CITY COUNCIL

Finance Committee

Meeting Report Monday, September 16, 2013

Committee Members Attending: D. Reed, Chair; R. Corcoran, Vice Chair; D. Sterner

Others Attending: M. Goodman-Hinnershitz, F. Acosta, J. Waltman, S. Marmarou, D. Cituk, C. Younger, C. Zale, L. Kelleher, M. Bembenick, V. Spencer, E. Lloyd, G. Mann, C. Snyder, B. Rivera, D. Pottiger.

Mr. Corcoran called the Finance Committee meeting to order at pm.

I. 2014 Proposed Budget Review

Mr. Bembenick distributed a handout and directed individuals to the corresponding pages.

- Revenues & Expenditures

Mr. Bembenick stated that a greater portion of proposed revenues comes from the real estate taxes and earned income tax (EIT) line items. The 2014 proposed revenue and expenditure totals \$82,575,039, which is approximately \$6M higher than last year. He stated that Council has been working with administration to develop the proposed figures through the Revenue Estimating Committee.

Mr. Bembenick stated that the highest expenditures are under Police and Fire, which continue to be the highest departmental budgets with 25 percent and 20 percent respectively.

Mr. Bembenick stated that the Administration's proposed budget is in balance.

- Budget Overview Assumptions

Mr. Bembenick stated that the overview assumptions include a decrease in resident and commuter earned income tax rates in addition to no increase in real estate tax rates. The Property Tax revenue millage remains neutral with a 20 percent transition to LVT.

Mr. Bembenick stated that salaries reflect a two (2) percent increase for Fire and first level AFSCME employees.

Mr. Bembenick stated that the MMO overview is \$9.8M with Retiree Fringe Benefits at \$3.5M which is comparable to 2013. The debt service for 2014 is \$13M. He noted that the legacy costs in 2014 are projected at \$26.5M.

Mr. Bembenick stated that in terms of staffing levels, there is a slight increase. The increase in Fire personnel is covered through the SAFER grant. He noted that the budget also includes a \$1M upgrade of outdated IT equipment. He also noted that the following new employees are requested:

- 2 CSC clerks
- 1 Communications Assistant in the Mayor's Office
- 1 new Business Analyst in the Managing Directors Office
- 2 PT clerks to focus on improved BPT collection

Mr. Bembenick stated that the budget contains an increased contribution to the Library, adds a 4th EMS unit and retains the current level of manning in the Police Department.

Mr. Bembenick stated that Earned Income Tax rates are reduced by 0.1% for residents and commuters. He noted that PFM agreed to seek court approval as originally the amended plan calls for a reduction of 0.2% for both the resident and commuter. He pointed out that any changes to the commuter earned income tax rates require court approval.

Mr. Bembenick stated that in regard to the timetable, he is confident that quick and thorough conversations will take place and expects passage of the budget in early November. He is looking to Council for discussion of concerns or input and future budget meeting schedules.

Mr. Waltman questioned the \$3M increase in EIT and he asked for clarification. Mr. Bembenick stated that 2013 EIT increased by \$900K.

Mr. Zale responded that it is the RAWA increase.

Mr. Waltman stated that he is very concerned in using fund balance and lowering EITs because 2015 and 2016 impact is still unknown. He also stated that we need to address bigger issues, namely litter, before we put revenues to the side. Mr. Bembenick stated that we are retaining a very strong contingency fund.

Mr. Corcoran questioned why the Per Capita tax is increased by \$140,000 for 2014. Mr. Bembenick stated that the Administration plans to introduce an increase of \$10 in the City's portion of the Per Capita tax. Currently the rate is set at \$5 for the City and \$10 for the School

District. Per Capita is an Act 511 tax. He stated that the City plans to increase its collection of this tax.

Mr. Sterner expressed his concerns regarding the increase of \$6M in one year (from \$76M to \$82M). He believes this is too high and he expressed concern for the impact in 2015 and 2016. He also noted that when he came on City Council, the annual budget was \$42M. He stated that 12 years later this figure has doubled.

Ms. Goodman-Hinnershitz commended the administration for an excellent report; however, she expected to see a performance-based budget and feels that would be beneficial for the city's future goals. She stated that we cannot lose sight of what 2015 and 2016 will bring. She requested a performance-based report be devised that will show a long term budgetary impact.

Mr. Waltman reiterated the importance of having projections for the next 3-5 years. He also stated that if the LVT is enacted a corresponding Comprehensive Plan needs to be created.

Ms. Reed stated that as she is looking at some of the figures in the report, she will unquestionably need full explanations for some of the increases. That being said, she, too, believes it necessary to remit a performance-based report.

Mr. Cituk stated that the City needs to keep in mind that if the court rejects the EIT component, we would have to alter all figures accordingly, so he believes the projections should reflect the worst case scenario.

Mr. Waltman reiterated on the importance of looking beyond 2014.

