



## The PFM Group

Public Financial Management, Inc.  
PFM Asset Management LLC  
PFM Advisors

Two Logan Square  
Suite 1600  
18<sup>th</sup> & Arch Streets  
Philadelphia, PA  
19103-2770

215 567-6100  
215 567-4180 fax  
www.pfm.com

### Q4 FY2012 Financial Results

This report summarizes preliminary results for the period January through December 2012, based on financial data as of April 15, 2013.

The data provided included unbudgeted revenues and expenditures associated with the City refinancing of General Obligation bonds – a \$15.4 million in bond proceeds in the “Other” revenues category, and three expenditures totaling \$15.4 million in the “Debt Service” category. These revenues and expenditures are generally offsetting and are not relevant to City operations. Therefore we excluded them from all numbers and discussion in this report.

#### Overview

When the City’s preliminary year-end revenues and expenditures are compared to the FY2012 budget, the City had mixed results last year.

The City reports \$72.2 million in total General Fund revenue in 2012, which was \$906,000 (or 1.2%) less than the \$73.1 million budgeted. The City also reports \$78.6 million in total General Fund expenditures, which was \$5.5 million (or 7.5%) more than budgeted. If those two results are put together, the City had a \$6.4 million (or 8.7%) deficit relative to its budget in 2012.

#### Original 2012 Budget-to-Actual Performance

	Budget (\$)	Prelim Actual (\$)	Surplus/ (Deficit) (\$)	Surplus/ (Deficit) (%)
Revenues	73,098,526	72,192,723	(905,803)	-1.2%
Expenditures	73,098,526	78,577,866	(5,479,340)	-7.5%
<b>Fund Balance/ (Deficit)</b>	<b>0</b>	<b>(6,385,143)</b>	<b>(6,385,143)</b>	<b>-8.7%</b>

But these results understate the revenues and overstate the expenditures.

On the revenue side, the City budgeted \$2.3 million for an early repayment of debt owed by the Greater Berks Development Fund. The City received that money in the last week of December 2011 so, according to its external auditor, the \$2.3 million cannot be counted toward 2012 budgeted results.

On the expenditure side, the City made an additional \$5 million payment toward its 2010 unfunded debt loan, beyond the amounts budgeted for 2012. At PFM’s recommendation, the City used cash from prior years to make this payment. While the City could not include this money in its 2012 budget, the external auditor requires that it be reported as additional spending in 2012.

If the GBDF revenues are counted in 2012 and the extra debt payment is removed, the City’s performance relative to the 2012 budget is much better.



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**Adjusted 2012 Budget-to-Actual Performance**

	<b>Budget (\$)</b>	<b>Prelim Actual (\$)</b>	<b>Surplus/ (Deficit) (\$)</b>	<b>Surplus/ (Deficit) (%)</b>
Revenues	73,098,526	74,464,152	1,365,626	1.9%
Expenditures	73,098,526	73,577,866	(479,340)	-0.7%
<b>Fund Balance/ (Deficit)</b>	<b>0</b>	<b>886,286</b>	<b>886,286</b>	<b>1.2%</b>

As positive as these adjusted results look, especially in comparison to recent deficits in 2010 and 2011, the results could have been even better. The City collected more revenue than budgeted in 2012, including \$3.2 million more than budgeted from the earned income tax. The City also implemented a successful tax amnesty program that generated more business privilege tax and business privilege license revenue. Overall, the City’s revenue performance was positive, even with shortfalls in individual categories.

However, the City’s adjusted expenditures were higher than budget, despite having a fortunate mistake in the pension budget. The City budgeted \$1.3 million more than was needed for the Minimum Municipal Obligation (MMO) payments to the police and fire pension plans. During the year, the City recalculated the MMO and could have, if all other expenditures finished on budget, had another \$1.3 million in its year-end fund balance. Instead the City spent more than budgeted on police and fire personnel costs as was discussed throughout last year. The City also spent more than budgeted on utilities (light, power and gas) and some contracted services. The City’s total expenditures used the additional \$1.3 million found during the year and another \$479,000 from the revenue-related surplus.

The rest of this report discusses the City’s revenue and expenditure performance in detail using the numbers in the Original Budget-to-Actual chart shown above.

**I. Revenues**

The table below shows the budget and preliminary 2012 results for each major revenue category.

	<b>Annual Budget (\$)</b>	<b>Prelim Actual (\$)</b>	<b>Surplus/ (Deficit) (\$)</b>	<b>Surplus/ (Deficit) (%)</b>
1 Real Estate Taxes	19,051,332	18,401,147	(650,185)	-3.4%
2 Act 511 Taxes	17,925,565	21,371,849	3,446,284	19.2%
3 Licenses, Permits, Fines	5,514,113	5,391,300	(122,813)	-2.2%
4 Intergovernmental	9,147,198	8,959,007	(188,191)	-2.1%
5 Charges for Services	6,135,928	5,326,035	(809,893)	-13.2%
6 Interest and Rent	3,044,408	497,950	(2,546,458)	-83.6%
7 Other	4,657,482	4,625,435	(32,047)	-0.7%
8 <u>Transfers in</u>	<u>7,622,500</u>	<u>7,620,000</u>	<u>(2,500)</u>	<u>0.0%</u>
9 <b>TOTAL REVENUES</b>	<b>73,098,526</b>	<b>72,192,723</b>	<b>(905,803)</b>	<b>-1.2%</b>



