



**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

**Q2 2015 Financial Results**

This report summarizes preliminary financial results for the period January 1, 2015 through June 30, 2015 based on trial balance financial data provided by the City on July 20, 2015.

**Overview**

The City collected 52.2 percent of its budgeted revenues and spent 34.0 percent of its budgeted expenditures through June 2015. While revenues exceeded expenditures by \$16.5 million through June, expenditures are usually low in the second quarter since the City has yet to make any of its \$13 million pension contribution or most of its debt payments. The table below compares revenues and expenditures through June 2015 with the budget target.

**Budget to Actual Comparison**

	2015 Q2	2015 Budget	% Spent/Collected
Revenues	47,354,335	90,785,031	52.2%
Expenditures	30,845,712	90,785,031	34.0%
Difference	16,508,623	0	N/A

On the revenue side, the City collected \$1.1 million (or 2.4 percent) more through June 2015 than through the same period in 2014. The increase is mostly because the City receives a larger lease payment this year according to the amended terms of its agreement with the Reading Area Water Authority (RAWA). Tax revenues are also higher but revenue from housing permits and inspections, business privilege licenses and EMS user fees all trailed last year’s pace through June 2015.

On the expenditure side, the City spent \$30.8 million through June 2015, \$1.2 million (or 3.9 percent) less than through June 2014. The majority of the savings is because the City spent \$1.7 million less on debt than a year ago. The City has completed the debt refinancing transactions recommended in the Amended Recovery Plan which will result in less spending on debt than budgeted this year or last year.

**Year-to-Year Comparison**

	2015 Q2	2014 Q2	Difference (\$)	Difference (%)
Revenues	47,354,335	46,235,869	1,118,466	2.4%
Expenditures	30,845,712	32,080,912	(1,235,200)	-3.9%
Difference	16,508,623	14,154,957	2,353,666	N/A



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### Eight Trends to Watch

#### Revenue

- *Midway through the year the City's **property tax** revenues were \$244,000 (or 1.3 percent) higher than through June 2014 with most of the difference in prior year revenues. The timing of prior year tax receipts and the 2013 tax increase explains some of the difference.*
- *Total **earned income tax (EIT)** receipts are 2.9 percent higher than a year ago. This is the City's largest source of revenue so strong performance is critical to the City's financial condition.*
- ***Business privilege tax** receipts have met the \$1.6 million budget target for 2015 and surpassed the 2014 mid-year total by \$246,000 (or 18.0 percent). The Amended Recovery Plan cited this as an area for improvement and so far the City is ahead of the Plan's target for improved collections.*
- *Total revenues from **licenses, permits and fees** are \$235,000 (or 10.0 percent) lower than a year ago. The year-to-year shortfall in housing rental permits (\$46,000 or 6.0 percent) and business privilege licenses (\$40,000 or 14.0 percent) are noteworthy.*

#### Expenditures

- *Salary spending is generally on target with 48.2 percent of the total budget spent through June. The City spent \$114,000 (or 1.8 percent) more on **police salaries, wages and holiday pay** than a year ago which is in line with the 2.0 percent increase in the collective bargaining agreement.*
- *Through June, the City spent \$19,000 more on **police overtime** and \$87,000 less on **fire overtime** than a year ago. According to the information provided to PFM, non-reimbursed police overtime also increased through June this year.*
- *The City spent 45.9 percent of its budget for **employee health insurance (fringe benefits)** through June. Spending in the Fire Department was \$661,000 (or 13.7 percent) higher than last year because of the timing of stop-loss insurance reimbursements that the City received last year.*
- *The City spent \$1.7 million (or 39.9 percent) less on **debt service** than it did through June 2015. In both years, the City budgeted \$13.1 million in debt service payments, but the debt refinancing transactions recommended in the Amended Recovery Plan will result in lower debt spending this year.*



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**REVENUES**

The City had \$47.4 million in General Fund revenues through June 2015. The table below compares the City’s revenue performance through June 2015 to this year’s budget and last year through June.