Mr. Spencer stated that we must come together and look at some of the options that are available. He stated that Reading is not the only city struggling and that the City has started to identify issues that are causing the problems. He noted the need to find a way to get around Act 73. While he stated that he realizes that there are some high expenses that cannot be helped he remains optimistic about Reading's ability to move.

Mr. Waltman stated that state policies imposed on municipalities force us to keep discussing issues we have no control over. He stressed the need for the State legislature to enact changes that correct these problems.

Ms. Goodman-Hinnershitz agreed stating that some things may need to be decided in a courtroom.

II. 2012 EXTERNAL AUDIT REPORT

Mr. Cituk introduced Linda Himeback and Chris Turtell, from Herbein & Co. who completed the 2012 external audit.

Ms. Himeback stated that the audit was prepared using the new Group Audit Standards, as the City is a "parent" to RAWA, RPA and RRA. She noted that 2012 is the last year the City has a blend with RAWA, as the RAWA employees are now directly employed by RAWA and not the City.

Ms. Himeback stated that the delay in completing the 2012 external audit was again caused by the delay in obtaining the external audit report from RAWA. She stated that when RAWA turned in their audit report at the beginning of September, the City's audit numbers changed dramatically. This drastic change affected a variety of factors, including the Administration's management letter.

Ms. Himeback stated that the beginning of the audit report contains the Clarified Standards which explains the various responsibilities of those involved in the City's finances and explains the opinions contained in the report.

Ms. Himeback stated that a clean opinion was provided to the City; however, RAWA has a qualification. She stated that the findings located at the back of the report have been reviewed with the Administration.

Mr. Turtell reviewed the components of the audit report. Looking at the revenues, he stated that the EIT over performed by approximately \$3M due to the impact of Act 32 and the OPT (Local Services Tax) also over performed due to the amnesty program. He stated that revenues came in at \$65M. He noted that the booking error for the Greater Berks loan (booked in 2011 but budgeted in 2012) affected the 2011 and 2012 audits. He stated that Sewer, Recycling and Water revenues all performed well.

Mr. Turtell stated that overall the expenditures came in \$331K under budget and the revenues came in \$1.8M over budget. He noted that again in 2012 Police and Fire overtime came in over budget, along with Public Works fuel and electricity.

Mr. Turtell explained that the unbudgeted payment of the unfunded debt at \$4.5M caused the City to have a breakeven year.

Mr. Turtell stated that the increase in CD assets was caused by the payment of the loan for the Goggleworks apartments. He noted that Water is a proprietary fund which operated at a loss for the year. However, the Sewer fund increased by \$7.6M creating a balance of approximately \$85M.

Mr. Waltman questioned the RAWA water fund adjustment. Mr. Turtell explained that RAWA was including penalty and interest in with the regular utility fee collections. He stated that Herbein caught and corrected this error in 2011; however, RAWA did not fix the problem until 2012. He noted that the penalty and interest fees do not get paid to the City.

Ms. Himeback recalled the history regarding when RAWA began purchasing their individual independent audit.

Mr. Turtell distributed a handout showing the findings report card. He stated that the blue highlighted findings were resolved and the yellow are reoccurring between 2006 and 2012. He stated that staffing changes within the Finance Division and the CD Department have delayed the correction of these issues.

Mr. Pottiger agreed noting that previous staff could not individually handle the majority of the issues listed.

Mr. Turtell stated that the four (4) new findings are:

- Failure to reconcile the bank accounts
- Filing of required forms
- Accounting for program income
- Federal Funding Accountability & Transparency Act

Mr. Turtell stated that the majority of the new findings relate to CD. He stated that the City still has unspent Stimulus Money. He stated that Stimulus Fund types have the letters "ARRA" following the grant name. He stated that Herbein tested 88% of the CD programs internal controls. He stated that there was no evidence of improperly spent money.

Mr. Turtell stated that due to the lack of regular bank reconciliations, there appears to be an error of \$744K in the GDA bank balance. Mr. Pottiger explained that he needs to decide where "ground zero" is and begin working forward. A similar situation occurred when the "Due tos/Due froms" were discovered. Mr. Turtell stated that this is a material weakness.

Mr. Acosta requested that Herbein work closely with Council, the Audit Committee and the Administration to begin correcting the findings. He thanked Herbein for their quality work.

III. Define Budget Review, Meetings, etc.

Mr. Acosta suggested holding review meetings on Saturdays and Mondays. He stated that after looking briefly at the budget, he suggested that Council target individual problematic area, rather than spend time again reviewing each departmental budget. He commended the administration on an exemplary job of getting the budget together in a timely manner.

Mr. Waltman stated that he would like to see revenue line items addressed first then 2012-2016 projections without an applied Act 73 solution.

Ms. Reed stated that the first budget meeting should take place on September 30.

Ms. Reed adjourned the Finance Committee at approximately 6:50pm.

*Respectfully submitted by
Bea Rivera, Legislative Aide
Linda Kelleher, City Clerk*