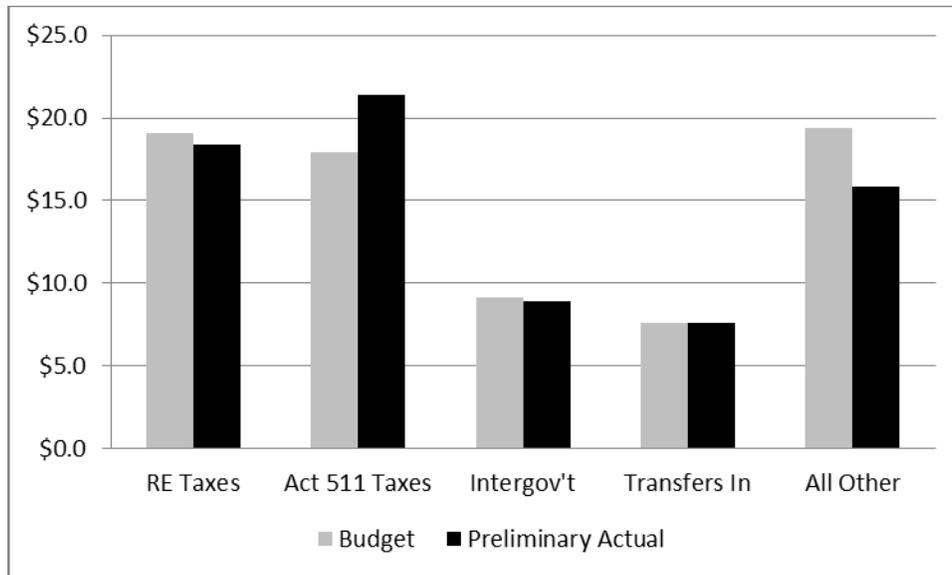
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The table shows that Actual Act 511 Tax revenues exceeded budget by 19.2% - resulting in total revenues that were actually greater than Real Estate Tax collections, the largest budgeted revenue source.

Actual revenues in all other categories were less than budget. Real Estate tax revenues were short by approximately \$650,000, or 3.4%. Interest and Rent had the largest shortfall in terms of both dollars and percentage, lagging budget by \$2.5 million, or 83.6%; however, this shortfall was mostly due to receiving and recognizing a payment from the Greater Berks Development Fund in late 2011 rather than in 2012. Charges for Services was also under budget by \$810,000, or 13.2%.

**2012 Revenues by Major Category – Budget vs. Preliminary Actual**



The chart on the previous page shows these results and the relative value of the major revenue categories. The paragraphs below discuss each major revenue category individually.

**I.A. Real Estate Taxes**

Overall, Real Estate Tax revenues were 97% of the budgeted amount, slightly less than the 98% rate achieved in 2011.

2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
\$18,401,147	\$19,051,322	97%	\$18,639,919	\$18,966,209	98%



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The approved 2012 General Fund millage rate was 14.334 mills. The City budgeted \$18.1 million for current year taxes in anticipation that Berks County would collect 89% of the total amount due in 2012.<sup>1</sup> The City received \$17.6 million, which was 97% of the budgeted amount or 86% of the total amount due.

The shortfall in real estate tax revenue was mostly in prior year tax collections where the City received \$778,000 versus the \$1.0 million budget. This shortfall was partially offset by the City receiving \$134,000 (or 95.9 percent) more than budgeted in penalty and interest revenues related to real estate taxes.

Berks County mailed the delinquent tax notices in December 2011, instead of September as in prior years. Based on discussions between the City, County Treasurer and County Tax Claim Office, this should be a one-time shortfall related to the County's collection cycle and tax collection responsibilities moving to the County in 2011.

### I.B. Act 511 Taxes

Act 511 taxes are Reading's other most important revenue source besides Real Estate Taxes, representing 25% of budgeted 2012 revenues and nearly 30% of actual 2012 revenues.

Act 511 tax revenues are summarized in the following table. The Earned Income Tax is by far the largest of these taxes, with preliminary actual revenues making up 76% of the total. It also performed much better than budget -- \$3.2 million better, or 24.3%. The Business Privilege Tax and the Local Services Tax, representing 9% and 6% of total Act 511 revenues respectively, both outperformed budget as well. The Real Estate Transfer Tax, another 9% of total revenues, was almost on budget. Only the Per Capita Tax, representing less than 1% of total Act 511 revenues, significantly lagged budget. Each of these taxes are discussed separately in the sections below.

