# *CITY COUNCIL*
## *Finance, Audit & Budget Committee*

**Monday, September 15, 2014**
**City Council Office**
**5:00 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. Review Draft 2013 External Audit

## II. Legislative Review

- Budget Amendments
  - Public Works
  - City Council Office
  - Charter Board
- Forestry Management
- Debt Refinancing (Financial S&Lutions)

## III. 2015 Budget

- Define budget review process and establish preliminary review meeting schedule
- Council's Budget priorities

## IV. Recovery Plan Amendments

1. Public Safety – policing differently
2. Zoning – developing a defined zoning strategy that will not allow an inappropriate use to fill an empty space
3. Parking – defining improvements to existing parking regulations to make them more user and business friendly
4. DID – define the DID mission and how do we measure DID's performance

## V. Review Finance Reports – deferred until November

- 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

**August 18, 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 - Incomplete |
| Recovery Plan Amendment | Discussion delayed until PFM has the stratified 5 year financial plan |
| Budget | Define Budget Review Schedule and Process |
| Charter Board Budget | Referred to COW |
| Penn Sq Properties | Committee recommendation to rebid the properties individually |

# CITY COUNCIL

## Finance Committee

**Meeting Report**
**Monday, August 18, 2014**

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

**Others Attending:** D. Cituk, C. Younger, C. Zale, L. Kelleher, M. Bembenick, C. Snyder, B. Rivera, F. Denbowski

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

### I. Legislative Review

- *Act 47 Amendment*

  Ms. Snyder stated that PFM is continuing to work on this and meeting with departments and individuals to obtain input on new initiatives. A meeting is being developed with Recycling to modify that component of the amendment. There will be a town hall meeting at Reading Area Community College (RACC) in which Mr. Mann will speak to the public regarding what is expected to happen in 2015. There will be an opportunity to review and comment on the Recovery Plan.

  Ms. Goodman-Hinnershitz voiced her concern that when the topic of the meeting was changed from water to the Recovery Plan that Council was not consulted about their ability to attend. She and others will not be able to attend this event and she questioned why this has become a public hearing.

Mr. Waltman responded that it is not a public hearing and that his major concern is the lack of a stratified five (5) year financial plan so the amendment process can begin.

Ms. Snyder stated that originally Mr. Mann was asked to speak about the monetization of the water asset and the proposed use of a large upfront payment. However, with the conclusion of the water lease agreement without a large upfront payment, the mayor asked Mr. Mann to speak about the City's financial picture.

Ms. Goodman-Hinnershitz requested that no chairs be set up specifically for council members at this meeting as members may not be able to attend as was done at the May meeting at RACC.

Ms. Snyder agreed and Mr. Denbowski agreed to follow up. She stated that she will ask Mr. Mann for a timeline for the stratified financial plan on Thursday when they are scheduled to meet. Ms. Goodman-Hinnershitz agreed saying there is a definite need to apprise the public with a time frame for this amendment.

Mr. Waltman stated that the Recovery plan cannot just be a spending plan. There is a need to address legacy issues such as the pension which PFM should be assertively attacking.

Mr. Waltman stated that the City needs to lower its tax rates and rates in general. He pointed out that as the City's tax rates on property and income increased people sold their properties and moved out. He also noted the amount of untaxed income in the City. He stated that City taxpayers are expected to pay for themselves and for those with un-taxable income.

Mr. Waltman stated that many areas need further review during the budget process such as the Property Maintenance Division (PMD). Millions of dollars are directed to PMD; however, visible results are virtually non-existent. He cited the 300 block of South 5th Street as an example, noting how drastically that area has deteriorated, which is simply unacceptable. He also noted the amount of down time of fire fighters and their ability to do more when on the clock.

Ms. Goodman-Hinnershitz countered that the Police Department has excelled under a 40 officer reduction. This reduction caused the Chief to expend resources in a different manner. She congratulated the Chief and officers for their effort to reduce crime with a reduction in staffing.

Ms. Snyder stated that under the City's $80M budget, only $15M is left after the City pays for pensions, debt service, police and fire.

Mr. Waltman reiterated that City taxpayers pay twice; for themselves and for those who live tax free. He noted that this will be a difficult budget process.

