CITY COUNCIL

Finance, Audit & Budget Committee

Monday, August 18, 2014
City Council Office
5:00 pm

1. Nominations Committee Meeting at 4:30 pm

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)
- Charter Board – Budget Transfer Required
- Penn Sq. Properties Cash Position

II. 2015 Budget

- Define budget review process and establish preliminary schedule
- Amount of Cash in Reserve
- Revenue Estimating Committee

II. 2013 External Audit

- 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 - complete

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

JULY 21, 2014 FINANCE COMMITTEE MEETING
EXECUTIVE SUMMARY

Agenda Item	**Action**
UGI Meters	Managing Director to prepare position paper on relocation of UGI Meters. Additional Community Meetings for educational purposes required.
Recycling Fund Escrow	Adm Services Director to work with Law to define policy in writing – review at August meeting.
Recovery Plan Amendment	Discussion delayed until Mr. Mann has the actuarial reports

CITY COUNCIL

Finance Committee

Meeting Report
Monday, July 21, 2014

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

Others Attending: F. Acosta, D. Cituk, C. Younger, C. Zale, L. Kelleher, M. Bembenick, V. Spencer, C. Snyder, B. Rivera

Before the start of the Finance Meeting, Council entered an executive session as per Sunshine Act §708.3 re the purchase or lease of property at 5:10 pm. The session concluded at 5:57 pm.

Ms. Goodman-Hinnershitz called the Finance Committee meeting to order at approximately 6 pm.

I. Legislative Review

- *Act 47 Amendment – 1year/5year*
  Ms. Kelleher stated that Mr. Mann was still working on this and should have an update by our August Finance Committee.

- *RAWA Recycling Escrow*
  Mr. Waltman stated that he would like to have a brief discussion on this as he doesn't feel there is a need for the City to escrow funds.

  Mr. Bembenick stated that RAWA is escrowing their own funds and that the City is not currently escrowing recycling fees paid to the City. Mr. Spencer reiterated that RAWA is remitting monies to the City and escrowing their own funds.

  Mr. Acosta expressed the belief that the City should be escrowing recycling funds as citizens paying the recycling fees while the current litigation proceeds should feel that the City can return the money if the court case is successful.

  Ms. Goodman-Hinnershitz suggested that perhaps something be put in writing to accommodate Mr. Acosta's concern.

  Mr. Bembenick stated that he will speak with the Solicitor regarding this matter to establish something concrete in written form.

- *Charter Board*
  Mr. Waltman expressed his concern with the manner in which the Charter Board is spending money. He expressed the belief that the Charter Board should be told to stop proceeding with litigation as they have expended their 2014 allocation.

Mr. Acosta expressed agreement with Mr. Waltman that the legal fees have become exorbitant.

Ms. Kelleher stated that the Charter Board's budget for 2014 is $100,000. They have used their 2014 allocation and predicted that they will require $95,000 more for current litigation purposes.

Mr. Waltman reiterated that the Charter Board needs to be told to stop this kind of spending and asked that a letter be drafted to that effect. Mr. Younger stated that he drafted a letter in 2013 about this matter. A copy will be distributed to Council.

Mr. Spencer reminded Council that the Charter amendment approved by the electorate requires Council to fund the Charter Board. Mr. Younger responded affirmatively, however, he believes spending should be within reasonable limits.

Ms. Kelleher read a portion of the Home Rule Charter Amendment which states that Council indeed shall fund the Charter Board expenses. She also read the paragraph covering the jurisdiction of the Charter Board (Copied in below)

> b.) **Jurisdiction.** The Charter Board shall hear and decide all cases alleging violations of the Charter or Administrative Code, except that its jurisdiction shall not extend to any case arising under the Ethics Code or the Personnel Code. Insofar as permitted by state law the Board shall issue binding opinions, impose penalties and administrative fines, refer cases for prosecution, and conduct investigations on its own initiative and on referral or complaint. City Council shall appropriate sufficient funds to enable the Board to perform the duties assigned to it, including expenses for independent counsel and other necessary staff.

Mr. Waltman questioned the Charter Board's ability to file appeals and hire appellate legal counsel.

- *UGI Meters*

  Mr. Waltman expressed his dissatisfaction with how UGI has installed meters not only along Cotton Street but also on North and South 9th Street. He stated that eventually the entire City will have these unsightly meters. He feels that a complaint should be filed for each and every one installed as they appear unsightly to any area of the City. He stated that the regulations may be adequate for suburban-like locations such as the College Heights area but the majority of urban properties do not have setbacks or frontage that allows the relocated meters to be screened and protected.

Ms. Goodman-Hinnershitz agreed further stating that UGI did not *need* to use this type of meter. Additionally, pavements have been dug up and not repaved to date leaving residents the burden of having to foot their own bills for proper paving of their sidewalks to cure the public safety hazards; however, many residents do not have the funds to do so.

Ms. Snyder stated that it has been established that the regulator must be on the outside but the meter does not unless it poses a safety concern under the newly adopted PUC rules and regulations. She stated that if residents request that their meter be placed indoors, their requests may be honored. She stated that there has been some discussion regarding meter painting which was productive; however, there are still issues with curb cutting and street cutting issues and the related repairs.

Mr. Waltman stated that if we are going to have the City looking this unattractive, we should just own it. We have not done anything to hold UGI accountable.