		<b>Annual Budget (\$)</b>	<b>Prelim Actual (\$)</b>	<b>Surplus/ (Deficit) (\$)</b>	<b>Surplus/ (Deficit) (%)</b>
1	Earned Income Tax	13,069,120	16,250,554	3,181,434	24.3%
2	Business Privilege Tax	1,635,000	1,864,635	229,635	14.0%
3	Real Estate Transfer Tax	2,000,000	1,972,840	(27,160)	-1.4%
4	Local Services Tax	1,121,445	1,215,025	93,580	8.3%
5	<u>Per Capita Tax</u>	<u>100,000</u>	<u>68,795</u>	<u>(31,205)</u>	<u>-31.2%</u>
6	<b>Total Act 511 Taxes</b>	<b>17,925,565</b>	<b>21,371,849</b>	<b>3,446,284</b>	<b>19.2%</b>

<sup>1</sup> The City assumed an 89 percent current year collection rate after tax exemptions were removed. The \$18.1 million does not include another \$256,000 for the Shade Tree Fund. Berks County assumed responsibility for collecting City real estate taxes beginning in 2011.



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Earned Income Taxes (EIT)

Total EIT collections were \$16,250,554, or 124% of budget. Actual collections out-performed expectations. This is partially due to Act 32, a state law that requires employers to withhold the full amount that municipalities charge for local taxes. The City also now outsources its EIT collection (employers and individuals) to Berks EIT, Incorporated. This private third-party collector transmits funds to the City monthly.

<b>2012 Prelim Actual</b>	<b>2012 Budget</b>	<b>2012 Prelim Actual to Budget (%)</b>	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>2011 Actual to Budget (%)</b>
\$16,250,554	\$13,069,120	124%	\$11,534,142	\$11,797,117	98%

The 2012 performance is also noteworthy because the tax rate was *lower* in 2012 than in 2011. The earned income tax rate on residents was 2.1 percent in 2011 and then dropped to 1.9 percent in 2012.<sup>2</sup> The earned income tax rate on non-residents was 1.3 percent in 2011 and then dropped to 1.1 percent in 2012.<sup>3</sup>

Some of the better-than-anticipated performance in 2012 may be attributable to revenue from 2011 being collected and remitted to the City in 2012. The City should monitor its 2013 collection rates to see whether the 2012 performance is sustained or a short-term adjustment from the many changes made in early 2011.

Business Privilege Taxes (BPT)

Actual BPT revenues exceeded budget by \$230,000. This variance is partly due to a tax amnesty program that ran from April to June 2012 and provided an incentive for delinquent accounts to pay their taxes.

<b>2012 Prelim Actual</b>	<b>2012 Budget</b>	<b>2012 Prelim Actual to Budget (%)</b>	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>2011 Actual to Budget (%)</b>
\$1,864,635	\$1,635,000	114%	\$1,632,660	\$1,635,000	99%

The current City rates for the BPT are based on gross receipts. For each \$1,000, businesses pay \$1.50 (retail), \$1.00 (wholesale) or \$2.25 (service, commission or rental). These rates were frozen in 1988 by the Commonwealth and can only be changed by the General Assembly. Discount (2%) payments are due

<sup>2</sup> This is only the City’s earned income tax rate on residents who pay another 1.5 percent to the Reading School District.

<sup>3</sup> The first 1.0 percent collected is usually remitted to the non-resident’s home municipality, so the City’s share was 0.3 percent in 2011 and 0.1 percent in 2012.



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by April 15 and full payments are due by June 15. The City also collects BPT on behalf of the Reading School District, which is not counted in the revenue above.

Real Estate Transfer Taxes

Real Estate Tax revenues were just about on budget, lagging by only \$27,000 or 1.4%. However, 2012 revenues of \$2.0 million are down significantly from 2011 collections of \$3 million due to weakness in the local housing market.

<b>2012 Prelim Actual</b>	<b>2012 Budget</b>	<b>2012 Prelim Actual to Budget (%)</b>	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>2011 Actual to Budget (%)</b>
\$1,972,840	\$2,000,000	99%	\$2,961,740	\$2,750,000	108%

The City share of the transfer tax is 3.5%. Historically, transfers peak over the summer months due to residential resales. Commercial property transfers are more volatile, dependent on corporate and speculative transfers.

Local Services Taxes (LST)

The LST was budgeted at \$1.1 million, the same level as in 2011. Actual revenues of \$1.2 million were slightly higher than budget, and slightly lower than 2011 revenues of \$1.3 million.

<b>2012 Prelim Actual</b>	<b>2012 Budget</b>	<b>2012 Prelim Actual to Budget (%)</b>	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>2011 Actual to Budget (%)</b>
\$1,215,025	\$1,121,445	108%	\$1,289,271	\$1,121,445	115%

The LST is assessed on each person with an occupation in the City. The City share of the LST is \$47. The School District share is \$5. Berks EIT is responsible for collecting and remitting this tax.

Per Capita Tax (PCT)

The PCT is a tax on City residents who are at least 18 years old. The City share of the PCT is \$5 and the School District share is \$10. The City is responsible for collecting the tax.

<b>2012 Prelim Actual</b>	<b>2012 Budget</b>	<b>2012 Prelim Actual to Budget (%)</b>	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>2011 Actual to Budget (%)</b>
\$68,795	\$100,000	69%	\$83,882	\$100,000	84%



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City staff is working to identify residents who are not currently paying the tax, particularly those in high rise rental units.

**I.C. Licenses, Permits & Fees**

This category consists of housing and rental permit fees, franchise fees, traffic and court fines and other fee revenues. Overall, actual revenues lagged budget by only \$123,000 or 2%.