- *Charter Board*
  Ms. Kelleher stated that the Charter Board is requesting an additional $95,000 to cover anticipated activities through the end of 2014. She noted that there is no guarantee that the entire sum will be used.

  Mr. Waltman noted the need to amend the Charter Board ordinance to place limits on Charter Board expenditures and the Charter Board's jurisdiction. Ms. Kelleher noted that both of those amendments would require referendum approval. She added that the mediation process suggested by the mayor's office would also require referendum approval.

  Mr. Waltman noted the exorbitant amount of money expended by both sides during the 2012 Charter Board complaints.

  Ms. Goodman-Hinnershitz stated that there is a need to know what is being proposed and what changes need to be made. She believes this should be a discussion that includes all members of Council so it should be addressed at a Committee of the Whole meeting. She questioned if Law has enough funding in place to cover 2014 legal expenses. Mr Younger responded that a fund transfer request may be needed as the incoming bills are higher than projected.

  Mr. Younger stated that slim majority of voters approved the referendum to create the Charter Board. He noted that no other similar board exists in Pennsylvania.

  Ms. Goodman-Hinnershitz suggested covering this issue in a COW setting.

- *Penn Square Properties – Cash Position*
  Ms. Snyder stated that there is nothing further to report on this subject because Our City Reading (OCR) has not responded. She stated that internal discussions have taken place and a resolution is expected to be presented sometime within the next week. She stated that the mayor and Mr. Agudo have reached out to OCR. She expressed concern with

the City's ability to financially carry these buildings until they are developed as the funding is close to being exhausted. She explained that UDAG proceeds were generated when CNA paid off their UDAG loan to acquire and maintain this property. After the purchase of the five (5) properties in the 400 block of Penn Street, approximately $500K remained to cover the carrying costs such as the stabilization of the occupied areas and one (1) year of maintenance. However, that year is nearly up.

Ms. Reed questioned if there is an option to re-bid the project and to offer the buildings separately, rather than as a package.

Ms. Snyder responded that buildings one and two should not be separated as they have a common heating system; however, buildings 3, 4 and 5 *can be* separated and that will be explored.

Mr. Waltman reiterated about the importance of finding those who want to invest in our City and the importance of the City to take the position of strength, rather than weakness. Ms. Goodman-Hinnershitz agreed further stating that, factually, more people *are* visiting the downtown area more frequently.

Ms. Snyder stated that both Mr. Shuman and Mr. Boscov stated that restaurants and shopping venues will be filled once people feel safe.

Mr. Waltman stated that there can be all the plans in the world but if there is no clear vision, nothing will come to fruition. Mr. Waltman questioned the planning and progress made by the Main Street Board and working committees.

Ms. Reed noted that the attitude of the mayor's office caused the volunteers who care for the Penn Street plantings to walk away from the project. She stated that no other group has or will step in to take over.

The group discussed the need to change the face of the downtown and the need to discuss planning for the downtown in a different venue.

**II. 2015 Budget**

- *Define budget review process and establish preliminary schedule*
  Mr. Bembenick stated that this will be a challenging budget year and due to this, the budget will not be submitted in early September. However, the budget will be submitted

by the last week in September. He noted the need for the Revenue Committee to begin meeting.

The group agreed to hold a Revenue Committee meeting on Wednesday, August 27th at 5 pm.

Ms. Snyder inquired about Council's desire to examine all departments individually with department heads presenting in-depth reports.

Ms. Reed expressed the belief that that was unnecessary and that a report through the administration would suffice. All present agreed.

Ms. Goodman-Hinnershitz suggested that some in-depth review would be required. She noted the need to consider the staffing in the Public Works area that attends to the maintenance of City property, as their inability to properly manage the maintenance of City owned property reflects poorly on the City and causes broader problems.

- *Amount of Cash in Reserve*

Mr. Waltman noted the need to determine the amount of actual cash in the reserve that can be accessed over a period of 2-3 days.

