

**City of Reading
City Council
Work Session
Saturday, May 15, 2010**

Review & Comments - Draft Act 47 Recovery Plan

Councilors Attending: V. Spencer, M. Goodman-Hinnershitz, D. Sterner, S. Marmarou, D. Reed, J. Waltman, F. Acosta

Others Attending: L. Kelleher, C. Younger, D. Cituk

Mr. Spencer called the work session to order at 8:35 a.m. and announced that the purpose of the meeting was to discuss the draft Act 47 Recovery Plan as a group, as Council will ultimately have to either approve or reject the plan when it is placed in final form.

Mr. Spencer stated that two (2) public meetings are planned; the first on May 19th at 6:30 p.m. at the RACC Miller Center and the second on the Act 47 Community Group suggestions on May 26th at 6:30 p.m. at the RACC Schmidt Center.

The group next questioned the approval timeline. Mr. Younger stated that Council must either approve or reject the plan 25 days after the public meeting. However, it was unsure when the 25 day clock starts ticking; after the first hearing or after the second. The group also questioned how soon the final version would be received.

Ms. Kelleher stated that on Friday, she and Mr. Kersley discussed the timeline. Mr. Kersley noted learning Mr. Reddig's belief that Council must take action on June 13th (a Sunday, therefore the meeting date would be Tuesday, June 15th due to Flag Day), which would require Council to introduce the plan on Monday, May 24th. Ms. Kelleher stated that Mr. Kersley has arranged a conference call on Monday with Mr. Reddig to clarify the timeline. Council stressed the need for Mr. Reddig to place the timeline in writing.

Council Comment on the Draft Plan.

Mr. Waltman redistributed a list of his concerns (attached) in summary:

- The current tax burden is shared by only 56% of the City's residents, caused by mismanagement of governmental operations, lead to the fear that further

increases could lead to a financial paradox and implosion

- The need for additional personnel savings to parallel public and private standards
- The need for additional savings administratively, operationally and structurally
- Increased securitization of assets - 200% vs. 75%
- Need for the plan to define the need for accountability of the Administration around the approved initiatives of the Administration and consequences for failure

Mr. Sterner agreed that there is a disproportionate burden placed on City taxpayers. He noted the need to develop alternatives to counter reductions in the proposed tax rates. He agreed with the need to identify those who are currently not paying all taxes and fees.

Ms. Reed agreed that City operations have been mismanaged, which has resulted in the imbalance between those who pay and those who do not. She suggested further employee concessions to reduce costs and allow the City to continue providing the current services.

Ms. Goodman-Hinnershitz also agreed with the need for reform of the Administration's structure to ensure the proper collection of taxes and fees. She also noted the impact further increases will have on the economic development of the City, as continued tax increases will have a negative impact on the City's ability to attract and retain businesses. She suggested weighing the pros and cons of the plan's initiatives, along with cost sharing techniques where applicable. She also suggested that essential services be defined as the plan is considered.

Mr. Acosta stated that the tight timeline requires solutions rather than continued complaint and discussion. He stated that the plan proposed provides quick cash infusion, which will place additional stress on taxpayers. He noted the need for defined reliable long-term solutions.

Mr. Waltman agreed and suggested that Council consider developing a variety of solutions that include an increase in revenue from the City's assets. He suggested developing a Sewer Authority or a combined Water Sewer Authority that can better support the City. He noted the current value of the City assets and the foresight of the City's forefathers when they purchased and built this infrastructure.

Mr. Spencer agreed with the need to develop short, medium and long term solutions to assure the City's future viability. He noted that cities may be unable to exit Act 47 as Recovery Plans usually address only short term solutions. He also agreed with the need to hold the Administration accountable. He suggested that the Act 47 Coordinator include consequences if the Administration fails to deliver, as Council is limited in its ability to hold the Administration's accountable and responsible. He questioned the ability to provide revenue equal to that imposed by the tax hikes.

Mr. Marmarou suggested limiting today's discussion to the plan's initiatives, so a list of comments/suggestions can be developed.

Mr. Sterner noted the impact the pension situation is causing at the State and local level. He also noted the potential tax problem a reduction in the State subsidy to the Reading School District could impose on the City's taxpayers.

During a discussion on the potential for the Coordinator's Recovery Plan to be rejected by Council, Ms. Reed noted the need to educate the public about the Act 47 process if the plan is rejected. Mr. Spencer stated that if Council rejects the Act 47 Coordinator's Recovery Plan, the Administration must create a plan and present it to Council for approval or rejection. He also noted the need for all to understand what municipal bankruptcy would mean.

Mr. Acosta noted the need for the Administration to provide Council with improved financial reporting that includes cash flow reporting, as the lack of proper financial reporting leaves Council unable to understand the City's true financial picture. He expressed the belief that the reports currently received are almost worthless as the information they contained is mostly incorrect. He questioned the competency of the Finance Department's management staff. He noted the Coordinator's statement regarding the improper methods currently used.