2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
\$5,391,300	\$5,514,113	98%	\$6,028,024	\$6,190,113	97%

The largest components of this category are shown in the table below. Additional revenue above budget in Quality of Life fines and business privilege licenses (related to the BPT amnesty effort) helped offset the shortfalls in new construction permit revenue and other small categories.

	Annual Budget (\$)	Prelim Actual (\$)	Surplus/ (Deficit) (\$)	Surplus/ (Deficit) (%)
Housing/rental permit	886,000	891,217	5,217	0.6%
District court summary offenses	800,000	868,031	68,031	8.5%
Franchise fees	705,000	720,254	15,254	2.2%
New construction permits	500,000	168,525	(331,475)	-66.3%
Traffic fines motor codes	315,000	343,502	28,502	9.0%
Business privilege licenses	275,000	359,096	84,096	30.6%
Quality of life fines	175,000	374,650	199,650	114.1%
<u>Other</u>	<u>1,858,113</u>	<u>1,666,025</u>	<u>(192,088)</u>	<u>-10.3%</u>
<b>Total License, Permits &amp; Fees</b>	<b>5,514,113</b>	<b>5,391,300</b>	<b>-122,813</b>	<b>-2.2%</b>

**I.D. Intergovernmental Revenues**

Actual 2012 Intergovernmental Revenues were less than budget by about 2%. In addition, the 2012 budget was \$425,000 less than 2011.

2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
\$8,942,710	\$9,147,198	98%	\$10,629,134	\$9,572,175	111%



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The largest components of Intergovernmental Revenues are state pension contributions and meter surcharges (described further below). This category also includes contributions from RAWA, the Parking Authority, and the Reading Public Library, as well as gifts and reimbursements from various entities. Many of these can be budgeted with a high level of accuracy – as shown in the table below, revenues from the Meter Surcharge, RAWA contribution and Parking Authority Supplement were all right on budget. Revenues from Pension Contributions and Grants and Gifts exceeded budgeted amounts, while the other components combined lagged budget. Overall, Intergovernmental Revenues were over budget by \$204,000, or 2.2%.

		<b>Annual Budget (\$)</b>	<b>Prelim Actual (\$)</b>	<b>Surplus/ (Deficit) (\$)</b>	<b>Surplus/ (Deficit) (%)</b>
1	Pension-State Contributions	2,600,000	2,701,960	101,960	3.9%
2	Meter Surcharge	1,700,000	1,699,992	(8)	0.0%
3	RAWA Act 47	1,500,000	1,500,000	0	0.0%
4	Parking Authority Supplmt	810,000	810,000	0	0.0%
5	Grants and Gifts	645,756	779,261	133,505	20.7%
6	Reading Public Library	742,442	706,041	(36,401)	-4.9%
7	<u>Other</u>	<u>1,149,000</u>	<u>761,753</u>	<u>(387,247)</u>	<u>-33.7%</u>
8	<b>Total Intergovernmental</b>	<b>9,147,198</b>	<b>8,959,007</b>	<b>(188,191)</b>	<b>-2.1%</b>

State Pension Contributions offset a portion of the City’s contributions to the Police, Fire and O&E pension plans. The amount of state aid is dependent on the total amount of state funds available and the number of active employees in pension funds statewide. The City is eligible to receive funds for each full time employee who has worked for the City for a minimum of six consecutive months in the prior year. State Aid is received every October.

Water Meter Surcharges are currently \$7.00 per resident, per month. The City collects this surcharge as a direct subsidy. It was first enacted in 2005.

**I.E. Charges for Services**

Preliminary actual revenues from Charges for Services in 2012 are \$5.3 million, 13% higher than in 2011. However, the 2012 budget was set at \$6 million, significantly higher than both the 2011 budget amount and actual 2011 revenues of \$4.7 million; and actual revenues fell short of that higher budget amount.

<b>2012 Prelim Actual</b>	<b>2012 Budget</b>	<b>2012 Prelim Actual to Budget (%)</b>	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>2011 Actual to Budget (%)</b>
\$5,326,035	\$6,135,928	87%	\$4,703,029	\$4,351,811	108%

The table below shows that 52% of all actual revenues in this category are Emergency Medical Services (EMS) User Fees – by far the single largest component. The City almost made budget in this category, lagging by about 3%. Revenues from the second largest component, Housing Inspection Fees, were less



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than half the budgeted amount, falling short by nearly \$700,000. Other larger components that fell short of budget were the Admissions Fee/Tax, which are revenues received from the Sovereign Center and FirstEnergy Stadium for minor league hockey and baseball respectively, and reimbursements from the Reading School District for police officers deployed at schools.

		<b>Annual Budget (\$)</b>	<b>Prelim Actual (\$)</b>	<b>Surplus/ (Deficit) (\$)</b>	<b>Surplus/ (Deficit) (%)</b>
1	EMS User Fees	2,838,000	2,764,506	(73,494)	-2.6%
2	Housing Inspection	1,214,254	515,326	(698,928)	-57.6%
3	Kenhorst Police Contract	410,374	410,374	0	0.0%
4	Admissions Fee/Tax	504,000	387,648	(116,352)	-23.1%
5	Police Service/Copy Service	135,000	336,159	201,159	149.0%
6	Police Reimb. - RSD	330,000	280,292	(49,708)	-15.1%
7	<u>Other</u>	<u>704,300</u>	<u>631,730</u>	<u>(72,570)</u>	<u>-10.3%</u>
8	<b>Total Charges for Service</b>	<b>6,135,928</b>	<b>5,326,035</b>	<b>(809,893)</b>	<b>-13.2%</b>

Other components of this category were on budget, like the Kenhorst Police Contract, or outperformed budget, like Copy Fees for the Police Department.