Mr. Bembenick responded that PFM is using 2012 external audit figure of $14M for the Recovery Plan amendment. He noted that the cash area is composed of various cash and non-cash items such as receivables, billables, etc. He explained while $12M would be a safe figure to use, he would prefer using $10M which includes the reduction of the $2M currently in the contingency fund. He explained that the contingency fund holds $2M to cover recycling expenses if the current litigation determines that the City cannot bill for recycling services.

Mr. Waltman and Mr. Bembenick agreed that it will be necessary to use some of the reserve to balance the 2015 budget.

**III. 2013 External Audit**

Mr. Cituk stated that on Tuesday, August 26, the City of Reading will be getting a draft 2013 audit. On Monday, September 22nd a presentation of the final audit will be made with a Q & A session for council. He estimates a positive fund balance. He also noted the need to organize an Audit Committee meeting.

Mr. Cituk explained that the cause of the delay stems from the delay in receiving the RAWA and Redevelopment Authority external audits. He thanked Ms. Kelleher for remembering to include a delivery date in the recent amendment to the water lease agreement.

Mr. Cituk stated that the contract with Herbein & Co. for external audit services is expiring and he noted the need to go through the RFP process. He stated that the Audit Committee will be invited to participate in the review and interview processes.

Mr. Cituk reviewed the capital expenditures for the Wastewater Treatment Plant. As of June 30, 2014, $42,242,401.91 was expended. The report contains details about the amounts paid out to each vendor.

**IV. Review Financial Reports**

Mr. Zale stated that while the City currently has a surplus, the MMO payment for 2014 is not made until the end of the year. He stated that 92% of budgeted property tax (not the total amount of property tax due and billed) has been received. The Fire and Police budgets continue to be a concern, especially Fire overtime. EIT is $438K over budget projections; however, Prior Year EIT is underperforming.

Mr. Zale stated that the City's Cash Flow is at $30M, Recycling has not yet reimbursed the amount loaned and the Contingency Fund hasn't been touched. He noted that the bond rating has not changed. The current headcount is less than that budgeted.

Ms. Goodman-Hinnershitz asked how other Act 47 cities compare to us in terms of bond rating. Mr. Zale responded that the bond rating of cities varies. He noted that Pittsburgh recently received a single A rating.

Mr. Bembenick stated that revenues from EMS and Fire need to be reviewed for the remainder of the year and decisions will be required on staffing due to the expiration of the SAFER Grant. The SAFER Grant allowed the City to add a medic truck. The City will need to see if the additional truck was cost neutral.

Ms. Goodman-Hinnershitz adjourned the meeting at approximately 6:30pm.

*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.

**TO:** City Council, David Cituk
**FROM:** Christian F. Zale, City Controller
**DATE:** August 27, 2014
**SUBJECT:** Schedule of Transfers –August 2014

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The following transfers occurred in August 2014 as specified in the 2014 council approved budget: **(Changes to budget captioned in bold.)**

To General Fund (01):

Indirect Cost: CD (32) **$NONE for January through August…HUD funding is available (Budget $15,833.00)**; Sewer (54) **$96,691.17 (Budget $96,786.00);** Recycling (56) **$36,862.00 (Budget $20,851.33);** Trash (56) **$15,194.67 (Budget $11,140.75);** Water (50) $0.00 (Budget $0.00). **These transfers changed per the 2012 Maximus cost study.**
Transfers: Sewer (54) $250,000.00; Water (50) $430,833.33
Water RAWA Act 47: $125,000.00
Meter Surcharges: Water (50) $141,666.67

To Water Fund (50):

Meter Reading Cost: Sewer (54) $15,000.00; Billing Cost: Sewer (54) $25,000.00
RAWA Lease Agreement: **From RAWA $720,678.00.**

To Self Insurance (52):

Sewer (54) $40,939.33; Water (50) $6,331.25; General (01) $211,807.92; Recycle $5,986.67

**Corrections:**

**Additional Transfers:**

**Other Transfers:**

**The City received $593,679.06 from RAWA related to Recycle and Trash billings.**
**The City received $200,000 from Recycling to partially reimburse previous transfer.**

These transfers are reflected in August trial balance. Also, the related cash has been transferred among the various funds; thus, no impact in the DT/DF accounts. This activity has been confirmed by the City Auditor.