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
<b>Real Estate Taxes</b>	18,356,152	21,487,933	85.4%	18,111,798	244,354	1.3%
<b>Act 511 Taxes</b>	13,668,851	25,480,992	53.6%	12,648,272	1,020,579	8.1%
<b>Licenses, Permits, Fine</b>	2,843,753	5,420,027	52.5%	3,125,389	(281,636)	-9.0%
<b>Intergovernmental</b>	1,356,049	11,890,598	11.4%	3,075,396	(1,719,347)	-55.9%
<b>Charges for Services</b>	2,406,023	5,398,842	44.6%	2,391,050	14,974	0.6%
<b>Interest and Rent</b>	843,662	1,365,000	61.8%	660,497	183,165	27.7%
<b>Other</b>	1,742,344	5,041,639	34.6%	2,138,467	(396,123)	-18.5%
<b>Transfers in</b>	6,137,500	14,700,000	41.8%	4,085,000	2,052,500	50.2%
<b>TOTAL REVENUES</b>	<b>47,354,335</b>	<b>90,785,031</b>	<b>52.2%</b>	<b>46,235,869</b>	<b>1,118,466</b>	<b>2.4%</b>

*Real Estate Taxes*

The real estate tax represents about a quarter of all General Fund revenues and is the City’s second largest source of budgeted revenue after the earned income tax. The City’s real estate tax rate has been 15.689 mills since 2013.

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
Current Year	17,299,001	19,637,933	88.1%	17,194,906	104,095	0.6%
Prior Years	1,201,699	1,800,000	66.8%	1,073,706	127,993	11.9%
Penalties and Interest	178,968	375,000	47.7%	166,982	11,986	7.2%
Early Payment Discount	(323,516)	(325,000)	99.5%	(323,796)	280	-0.1%
<b>Property Tax Subtotal</b>	<b>18,356,152</b>	<b>21,487,933</b>	<b>85.4%</b>	<b>18,111,798</b>	<b>244,354</b>	<b>1.3%</b>

Through June 2015, the City collected 0.6 percent more in current year real estate tax than a year ago and 3.5 percent more than through Q2 2013. Since the tax rate has remained constant throughout this period, the increased current revenues suggest an increased collection rate in the first half of the year. Because real estate tax is due by June 30, collections in the first half of the year usually represent the majority of the year’s revenues. The following table compares Q2 revenues collected to the City’s year-end revenues from 2013 to 2015.

	2013 Q2	2014 Q2	2015 Q2
Q2 Revenues	16,708,280	17,194,906	17,299,001
Actual/Budgeted Revenues	19,171,145	19,605,173	19,637,933
Percent Collected Thru Q2	87.2%	87.7%	88.1%



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Revenues from prior year real estate tax, which are collected by Berks County Tax Claim Bureau, were 11.9 percent more than last year and almost twice the amount received through Q2 2013. That is partly due to the timing of prior year receipts in 2013. The City finished that year with \$1.4 million in prior year revenue, but most came in the second half of the year. The increase is also due in part to the 9 percent tax rate in 2013, which eventually translates to higher prior year receipts once the County starts collecting on the delinquent accounts from 2013 and later. The table below compares current and prior year property tax revenues collected through the second quarters of the last three years.

	2013 Q2	2014 Q2	2015 Q2	% Change from 2013 - 2015
Current Year	16,708,280	17,194,906	17,299,001	3.5%
Prior Years	662,017	1,073,706	1,201,699	81.5%
<b>Total</b>	<b>17,370,297</b>	<b>18,268,612</b>	<b>18,500,700</b>	<b>6.5%</b>

**Act 511 Taxes**

Act 511 taxes are the City’s largest revenue category. The City collected 53.6 percent of its budgeted Act 511 Taxes through June 2015.

