CITY COUNCIL

Finance, Audit & Budget Committee

Monday, July 21, 2014
City Council Office
5:30 pm

1. **Special Meeting re WWTP Planning Grant Resolution 5 pm Council Chambers**

The Budget and Finance Committee's responsibilities include Annual Budget Review, Capital Improvement Programs, Financial Reports, Taxes (Rates, exonerations and exemption appeals), Fee Assessments, Review of Budget & Financial Reports, oversight of the City's external auditing, internal controls and any other financial or business practices, and reviewing the work of the City Auditor.

Committee Members: Ms. Reed, Ms. Goodman-Hinnershitz (Co-Chairs) and Mr. Waltman

Although Council committee meetings are open to the public, public comment is not permitted at Council Committee meetings. However, citizens are encouraged to attend and observe the meetings. Comment from citizens or professionals during the meeting may be solicited on agenda topics via invitation by the Committee Chair. All electronic recording devices must be at the entry door in all meeting rooms and offices, as per Bill No. 27-2012

I. Legislative Review

- Act 47 Amendment – 1 year/5 year (G. Mann)
- RAWA Recycling Escrow
- Charter Board
- UGI Meters

II. RAWA External Audits

- Review of 2013 External Audit – D. Cituk
- Review Audit Management Letters

II. Review Finance Reports

- Review Expenditures

- Review Bank Statement Activity
- Review Transfers

IV. Update from City Auditor re Internal Audits

- Compliance-transfers
- Update on the status of all capital projects currently underway
- Select audits for 2014

FOLLOW UP ISSUES

2014 Finance Committee Topics

March

- Fire SAFER Grant vs. Fire Overtime

April

- Winter Storm Related Expenses – snow removal, salt, pothole repair
- Update on Lease Agreements for City owned properties used by outside organizations
- Update Defined Contribution Plan for new hires
- Update Collection Report for Delinquent Taxes and Misc Fines & Fees (RE01)

July

- Recovery Plan Amendment – waiting for actuarial report from Pension Boards

June 16, 2014 FINANCE COMMITTEE MEETING
EXECUTIVE SUMMARY

Agenda Item	**Action**
Create Fund 55 2014 Priorities	Review the administration's plan to create an additional Enterprise Fund to track the City's contribution to the plants capital needs
RAWA External Audits	The Auditor is reviewing the RAWA external audits and management letters. A list of repeat findings is in the minutes
Act 111	Further discussion of the State Act 111 amendment was referred to the 6-23 COW
Recovery Plan Amendment	Discussion delayed until Mr. Mann has the actuarial reports

CITY COUNCIL

Finance Committee

Meeting Report
Monday, June 16, 2014

Committee Members Attending: M. Goodman-Hinnershitz, J. Waltman, D. Reed

Others Attending: F. Acosta, D. Cituk, C. Younger, C. Zale, L. Kelleher, D. Kersley, C. Snyder, D. Hoag, B. Rivera, R. Johnson

Ms. Goodman-Hinnershitz called the Finance Committee meeting to order at approximately 5:45 pm.

I. Legislative Review

- *Establishing of Fund 55 – Retail Sewer Fund and a Budget Amendment to transfer money from Fund 54 Sewer Fund*

  Ms. Hoag distributed handouts to the group. She explained that there have been many changes over the years that have altered the sewer revenues and rates. A rate study was done to promote rate stabilization to prevent rate spikes when the consent decree required construction begins. She stated that on the first page of the handout, the diagram describes the revenues moving into the 1986 IMA Sewer Fund account: contributing municipalities, industries: surcharges, fines, miscellaneous monies, etc. The sewer fund is divided into two components; #54-Operation, Maintenance & Debt payment & Service and #12 1986 IMA Capital Reserve (Municipal). Both of these components are set aside for improvements needed to the sewer system.

  On the second page of the handout, Ms. Hoag explained that the diagram indicates a 2013 Hybrid IMA flow of dollars to the Sewer Fund account. The difference is that the #12 component is divided into two parts: the 1986 IMA Capital Reserve and the New

IMA Infrastructure Contingency. Laureldale and Muhlenberg have executed new IMAs. The rates are calculated differently by using budgeted numbers and projective flows. The municipalities are charged on their reserved and used capacity. There are two charges: a debt service charge and a 10% infrastructure contingency charge that continues to accumulate for capital needs.

Ms. Hoag directed everyone's attention to the last page of the handout to a sheet showing a separate fund; Fund #55 -City Retail Sewer Fund. Creating this fund would allow the city to track, control and stabilize rates by having portions of City monies stay in the City. The City Retail Customers funds would flow into Fund #55 which would then move into the sewer fund (Fund #54).