Ms. Goodman-Hinnershitz expressed her concern that in the end, the resident will get the QoL violation for improper paving and not UGI. With that being said, she believes another meeting to address the UGI situation is necessary. Additionally, the public is somewhat confused regarding the safety aspect of these meters and that should also be addressed through additional community meetings.

Ms. Snyder agreed and stated she can put together a comprehensive position document outlining all information we know regarding the meter situation so as to keep the public fully informed.

II. RAWA External Audits

Mr. Cituk stated that the drafts were reviewed and that the financials are normalized. He asked Council if they would like a report of previous years prior to 2013.

Ms. Goodman-Hinnershitz replied affirmatively stating that knowing some history would be beneficial to understanding the present numbers.

III. Financial Reports

Ms. Kelleher distributed Mr. Zale's financial reports and he stated that the Charter Board has already spent their 2014 allocation. He stated that the Trash loan is totally paid off, $200,000 of the Recycling loan has been paid off, there has been no usage from the Contingency Fund, our bond rating remains unchanged and the head count is 22 less employees than that authorized by the 2014 position ordinance.

Mr. Zale stated that at the midyear point the City has collected $30M in revenues, compared to $23M at midyear 2013. He stated that 2014 is trending to show a $13M surplus at year end, without considering the expected $3M MMO payment.

Mr. Zale stated that RAWA made an overpayment in their annual lease payment of approximately $300K and a refund will need to be arranged.

Mr. Bembenick added that departments are beginning to present their budget submissions. He stated that he will be calling a Revenue Estimating Committee meeting around August 11. The Revenue Estimating Committee is covered in RE07 of the Recovery Plan and is composed of the Managing Director, the Administrative Services Director, the Council President, the Finance Committee Chair and a rep from PFM or their designees.

Mr. Cituk reported that the Real Estate tax continues to trend at an 85% collection rate, compared to a 96% collection rate when the City was using Portnoff. He stated that the number of delinquent payments is increasing. He suggested restoring the payment plan option with the County Treasurer. He expressed the belief that the "late payers" are a combination of those who formerly used the payment plan and those who intentionally pay late for some unknown reason.

IV. Update from City Auditor re: Internal Audits

Mr. Cituk stated that there are no capital projects pending. He stated that he will have the six (6) month capital report for the WWTP project next month.

He stated that his is still working on a 2011/2012/2013 three (3) year pension audit. Regarding the MMO/5-Year projection, he will need to meet and review with Mr. Mann.

There was a brief discussion on police and firemen pensions and the need to lobby the State legislators for significant changes. While the City can create a defined pension program for the O & E area, police and fire pensions will remain. By 2015 the annual

pension payment will be approximately $15M annually, which is approximately ¼ of the annual budget. The continued increases in pension and other legacy costs make it difficult to fund basic public services.

Mr. Spencer stated that the Chamber and PML continue to push this issue; however, the strong lobbying by the FOP and IAFF causes the legislation to stall out. It was noted that Police and Fire Pensions are a much larger financial burden than the O & E Pensions. Changes made now will not affect current retirees, but new employees who will not retire for approximately 25-40 years.

The meeting was adjourned at 7:05 pm.

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

CITY of READING
GENERAL FUND FINANCIAL REVIEW SUMMARY
July 2014

The attached files are the General Fund results year to date through July 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. **New this month, revenue by responsibility has been added.** This should assist directors and chiefs to manage their revenue line items. For comparison purposes, prior year income statement results are also included.

OVERVIEW:

Seven months, 58.0% of the full year, have been completed. On a cash basis, the month's year to date surplus/deficit generates a surplus of $14,161,063. 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 58.0**%** of this activity is recognized this month, the reported surplus would change to a $10,212,987 surplus.

Revenues:

Please review the revenue summary, detail revenue line items and revenue by responsibility for differences between actual and budget. Full year revenue projection remains as planned. July's real estate tax filing amounting to $1,252,126 is slightly higher than June's $984,262. 92% of the budgeted real estate tax has been received through July. The earned income tax (EIT) filings on current year's earnings are beginning to occur with year to date EIT at $4,822,499 exceeding budget by $438,420, 10.0%. 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	$5,756,413.39	$4,822,499.09	$10,578,912.48
Budget	6,481,303.60	4,384,079.44	10,865,383.04
Excess/(Deficit)	$ (724,890.21)	$ 438,419.65	$ (286,470.56)
Percent of Budget	(11.2%)	10.0%	(2.6%)

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 $30,303,393 compared to last year's $22,846,562. The General Fund has provided the following loans: trash $850,000; recycle $550,000 and

agency $250,000, totaling $1,650,000. 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 17 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	478	112	17 less than plan	33 less than plan
Shade	2	0	ok to plan	ok to plan
Sewer	68	2	5 less than plan	3 less than plan
Solid Waste	18	1	1 less than plan	ok to plan
HUD	5	0	2 less than plan	ok to plan
TOTAL	**571**	**115**	**25 less than plan**	**36 less than plan**

General:	Actual FT	% of Total GF	Plan FT	% of Total of GF
Police	190	39.7 %	194	39.2%
Fire	146	30.5 %	152	30.7%
Public Safety	336	70.2%	346	69.9%
Non Safety	142	29.8%	149	30.1%
Total	478	100.0%	495	100.0%

FIVE YEAR PROJECTION:

PFM will be providing various scenarios at the August 20th meeting.

The City has recently negotiated an amended lease with RAWA valued at $8 million annually. Finance is currently reviewing this lease proposal.