**I.F. Interest & Rent**

Interest and Rent is the revenue category in which revenues fell short of budget by the most in terms of both dollars and percentage. Of a 2012 budget of \$3 million, less than \$500,000 was achieved. In addition, actual revenues were about 11% of 2011 revenues of \$4.6 million.

<b>2012 Prelim Actual</b>	<b>2012 Budget</b>	<b>2012 Prelim Actual to Budget (%)</b>	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>2011 Actual to Budget (%)</b>
\$497,950	\$3,044,408	16%	\$4,646,905	\$4,470,200	104%

As shown in the table below, most of the shortfall is due to the Repayment of Debt to City line, which has a budget of \$2.3 million, but revenues of \$0. This line was intended to record the early repayment of debt by the Greater Berks Development Fund. The City did receive the payment, but it was recorded at the end of fiscal year 2011, creating an apparent short fall for 2012.

There were no revenues recorded in 2012 for CD Bond Interest, budgeted at \$200,000. Revenues were at or close to budget in other categories.



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		<b>Annual Budget (\$)</b>	<b>Prelim Actual (\$)</b>	<b>Surplus/ (Deficit) (\$)</b>	<b>Surplus/ (Deficit) (%)</b>
1	Repayment of Debt to City	2,271,429	0	(2,271,429)	-100.0%
2	Rental - Parking Authority	400,000	399,996	(4)	0.0%
3	CD Bond Interest	200,000	0	(200,000)	-100.0%
4	Rent Other Property Bldgs	75,000	68,747	(6,253)	-8.3%
5	<u>Other</u>	<u>97,979</u>	<u>29,207</u>	<u>(68,772)</u>	<u>-70.2%</u>
6	<b>Total Interest and Rent</b>	<b>3,044,408</b>	<b>497,950</b>	<b>(2,546,458)</b>	<b>-83.6%</b>

### I.G. Other Revenues

In the Other Revenues category, preliminary actual results indicate that revenues will just lag budget by \$32,000. Larger components of this category include Indirect Cost Reimbursements from Sewer and Water, employee contributions to the cost of medical insurance, and state payments under the Heart and Lung Act for police officer and firefighter injuries.

<b>2012 Prelim Actual</b>	<b>2012 Budget</b>	<b>2012 Prelim Actual to Budget (%)</b>	<b>2011 Actual</b>	<b>2011 Budget</b>	<b>2011 Actual to Budget (%)</b>
\$4,625,435	\$4,657,482	99%	\$6,657,086	\$4,299,700	155%

Employee contributions to the cost of medical insurance lagged budget by about \$96,000 or 8%, primarily because the arbitration award requiring higher employee contributions from members of the Fraternal Order of Police (FOP) was not received until November 2012.

### II. Expenditures

The table below shows 2012 budget and preliminary actual results for the major expenditures. Expenditures exceeded budget in every category except Transfers Out and Contingencies.

		<b>Annual Budget (\$)</b>	<b>Prelim Actual (\$)</b>	<b>Surplus/ (Deficit) (\$)</b>	<b>Surplus/ (Deficit) (%)</b>
1	Personnel	30,741,915	31,916,225	(1,174,310)	-3.8%
2	Benefits	16,383,679	17,617,098	(1,233,420)	-7.5%
3	Operating Cost	9,291,472	9,390,148	(98,676)	-1.1%
4	Other Expenses	505,738	713,047	(207,309)	-41.0%
5	Debt Service	13,093,199	17,245,181	(4,151,982)	-31.7%
6	Transfers Out	1,687,693	1,687,693	0	0.0%
7	<u>Contingencies</u>	<u>1,394,830</u>	<u>8,473</u>	<u>1,386,357</u>	<u>99.4%</u>
8	<b>Total Expenditures</b>	<b>73,098,526</b>	<b>78,577,866</b>	<b>(5,479,340)</b>	<b>-7.5%</b>

The largest over-expenditure, both in terms of dollars and percentage, is in the Debt Service category, because of the \$5 million unbudgeted payment against the 2010 unfunded debt. Both Personnel and

