

Budget Review Meeting
Thursday, October 30, 2014
Penn Room

Attending: J. Waltman, D. Sterner, S. Marmarou, D. Reed, M. Goodman-Hinnershitz, C. Snyder, L. Kelleher, C. Younger, D. Pottiger, C. Zale, D. Cituk, M. Bembenick, C. Younger, D. Kaplan, G. Mann, E. Santamoor, V. Leung, V. Spencer, Department Directors

Ms. Goodman-Hinnershitz called the meeting to order at approximately 5:10 pm. She stated that the purpose of the meeting is to discuss the new draft of the Recovery Plan and its impacts on the 2015 budget and to define budget modifications.

Draft Recovery Plan

Mr. Mann introduced the PFM team who assisted in the preparation of the new Recovery Plan. He admitted that the plan contains some very harsh options. However, he noted that the City has done well over the past five (5) years as the City has moved from an annual operating deficit between 2007 and 2010 to a \$15M surplus in 2014. He stated that the rebound involved many painful decisions such as tax and fee increases, salary freezes and cuts.

Mr. Mann stated if the City continues operating in the same manner with no changes over the next five (5) years the budget deficit will begin to grow again. He stated that unlike the EIT, the property tax revenue is reduced each year due to decreases in the assessed values of properties. He stated that over the next five (5) years the City needs to begin weaning off of the Commuter EIT.

Mr. Mann stated that the main driver of the budget deficit is the pension costs. The City's pension contributions have grown higher each year and the trend continues moving forward.

	2011	2013	2015
Police	\$3.9M	\$6.1M	\$8.4M
Fire	\$2M	\$2.3M	\$3M
O&E	\$700K	\$1.6M	\$1.8M

Mr. Mann noted that the Police Pension program does not include a retirement age and uses only 20 years of service as a qualifier, which includes the ability of officers to purchase an additional five years of “ghost time” allowing some to retire after working as an officer for as little as 10 years if they are eligible to purchase military time. In addition the police contracts promise medical coverage for the officer and his family from the time of retirement until the officer becomes eligible for Medicare. The most recent OPEB valuation found that police officers consume \$68.9M of the \$90.2M accrued actuarial liability.

Mr. Mann stated that the City cannot continue to cover these rising pension costs through regular tax increases or program controls. The Recovery Plan suggests a 2 mil property tax increase in 2016 valued at \$2.25M and a 1 mil increase in 2017, 2018 and 2019 valued at \$1.1M.

Mr. Mann stated that the Recovery Plan suggests alternatives such as the implementation of a street light assessment and the tripling of the LST, which will neutralize the loss of the Commuter Tax. However, Mr. Mann reminded the group that although the value of the Commuter Tax is similar to the tripled LST, the LST will not grow annually as the EIT does. He noted that the LST is similar to the Commuter Tax as it charges those who are employed within the City. He stated that those working within Reading need to contribute to the cost of public services that they and their businesses consume.

Mr. Mann noted the need for changes to employee healthcare and retiree access to healthcare. He suggested that retirees retaining City healthcare should be offered very limited plan types, rather than the very rich types they currently have. He stated that if retirees were forced into using one of the current healthcare packages offered to employees, the City would save an immediate \$663K.

Mr. Mann stated that the new law adopted by the State Legislators requires municipalities in Act 47 to leave Act 47 within a five (5) year period. To exit Act 47 the municipality must show it has a balanced budget without reliance on the Commuter Tax.

Mr. Mann stated that at the budget session last evening the Public Works Director described the poor maintenance of the City’s buildings and facilities. He noted the need to begin refocusing on the basic capital needs of the City’s infrastructure. He stated that the revenue from the Commuter tax is approximately \$3M annually. He stated that beginning in 2015, the City will start dedicating a portion of that revenue to capital repairs - \$1M in 2015 to \$5.9M in 2019.

Mr. Mann stated that a large number of police officers retired when the City entered Act 47 to retain their benefits allowable under the previous contract. He noted that some of the initiatives within this new Recovery Plan may stimulate another round of retirements again focused at benefit retention.

The new Recovery Plan requires a 3.7% salary cut for officers, followed by a salary freeze and suggests defining a retirement age and eliminating health benefits for retirees. He stated that officers will need to choose between better benefits or salary increases.

Mr. Mann stated that the Recovery Plan addresses fire personnel in a similar manner and their abuse of overtime. The Plan states that when a specific level of overtime is reached, the minimum manning requirement will be eliminated. Fire personnel will need to choose between overtime pay and salary increases.

Mr. Kaplan noted the critical components that will affect the collective bargaining unit contracts under the current and new Recovery Plans.

Ms. Goodman-Hinnershitz inquired about the timeline to approve the new Plan. Mr. Mann stated that there are no requirements to adopt the new Plan such as advertisement or public hearings, as there were with the adoption of the original Plan. He explained that prior to seeking the court's approval for the Commuter Tax, the municipality must have introduced the budget and have Recovery Plan adopted by ordinance. The City's court date is December 1st.

Mr. Waltman noted the need to reduce the City's EIT rate. Mr. Mann stated that the combined City and School District EIT is 3.6%, which is the 2nd highest EIT rate in Pennsylvania.

Mr. Waltman expressed the belief that the high EIT rate has caused many to move away from Reading and that reducing the rate could stimulate the growth of the middle class.

Mr. Mann stated that the 2015 budget has a value of \$89M. He stated that the Recovery Plan reduces that amount to \$87M by moving the capital costs allocated for dam remediation into capital and reducing the use of the reserve.

Mr. Waltman noted the need for Council and the administration to build consensus on the parking lot additional spend items and then handle the revenue requirements. He also noted the need to merge the budget numbers with the Plan.

Ms. Snyder inquired about the timeline to develop consensus. Mr. Waltman stated that the discussion will begin at Monday's meeting and by Wednesday we should be ready to merge the budget with the Plan.

Mr. Bembenick inquired about the adjustments to the budget that are required by the Plan. Mr. Mann stated that the budget should show the elimination of the wheelchair transportation unit, under the Fire Department, the elimination of the positions as listed in the Plan and the budget should include the wage freeze.

Mr. Bembenick asked the Department Directors to review the Additional Spend parking lot list and to make a decision on if the items under their Department should stay on the list or be removed. He noted the need for the Directors to provide adjustments to their budgets to fund the items if the items are to remain on the list.

Mr. Waltman stated that on Monday Council will begin building consensus on the list and then do a merger meeting with PFM.

The meeting was adjourned at approximately 6:30 pm.

Respectfully submitted by Linda A. Kelleher CMC, City Clerk