Mr. Waltman observed that the proposed plan forces City Council to make 5 years worth of financial decisions. He recalled his statement during last year's budget cycle regarding the leadership and management crisis created by this Administration. He stated that this crisis is now out of control. He noted the importance of driving direction and implementation around the initiatives adopted in the plan.

Mr. Spencer also noted the need for Council to understand the City's true financial and debt picture. He stated that the "rob Peter to pay Paul" approach used when the Administration "borrows" from other funds without reporting to Council will no longer work or be accepted.

Mr. Spencer and Mr. Waltman noted that the draft plan proposes another bond to fund the Administration's past transgressions.

In response to a statement regarding the City's financial records, Mr. Cituk stated that the City only has one set of books. He agreed with the statements concerning the lack of good leadership and management. He then went on to describe the practice of borrowing money to cover bills by borrowing funds from other accounts.

Mr. Acosta stated that the City cannot continue to make decisions based on faulty information. There was then a discussion on financial practices currently in place and the need to correct improper practices.

Council Comments & Requests on Plan Initiatives

REO1 - Delinquent Tax Collection

It is believed that this initiative is based on the collections outsourced to Linebarger. The recent press release stated that the delinquent Per Capita Tax has a \$1.2M value. Mr. Spencer noted the work of Council Staff to identify this lapse, which was originally declared incorrect by the Administration. PFM predicts a collection rate of \$300,000 per year.

1. Do these projections include delinquent Per Capita Tax alone?
2. Request for breakout of what this projection includes over a five year period
3. Should consider outsourcing collection and auditing of Business Tax, with annual licensing function to remain with the City.

REO2 - Water Fund Transfer Policy

The need to obtain optimum return on this investment was noted. Also discussed was the need to create a combined Water Sewer Authority to maximize the management of the sewer asset. Although autonomous control would be lost the impact on the City user would be reduced.

1. Explore combined Water-Sewer Authority or separate Authority
2. Review and renegotiate lease agreement with the Water Authority

REO3 - Reading Parking Authority PILOT Payment

1. Consider parking needs City-wide, including residential neighborhood parking lots that are within the range of the Parking Authority's ability to manage.

REO4 - PILOT Payments

1. Provide breakout of what this projection includes and methodology to achieve projections

REO6 - Additional Revenue through Market Based Revenue Opportunity

It was noted that this initiative was attempted in the past with a contractor who was paid based on their success. The initiative was unsuccessful.

1. Provide breakout on projection and steps to undertake this initiative successfully

REO8/9 - Property Tax Increase

There was discussion on the need to convert to Land Value Tax (LVT) vs. the current property tax method. The need for a reassessment prior to conversion to LVT was discussed along with the Commissioner's repeated refusal to undertake a county reassessment. It was noted that currently only approximately 62% of property owners currently pay property tax. Reduction to the tax increase provided in Charter is equal to approximately \$750,000.

1. Increase collection rate prior to increasing property taxes for those already paying
2. Balance reduction with increased contribution from water/sewer;

REO8B - Parking Surcharge

There was discussion on impact on Sovereign Center, etc. events along with the belief that a surcharge would kill economic development and business in downtown Reading.

1. Consider increase in fines and decrease in surcharge
2. Will not agree to paid parking for City employees

REO9B - Expand Earned Income Tax

It was noted that Mr. Geffken agreed to provide information on Friday on 1) the number of EIT forms mailed out, 2) the number of returns processed and 3) the revenue collected in 2009, 2008 and 2007. The information was not provided. There was discussion on impact to rental properties vs. owner occupied properties. Also discussed was the impact on the increased ability of tenants to move from the City quickly to avoid paying this tax vs. homeowners.

1. Unwilling to increase tax burden on those already paying

2. Increase collection rate of those currently not filing a City tax return

DSO1 - Unfunded Debt Transaction

1. Suggest increased operational adjustments to avoid further debt

WFO7 - Three Year Wage and Step Freeze

It is believed that this applies only to the City's collective bargaining units. It was noted that the unions have received pay increases, while management salaries have been frozen and reduced over the past two (2) to three (3) year period. The supervisor collective bargaining unit contract expired last year. The IAFF contract expires at the end of this year. The FOP and Rank and File contracts expire at the end of 2011.

1. Agree with the need for updating of all collective bargaining unit job descriptions.

WFO9 - 2.5 Reduction in Management Salaries

There was discussion on management salaries. There was also discussion on the need to contain management salaries that Council does not have control over.

1. Request salary study with other comparably sized cities and make adjustments to bring Reading management salaries back in line.
2. Require Council approval of all management level (exempt employee) salaries

WF24 - Redesign Employee Health Care

There was discussion on current Administrative plan to form a consortium with four (4) third class cities.

