



# *CITY COUNCIL*

## ***Committee of the Whole***

**Budget Review**  
**Wednesday, October 14, 2015**  
**5 pm – Penn Room**  
**Agenda**

*Although Council committee meetings are open to the public, public comment is not permitted at Council Committee of the Whole 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 President of Council.*

*All electronic recording devices must be located behind the podium area in Council Chambers and located at the entry door in all other meeting rooms and offices, as per Bill No.27-2012.*

- I. Budget Review - 5 to 7 pm**
- II. Reply to prior meeting follow up items**
- III. Capital Improvement Plan**
- IV. Position Listing**
- V. Expenditure Overview**
- VI. List of major expenditure drivers**
  - Pension cost drivers 101(if time permits)
- VII. Summarize this meeting's follow up items**
- VIII. Adjourn**

## **Follow Up List**

- EIT
- Property Tax
- Skyview PILOT
- RPA Lease Agreement
- RAWA 5<sup>th</sup> Addendum
- HOME Resolution for 427 Washington Street
- Auditor's Revenue and Expenditure Budget Review

## **PFM Recommendations/Questions**

1. Increase BPT Revenue by \$100,000 based on 2015 Collection
2. LST – suggest increase based on 2015 performance
3. Housing Permits/Rental Inspections - why are permit revenues going up when inspections are going down
4. Why was BPL revenue \$40,000 lower midway through 2015
5. Franchise fees: \$60,000 higher than budgeted in 2015
6. Traffic fines motor codes: \$40,000 higher than budgeted in 2015. Mid-year results are only 38 percent of the lower 2015 budget target.
7. Fire prevention permits: \$43,000 lower than budgeted in 2015. Actual revenues are lower midway through the year, but why? And what's the status of implementing initiative FD06?
8. Indirect cost reimbursement from recycling: \$57,000 less than budgeted in 2015

**2016 Revenue Budget  
PFM Comments and Questions**

Here are a few revenues that you should to review to see if the 2016 projections should be adjusted.

**Business Privilege Tax**

	<b>2015 Budget</b>	<b>2015 June</b>	<b>2016 Act 47</b>	<b>2016 Budget</b>
Business Privilege Tax	\$1,500,000	\$1,492,062	\$1,598,000	\$1,500,000
Bus Priv Tax - Prior Year	\$100,000	\$123,073	\$102,000	\$75,000

The 2016 Recovery Plan projection starts with the 2015 budget target, grows it by 2.0 percent for assumed tax base growth and then adds about \$70,000 associated with the City outsourcing BPT collection starting in January (initiative AS08). The Plan assumed better collections from outsourcing would bring BPT revenues to \$1.6 million by the end of 2016.

I don't know your intentions for outsourcing BPT collection, but the mid-year 2015 results are about \$150,000 ahead of last year (\$1.3 million). Assuming the second half of 2015 is similar to the second half of 2016, this year's current year revenues will finish close to the Plan's \$1.6 million target for 2016. So you could increase the 2016 current year target by \$100,000.

The projection for prior year revenues also looks too low based on a simple comparison of budget-to-actual in 2015. But you may know more about what's driving the 2015 results over budget and have discounted the 2016 target accordingly.

**Real Estate Transfer Tax**

	<b>2015 Budget</b>	<b>2015 June</b>	<b>2016 Act 47</b>	<b>2016 Budget</b>
Real Estate Transfer Tax	\$1,900,000	\$1,306,613	\$1,938,000	\$2,000,000

The results for this revenue have been really volatile for a while as described in the 2014 Recovery Plan (page 274). Our projections acknowledged the volatility and applied a two percent growth rate to the 2015 budget figure.

Those numbers now look too low. Last year's actual results were \$2.5 million instead of the \$1.9 million budgeted. This year's mid-year results (\$1.3 million) are 27 percent higher than last year's mid-year total (\$1.0 million). But I don't know if there's any kind of predictable seasonality that ensures the 2015 year-end results will finish far over the 2015 budget target. It's fine to increase the 2016 budget target above the Recovery

Plan projection by at least \$100,000. The September 2015 results will tell you if you can go higher.