Mr. Johnson stated that the consent decree regulators have approved this transaction.

Ms. Snyder explained that Muhlenberg and Laureldale up charge residents to prevent the rate spike that is expected when the consent decree required construction at the plant occurs.

Mr. Cituk stated that he agrees with this proposal to form Fund #55 and that opening an account requires Council approval.

Ms. Goodman-Hinnershitz commended Ms. Hoag on the detailed information given in its illustrated form; it is very informative. She also thanked the administration for taking the correct steps to resolve this issue.

- *Act 47 Amendment – 1year/5year*

Ms. Kelleher stated that this topic will be deferred to next month as this is still currently being worked on by PFM. She explained that Mr. Mann cannot begin the Recovery Plan amendment until the actuarial information is available from the three (3) pension boards.

- *Review Act 111 and Proposed Amendment*

Mr. Waltman stated that the pension problem is not getting resolved. He explained that under Act 111 police and fire personnel are prohibited from striking and are afforded with a defined arbitration process in an attempt to achieve balance. Pensions are being paid out immediately after leaving employment and should not be paid out until the employees reach standard retirement age. In the case of police officers (20 years of service and out, with the option to buy 5 years of military or non-military time) an

officer can at times retire as early as 40 years of age, which can expose the City to pay out a monthly pension for 40 or 50 years.

Mr. Waltman expressed his personal belief that the City should pursue a legal remedy in the court system as the State legislators have repeatedly failed to change this law.

Ms. Goodman-Hinnershitz agreed that perhaps these issues should be challenged in court.

Ms. Snyder stated that this issue is being addressed and is considered a "high agenda" item by the Chamber, PFM and the PA Municipal League (PML).

Mr. Waltman noted that the State needs to consider the overall costs paid by the state and the local municipalities. He stated that the laws need to be changed or cities will be headed for bankruptcy.

Mr. Cituk stated that he is working with actuaries and he currently has drafts for the police and fire pension. In a 20-year analysis, he found that some years were "over-funded". He stated that this is being closely reviewed to determine numbers moving forward.

Ms. Goodman-Hinnershitz noted that there is a draft resolution attached to the agenda that the State legislators want municipalities to pass to show their support for the amendment of Act 111.

Ms. Kelleher stated that the proposed amendment is also attached to the agenda.

Mr. Waltman and Ms. Goodman-Hinnershitz suggested discussing the resolution and proposed amendment at the June 23rd COW.

II. RAWA External Audits

Mr. Cituk distributed a handout and explained that the overview of audits is a work in progress for RAWA and the City. The handouts outlined management letter observations for years 2005 through 2012. Billing is no longer the issue that it once was as RAWA now handles their own billing. He stated that the 2007 letter was regarding "modifying & improving the authorities practices and procedures". He stated that one

of the items was M & T Restricted Cash Accounts; however, moving into the following years the item that continues to be of issue is the account receivables and allowances.

The repeat findings are as follows:

- Accounts receivable issues 2006, 2008, 2010, 2011 and 2012
- Reconciliation of accounts issues – 2005, 2006, 2008 and 2009
- Budget reporting issues – 2008, 2009, 2010 and 2011
- Petty cash issues – 2008, 2010 and 2011

Ms. Goodman-Hinnershitz asked in which year there was a combination of two year's worth of audits. Mr. Cituk did not recall that there was a year where that occurred. Ms. Goodman-Hinnershitz stated she will look into this more in depth.

III. Review Finance Reports

Mr. Zale stated that revenues and expenditures are coming in based on the projected budget. The surplus at the end of 2014 is estimated to be $7.8M, after the MMO payment. Police and Fire consume 68% of the General Fund operating budget and these areas will be monitored. The month's end cash flow is $25.9M compared to last years $19.9M.

Mr. Zale reported that the funding loaned from the General Fund to the Recycling/Solid Waste Enterprise Fund for curbside collection must be repaid by the end of 2014. To date no money was expended from the Contingency Fund.

Mr. Zale stated that the headcount should read six (6) below plan not 11 as listed in the narrative.

Mr. Waltman inquired about the request made at last month's Finance Meeting regarding the amount of actual cash available in the reserve. Ms. Snyder responded that she would have that information for Council to review within the next two (2) weeks.

IV. Addition of 4th Medic Unit – Financial Impact

Mr. Kersley distributed a handout and stated that in this comparative analysis of the most recent eight-month period to the same period last year, there were overall improvements in financial performance due to the addition of the 4th Medic Unit. A

surplus of $184,500 resulted rather than the subsidy of $336,000 for last year during the same period – an improvement of $520,500.