1. Request basis for recommended 15% employee contribution
2. Suggest exploring redesign (alteration) of health care package that will allow employee to select the level of health care he needs and can afford.
3. Suggest formation of consortium with County or School District

F108 - Transfer Tax Collection Duties to other entities

1. Request break out of taxes included in projection
2. Should include Per Capita, Property, EIT tax collection

3. Request outsourcing of Business tax collection with licensing to remain under City control

FD11 - Develop Performance Management System

1. Request percentage of down time vs. time responding to calls for service in Fire and EMS.
2. Develop deployment plan of Fire personnel for other duties within range of fire station during down time

Other Requests-Suggestions

Council expressed hope that if the Recovery Plan is rejected the Administration would work with Council to develop an alternative plan.

Mr. Younger stated that an alternative plan would need Council's approval. He added that the approved alternative plan would require approval from the Secretary of the DCED.

1. Require residency for all employees at all levels after July 1, 2010 to rebuild tax base and increase accountability of all personnel
2. Request breakout of all potential savings via renegotiation of all collective bargaining contracts
3. Explore affect of original Library agreement and 2000 agreement on outsourcing the City's library responsibility
4. Request County relief from settlement agreements with PSLC and NAACP re Police and Fire Diversity Boards
5. Develop deployment plan for all personnel during downtime
6. Develop performance based pay increase system for all personnel

Council Staff Comments & Suggestions:

In addition to serving the seven (7) members of Council, Council staff also provides support to the Reading LRA, the Blighted Property Review Committee, the Board of Ethics, the Charter Board, the Environmental Advisory Council, the Park and Recreation Advisory Committee (PARC) and the Board of Health. The Council Office has also operated an internship program with the Albright College Political Science Department for approximately ten (10) years.

1. Elimination of all take home vehicles and eliminate use of

city-owned vehicles on city time by non-emergency personnel; consider change to using personal vehicles and mileage reimbursement where for all non-emergency personnel (current County operation).

2. Reduce vacation time provided to Department Directors (currently 4 weeks at hire) to that provided to all City employees.
3. Renegotiate all employment contracts with all Department Directors & management employees.
4. City Hall maintenance not contracted out; provided by Part-time employees. (Public Works section pg 202)
5. Temporary wages of \$180,000 in 2009 - Summer Youth Employment Program - was funded by a federal grant. (Human Resources section pg 126)
6. Provide CDBG funding to cover Library programs and reduce burden on General Fund.
7. Seek ability to assess abatement and demolition costs on owner's property tax bill.
8. Eliminate the annual contribution to the Reading Redevelopment Authority.
9. Increase employee contribution to health care package, but only incrementally until 1) the wage freeze ends and 2) until the City redesigns the healthcare package to a "cafeteria" model that allows the employee to choose the type of coverage he can afford.

Ms. Kelleher was asked to arrange a meeting with Mr. Kaplan during the upcoming week. Ms. Kelleher suggested rearranging Monday's schedule to free some time if Mr. Kaplan's schedule allows.

Mr. Spencer reminded everyone about the Public Hearing on May 19th at 6:30 p.m. at the RACC Miller Center and the Public Hearing with the Act 47 Community Group on May 25th at 6:30 p.m. at the RACC Schmidt Center. He also noted the need for the definition of the timeline for the approval or rejection of the plan.

As no further business was brought forward, the work session was adjourned.

Respectfully submitted by Linda A. Kelleher CMC, City Clerk

JEFFREY S. WALTMAN SR.

May 10, 2010

VICE PRESIDENT - CITY COUNCIL

Due to the limited timelines to formulate opinions and directions on the Act 47 Recovery Plan I wanted to summarize and communicate some of my larger initial concerns. There are additional issues that I will cover in a submission to the Act 47 Coordinator. I look forward to further discussions with the public, the governmental partners, and all others involved to assist in formulating a meaningful, fair, and effective Act 47 plan that properly addresses the many issues.

1. **Taxpayers are already carrying the burden** through taxation and mismanaged government operations.
2. **The proposed tax increases could lead to a financial paradox and implosion.**
3. Proposed new revenues and expenditure reductions **add to disproportionate taxpayer burdens.**
4. **Additional personnel savings are needed** to parallel public and private standards.
5. **Additional savings are needed** administratively, operationally, and structurally than noted in the plan.
6. **EIT and Property taxes are imbalanced and inequitable tax levies** impacting only estimated 56% of eligible citizens.
7. **Securitization of city assets is the fairest approach** after additional savings are specified. (200% vs. 75%)
8. **More defined critical path items and a sequential action plan** are needed.
9. **More defined accountability is required within the plan** of the Mayor and administration, and City Council. Benchmarks and alternative actions should be noted.

10. Libraries & Recreation need a deeper focus.
11. **Stronger leadership**, vision, and goals are absolutely necessary to bring community and employee empowerment and motivation.
12. **Overall Act 47 must offer more long-term permanence** to core structural issues.
13. **More definitive legal and political strategies are needed** to resolve state initiatives.

Sincerely,

Jeffrey S. Waltman, Sr. - Vice President – Reading City Council