### Local Services Tax

	<b>2015 Budget</b>	<b>2015 June</b>	<b>2016 Act 47</b>	<b>2016 Budget</b>
Local Services Tax	\$1,000,000	\$279,133	\$1,010,000	\$900,000
LST – Prior Year	\$200,000	\$314,439	\$202,000	\$200,000

The 2016 Recovery Plan projection starts with the 2015 budget targets and grows them by 1.0 percent each year to account for growth in the number of employed residents and commuters working in Reading. The historic growth rate for employment has been less than 1.0 percent per year in Reading and Berks County as a whole.

The 2015 mid-year results are strange. It looks like there might be a recording quirk where some of the current year LST was recorded as prior year LST. Figuring out the strange mid-year results is the key to knowing whether the 2016 budget target should be lower, higher or the same as this year.

### Admissions Tax

	<b>2015 Budget</b>	<b>2015 June</b>	<b>2016 Act 47</b>	<b>2016 Budget</b>
Local Services Tax	\$325,000	\$272,807	\$331,500	\$275,000

The 2016 Recovery Plan projection starts with the 2015 budget target and grows it by 2.0 percent each year. Again the 2015 mid-year results are strange. If the \$273,000 figure is accurate, then the City is more than on pace to exceed its budget target for 2015 and the 2016 budget target should be higher than \$325,000. Figuring out the strange mid-year results is the key to knowing whether the 2016 budget target should be lower, higher or the same as this year.

Here are our questions on the non-tax revenues.

### Rental Housing Revenues

For Rental Housing Permits the City increased its projection from \$897,000 to \$1,040,000 across all years, which is \$125,000 (or 14 percent) higher than the Recovery Plan.

	2015 Budget	2015 June	2016 Act 47	2016 Budget
Rental Housing Permits	\$730,000	\$657,243	\$744,600	\$890,000
Housing Prior Year	\$166,735	\$73,798	\$170,070	\$150,000
Total	\$896,735	\$731,041	\$914,670	\$1,040,000

For rental housing inspections, the opposite is true – the City lowered its projection from \$803,000 to \$635,000, which is \$184,000 (or 22.5 percent) lower than the Recovery Plan.

	2015 Budget	2015 June	2016 Act 47	2016 Budget
Housing Inspections	\$584,900	\$193,190	\$596,598	\$450,000
Housing Inspection - Prior	\$218,116	\$121,918	\$222,478	\$185,000
Total	\$803,016	\$315,108	\$819,076	\$635,000

The reduction in rental inspection revenue makes sense in light of the mid-year performance. Current year revenues were \$255,000 last year and \$193,000 this year. Rental housing permit revenues are actually a little lower this year compared to last year (\$657,000 versus \$664,000).

***But why are permit revenues going up when inspections are going down?*** That implies that there are more rental units (or more that are paying their fees) but fewer rental inspections. That's the opposite trend from what you want, correct? Don't you want fewer rental units but more inspections to ensure they are compliant?

### **Business Privilege Licenses**

You projected \$275,000 for business privilege licenses, which is \$25,000 less than you budgeted this year. Midway through 2015 the City's BPL revenues are \$40,000 less than a year ago. The lower revenue projection may be okay, but it's not clear why this item fluctuates so much when it's a fixed fee every year.

***Why was BPL revenue \$40,000 lower midway through 2015?***

### **Revenues higher than we projected**

Please briefly comment on the following revenues that you increased from 2015 to 2016:

- Direct reimbursement for community policing: \$79,000 higher than budgeted in 2015. This looks like a strategic decision to spend more on this activity and less and something else. Is that right and, if so, what's being reduced?
- Reading Public Library: \$76,000 higher than budgeted in 2016
- Franchise fees: \$60,000 higher than budgeted in 2015
- Traffic fines motor codes: \$40,000 higher than budgeted in 2015. Mid-year results are only 38 percent of the lower 2015 budget target.

### **Revenues lower than we projected**

Please briefly comment on the following revenues that you decreased from 2015 to 2016:

- Fire prevention permits: \$43,000 lower than budgeted in 2015. Actual revenues are lower midway through the year, but why? And what's the status of implementing initiative FD06?
- Indirect cost reimbursement from recycling: \$57,000 less than budgeted in 2015.