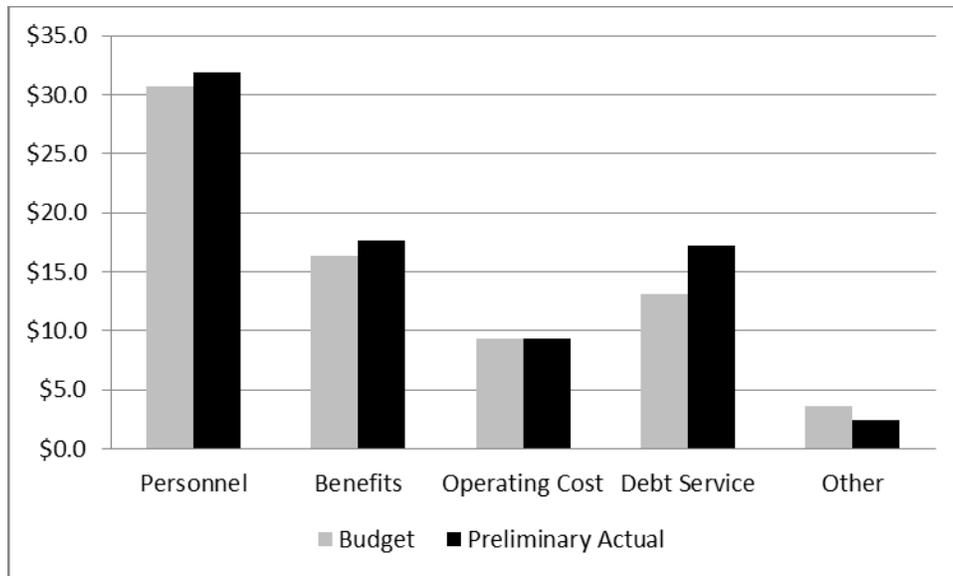


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Benefits, the two largest expenditure categories, were also over budget, by more than \$1 million each. The aggregate result is that expenditures that exceeded budget by \$5.5 million, or 7.5%. The chart below illustrates these results and the relative values of these categories.

### 2012 Expenditures by Major Object Category – Budget vs. Preliminary Actual



The chart below shows expenditures by operating department rather than by expenditure type (major object). Expenditures exceeded budget amounts for two of the four largest operating departments, Police and Fire. Expenditures for Finance and Community Development were slightly under budget. For all other departments combined – including Law, the Library, the Mayor’s Office, and Human Resources – expenditures were roughly equal to budget. The chart also shows how the Police and Fire Departments dominate the total budget, making up nearly 70% of total departmental operating expenditures. Note that this chart excludes non-departmental expenditures, which are mostly for debt service payments.

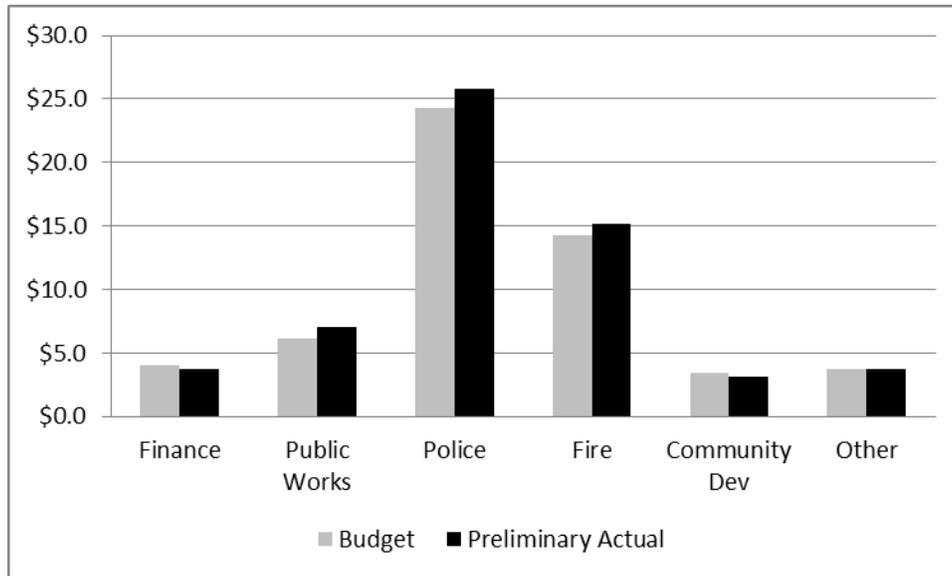


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**2012 Expenditures by Operating Department – Budget vs. Preliminary Actual**

Excludes Non-Departmental Expenditures



**II.A. Personnel**

The majority of the Personnel budget is for the “regular” pay of City employees - Salaries, Temporary Wages, and Holiday Pay. These categories make up 90% of the 2012 Personnel budget and 87% of actual 2012 expenditures. Overtime pay represents another 8% of budget, but a larger share, 11%, of actual expenditures. Components making up the remaining 2% of the 2012 Personnel budget include Longevity, Settlement, Uniform/ Clothing Allowance, and Partnership Expense. The 2012 budget included 578 full time employees.

Wages and Salaries

The table below shows totals by department for Salaries, Temporary Wages, and Holiday Pay.

Department	2012			2011		
	Prelim Actual	Budget	Prelim Actual to Budget (%)	Actual	Budget	Actual to Budget (%)
Police	\$13,373,569	\$13,016,401	103%	\$13,717,178	\$14,288,626	96%
Fire	\$7,673,087	\$7,709,778	100%	\$7,326,356	\$7,532,649	97%
Public Works	\$1,667,242	\$1,537,167	108%	\$2,019,402	\$1,825,060	111%
Administration*	\$1,831,240	\$1,921,868	95%	\$2,124,639	\$1,986,095	107%
Community Dev	\$1,878,551	\$2,080,975	90%	\$1,561,891	\$1,653,913	94%
Other	\$1,356,302	\$1,394,938	97%	\$1,248,923	\$1,243,798	100%
<b>Total</b>	<b>\$27,779,991</b>	<b>\$27,661,127</b>	<b>100%</b>	<b>\$27,998,389</b>	<b>\$28,530,141</b>	<b>98%</b>

\* This category includes Finance, the Managing Director, and Human Resources.