Mr. Kersley stated that staffing expenses including salaries, holiday pay, uniform expense, etc. are down by 15.7% or $237,000. Overtime is down by 25% due to the addition of EMS employees.

Ms. Snyder stated that user fees have increased and delinquencies have considerably decreased as well. She stated that four additional medics are to be added to basic staffing very soon.

Council went into Executive session to discuss litigation regarding recycling billing at 6:55 pm. The Executive Session concluded at 7:10 pm and the meeting adjourned immediately.

Respectfully submitted by
Linda A. Kelleher CMC, City Clerk
Bea Rivera, Legislative Aide

CITY of READING
GENERAL FUND FINANCIAL REVIEW SUMMARY
June 2014

The attached files are the General Fund results year to date through June 2014. The documents include the statement of activities (income statement), full year projection, year-end cash flow/balance position, revenue by line item and contingency usage. For comparison purposes, prior year income statement results are also included.

OVERVIEW:

Six months, 50.0% of the full year, have been completed. On a cash basis, the month's year to date surplus/deficit generates a surplus of $13,782,508. This result does not include the City's full year pension MMO (minimum municipal obligation) of $9,957,027 (General Fund only) nor the State Pension contribution of $3,150,000. If 50.0**%** of this activity is recognized this month, the reported surplus would change to a $10,378,994 surplus.

Revenues:

Please review both the attached summary and detail revenue line items for differences between actual and budget. Full year revenue projection remains as planned. Although not as significant as the prior two months, June's real estate tax filing amounting to $984,262 is a contributor of this month's surplus. 86% of the budgeted real estate tax has been received through June. The earned income tax (EIT) filings on current year's earnings are beginning to occur with year to date EIT at $4,186,041 exceeding budget by $403,308, 13.6%. The prior year filings, however, are lagging which requires monitoring during the next two months when they should end. This line item may be at risk to achieve budget.

Source of EIT through June: (2% collection fee not deducted)

	2013 & Prior	2014	Total
Actual	$5,666,027.39	$4,186,041.47	$ 9,852,068.86
Budget	6,401,594.71	3,782,733.04	10,184,327.75
Excess/(Deficit)	$ (735,567.32)	$ 403,308.43	$ (332,258.89)
Percent of Budget	(11.5%)	13.6%	(3.3%)

Expenditures:

As with revenues, please review the attached summary expenditure line items for differences between actual and budget. Total full year spending projection remains as planned.

Since Police and Fire 2014 spending budgets consume 68% of General Fund operating budget before debt and fees, these two lines items are significant to monitor.

2014 Full Year Projection:

Maintain plan.

Cash Flow:

This month's ending cash position is $30,164,331 compared to last year's $23,423,233. The General Fund has provided the following loans: trash $850,000; recycle $550,000 and agency $250,000, totaling $1,650,000. June payments include trash's $850,000 and

recycle's $200,000. The remaining balances are recycle at $350,000 and agency $250,000, totaling $600,000. These must be reimbursed by December 31, 2014.

2014 Contingency Usage:

The budget is $1,015,038 unspecified and $1,118,362 specified recycling if moved to general fund, totaling $2,133,400. The use of this budget is strictly prohibited, requiring council's approval. See Contingency schedule of usage.

City's Bond Rating by Moody's:

Baa2 (low medium grade) compared to a target of **Aaa** (prime). The City will be referred to Moody's rating committee for a potential upgrade. A change in Moody's rating process is forthcoming.

Headcount by Fund:

The general fund full time headcount ended 15 below plan, varying among divisions. The reduced part time employees are associated with the seasonality of crossing guards. The mix of headcount between public safety and non uniform is near plan.

	Full Time	Part Time	vs. Plan FT	vs. Plan PT
General	480	112	15 less than plan	33 less than plan
Shade	1	0	1 less than plan	ok to plan
Sewer	71	2	2 less than plan	3 less than plan
Solid Waste	17	1	2 less than plan	ok to plan
HUD	5	0	2 less than plan	ok to plan
TOTAL	**574**	**115**	**22 less than plan**	**36 less than plan**

General:	Actual FT	% of Total GF	Plan FT	% of Total of GF
Police	193	40.2 %	194	39.2%
Fire	146	30.4 %	152	30.7%
Public Safety	339	70.6%	346	69.9%
Non Safety	141	29.4%	149	30.1%
Total	480	100.0%	495	100.0%

FIVE YEAR PROJECTION:

PFM provide various scenarios.

The 2014 General Fund budget includes a financing fee component of $6,670,000 of the lease payment from the Water Fund. Stability of this revenue source requires attention in light of the Act 73 restrictions.