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The Public Works overspent its budgets for salaries and wages, but this may be due in part to an error in calculating the budget number.

The Police Department exceeded its salaries and wages budget by \$357,000, or 3%. Fire Department expenditures were on budget. Expenditures for wages and salaries for all other departments were sufficiently under budget to make up for the overages in Police and Public Works, resulting in total spending nearly equal to budget.

Overtime

The City’s overtime expenditures – a major component of the Personnel budget category – continue to significantly exceed budget. The chart below shows overtime expenditures for the three departments with significant overtime costs: Police, Fire, and Public Works. While Public Works lived within its 2012 overtime budget, the Police Department exceeded its total overtime budget by 33% and the Fire Department exceeded its overtime budget by 87%. Together, these two departments over-spent their overtime budgets by \$1.3 million. The chart below shows that the Police and Fire Departments over-spent their overtime budgets in 2011 as well, consistent with a longer term historical pattern.

Department	2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
Police	\$1,899,901	\$1,427,500	133%	\$1,745,054	\$1,174,860	149%
Fire	\$1,707,489	\$915,000	187%	\$1,573,565	\$981,500	160%
Public Works	\$42,590	\$75,600	56%	\$46,599	\$75,000	62%
<b>Total</b>	<b>\$3,649,980</b>	<b>\$2,418,100</b>	<b>151%</b>	<b>\$3,365,218</b>	<b>\$2,231,360</b>	<b>151%</b>

Sometimes municipal departments balance salary and overtime expenditures against each other to manage to their total budget. For example, they may wait to fill vacant positions, increasing overtime costs but lowering salaries expenditures. Conversely, they may work to maintain a full complement to minimize overtime use. Neither was the case for Reading’s public safety departments last year.

	Salaries & Wages Surplus/ (Deficit)	Overtime Surplus/ (Deficit)	Total Surplus/ (Deficit)
Police	(357,168)	(472,401)	(829,569)
Fire	36,691	(792,489)	(755,797)
<b>Sub-Total</b>	<b>(320,477)</b>	<b>(1,264,890)</b>	<b>(1,585,367)</b>

For the Police Department, the City had several officers leave City employment during the year, creating vacancies and pressure to schedule more officers on overtime. The City held two recruit classes during



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the year, but they were not included in the 2012 budget so salary expenditures also rose above budget. The net effect was that the City spent more in both categories.

The Fire Department had a similar dynamic, except its staffing shortage was caused by delays in establishing a civil service list for hiring, instead of a surge in employee attrition. The City had fire academy class in 2012, but the cost of that academy when coupled with the vacancies did not push salary expenditures as far over budget as in Police.

### II.B. Benefits

#### Pension (MMO)

The State requires the City to make a Minimum Municipal Obligation (MMO) payment to each of the City's three defined benefit plans, and these payments make up a significant portion of the Benefits budget category. The MMO is determined by an annual actuarial valuation by the respective actuary for each plan. The State requires that the MMO calculation be completed by September 30 of each year and incorporated into the following year's budget. The State also requires that the City make the MMO payment to each plan by December 31 of each year. The practice of the City is to pay the three MMOs in December.

Pension System	2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
Police	\$3,663,428	\$3,663,428	100%	\$3,932,111	\$4,039,001	97%
Fire	\$1,903,873	\$1,903,873	100%	\$1,976,423	\$1,984,974	100%
Employees & Officers	\$824,710	\$824,241	100%	\$725,974	\$581,478	125%
<b>Total</b>	<b>\$6,392,011</b>	<b>\$6,391,542</b>	<b>100%</b>	<b>\$6,634,508</b>	<b>\$6,605,453</b>	<b>100%</b>

In 2012, the recalculation of the MMO resulted in Police and Fire pension contributions that were \$1.3 million lower than the amounts in the adopted budget. As shown in the table below, the budget was revised to reflect the correct contribution amounts, so actual expenditures match the budget.

	Adopted Budget	Revised Budget	Difference	Expenditures
Police	\$4,716,325	\$3,663,428	\$1,052,897	\$3,663,428
Fire	\$2,199,537	\$1,903,873	\$295,664	\$1,903,873
Sub-Total	\$6,915,862	\$5,567,301	\$1,348,561	\$5,567,301



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Fringe Benefits

Fringe Benefits, another component of the Benefits budget category, includes Medicare, medical benefits, dental insurance, prescription insurance, vision insurance, and unemployment compensation expenses.

The City’s 2012 expenditures were \$1.3 million (or 11.1%) less than in 2011. Because the City reduced its fringe benefit budget from \$11.4 million in 2011 to \$8.7 million in 2012, the City’s 2012 expenditures were \$1.4 million (or 16.1%) over budget.

2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
\$10,118,522	\$8,712,107	116%	\$10,013,161	\$11,383,003	88%

The budget assumed a full year of savings associated with benefits changes for the FOP, such as maximum City premium contributions and the elimination of the legacy prescription plan. However, the arbitration award was not made until November 2012. Differences between overall fringe benefit expenditures and budget may also be due to employees selecting more expensive plans than in the past, or since the City is self-insured, based on a higher cost of actual claims.

Some major city departments had Fringe Benefits deficits in all or most of their divisions (e.g., Police, Public Works, and Fire) while others had surpluses in all or most of their divisions (e.g., Finance). The table below summarizes budget and preliminary actual amounts and resulting balances or deficits by department.

**2012 Fringe Benefits Expenditures by Department – Budget vs. Preliminary Actual**

	Budget	Actual	Balance/ (Deficit) (\$)	Balance/ (Deficit) (%)
Finance	497,407	446,414	50,993	10.3%
Public Works	632,684	730,397	(97,713)	-15.4%
Police	4,098,692	5,229,349	(1,130,657)	-27.6%
Fire	2,211,507	2,621,160	(409,653)	-18.5%
Community Dvlpmt	672,610	586,276	86,334	12.8%
Other	589,208	504,926	84,281	14.3%
<b>Total</b>	<b>8,702,108</b>	<b>10,118,522</b>	<b>(1,416,415)</b>	<b>-16.3%</b>

**II.C. Debt Service**

Preliminary actual expenditures for Debt Service in 2012 are \$4.2 million over budget, because of the \$5 million unbudgeted payment made towards the 2010 unfunded debt. Excluding the unbudgeted \$5 million expenditure, actual Debt Service expenditures total \$12.2 million, about \$850,000 below budget.



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2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
\$17,245,181	\$13,093,199	132%	\$11,010,979	\$11,718,145	94%

**II.D. Operating Costs**

Operating Costs, representing 12% of the total budget, is the category for materials and services that are used in regular government operations. It includes utility costs, legal services, equipment, and building maintenance costs. Overall, expenditures in this category were just slightly over budget. At year end, expenditures exceeded budget by \$99,000 or 1.1%.

2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
\$9,398,621	\$10,686,302	88%	\$8,169,002	\$8,701,409	94%

The table below shows the four largest components of Operating Costs in dollar amount. Three of the four – Contracted Services, Light & Power, and Gas – were over-spent by more than \$100,000. Maintenance Agreements expenditures were under budget, and in aggregate, the spending in 63 other budgeted categories of Operating Costs – including Vehicles, Fees, Telephone, and Uniforms – was sufficiently restrained to partially offset the over-expenditures in the largest Operating Cost components.

	Budget (\$)	Prelim Actual (\$)	Balance/ (Deficit) (\$)	Balance/ (Deficit) (%)
Contracted Services	2,164,761	2,266,740	(101,979)	-4.7%
Maintenance Agreements	1,056,250	965,979	90,271	8.5%
Light & Power	594,000	777,321	(183,321)	-30.9%
Gas	575,000	777,659	(202,659)	-35.2%
Other Operating Costs	<u>4,901,461</u>	<u>4,602,449</u>	<u>299,012</u>	<u>6.1%</u>
<b>Total Operating Costs</b>	<b>9,291,472</b>	<b>9,390,148</b>	<b>(98,676)</b>	<b>-1.1%</b>

**II.E. Contingencies**

The contingencies represents the City’s fund balance; that is, rather than budgeting revenues higher than expenditures and showing a fund balance, the City budgets expenditures to equal revenues, with the difference in the Contingencies line. This is the only major expenditure category where actual expenditures were less than budget; only \$8,473 of the final 2012 contingencies budget of \$1.4 million was spent.



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2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
\$1,394,830	\$8,473	1%	N/A	N/A	N/A

The 2012 Contingencies budget was originally much lower, at \$388,000. During the year, the budget number was adjusted upward when other lines were adjusted downward – e.g., when the MMO budget for pension contributions was corrected – and it ultimately was fixed at \$1.39 million.

**III. Interfund Transfers**

III.A. Transfers In

There are three components to this category, all of which are paid in monthly installments:

From Fund:	Amount	Notes
Sewer Fund	\$3,000,000	Annual transfer, restricted by the Consent Decree of November 2005.
RAWA	\$4,420,000	Annual financing fee payment from the water system.
Recycling Fund	\$200,000	A one-time transfer to the General Fund in 2012

All three transfers were received as per budget. The increase in this category relative to 2011 is due to the new transfer from the Recycling Fund and an increase of \$200,000 in the transfer amount from RAWA.

2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
\$7,620,000	\$7,622,500	100%	\$7,270,000	\$7,222,500	101%

III.B. Transfers Out

The only item in this category is a transfer of \$1,687,693 used to reimburse the Self Insurance Fund for the actual cost of property, liability and workers compensation claims and associated administrative costs. The amount of this transfer increased by 57% from 2011 to 2012 because of improvements in the City’s budgeting process.

2012 Prelim Actual	2012 Budget	2012 Prelim Actual to Budget (%)	2011 Actual	2011 Budget	2011 Actual to Budget (%)
\$1,687,693	\$1,687,693	100%	\$0	\$1,072,435	0%