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
Earned Income Tax	10,141,787	20,565,992	49.3%	9,852,069	289,719	2.9%
Business Privilege Tax	1,615,135	1,600,000	100.9%	1,368,804	246,331	18.0%
Real Estate Transfer Tax	1,306,613	1,900,000	68.8%	1,028,958	277,654	27.0%
Local Services Tax	593,571	1,200,000	49.5%	396,571	197,001	49.7%
Per Capita Tax	11,744	215,000	5.5%	1,870	9,874	528.0%
<b>Act 511 Taxes Subtotal</b>	<b>13,668,851</b>	<b>25,480,992</b>	<b>53.6%</b>	<b>12,648,272</b>	<b>1,020,579</b>	<b>8.1%</b>

The earned income tax is by far the largest of these taxes, and the City’s second largest source of budgeted revenue after the real estate tax. Berks EIT, Incorporated handles EIT collections for the City and all other governments in Berks County under the terms of Act 32 of 2008. Earned income tax revenues outpaced last year’s level through the second quarter by 2.9 percent.

Other Act 511 taxes outpaced last year as well. The City collected \$1.6 million in business privilege tax, which was \$246,000 (or 18 percent) more than receipts through the same period last year and exceeds the budget target by \$15,000 (or 0.9 percent). Because the business privilege tax is due in June, the majority of the current year tax arrives in the second quarter. Last year the City received \$1.4 million through June and finished the year with \$1.6 million.

Business privilege tax revenues increased because there was a drop in the number of tax-exempt businesses under the Keystone Opportunity Zone (KOZ) program. City staff also site their more aggressive pursuit of prior year BPT revenues.



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	2014 Q2	2015 Q2	Change (\$)	Change (%)
Current Year	1,343,771	1,492,062.20	148,291	11.0%
Prior Year	25,033	123,072.87	98,040	391.6%
<b>Total Business Privilege Tax</b>	<b>1,368,804.38</b>	<b>1,615,135.07</b>	<b>246,331</b>	<b>18.0%</b>

The City collected \$1.3 million in real estate transfer tax through June 2015, which was \$278,000 (or 27.0 percent) more than through June 2014. The City also collected \$197,000 (or 49.7 percent) more in local services tax compared to last year’s second-quarter results. The City received its revenues from the external collector later than anticipated last year, creating an apparent increase this year. This year’s mid-year results are approximately half of the year-end budget target and only a little higher than the 2013 mid-year results (\$9,000 or 1.5 percent).

Because the per capita tax is not due until the end of October<sup>1</sup>, the majority of the current year revenues arrives in the second half of the year.

***Licenses, Permits & Fees***

This category includes rental housing permit fees, cable franchise fees, traffic and court fines and business privilege licenses. The City collected 52.5 percent of budgeted revenues in this category, which was \$282,000 (or 9.0 percent) less than through the second quarter last year.

One of the largest items in this category is the City’s charges for rental housing permits.<sup>2</sup> The City collected 90.0 percent of its current year budget target and 44.3 percent of its prior year target. Compared to last year, the City collected \$39,000 (or 34.8 percent) less in prior revenues. Last year was the first year the City contracted with an external collector for delinquent housing rental permits so it is possible that the collector had more accounts to pursue in that first year than subsequent years.

**Rental Housing Permit Revenues**

	2015 Q2	2015 Budget	% Collected
Current Year	657,243	730,000	90.0%
Prior Years	73,798	166,735	44.3%
<b>Housing/Rental Permit Total</b>	<b>731,041</b>	<b>896,735</b>	<b>81.5%</b>

Two revenues related to the City’s economy are noteworthy. The City continues to receive very minimal revenue from new construction permits – just \$285 this year and none last year through June. Business privilege license revenue is also down 14.0 percent relative to 2014 levels. The

<sup>1</sup> The discount period ends at the end of August and the face period ends at the end of October.

<sup>2</sup> Revenue from rental housing inspections is tracked separately in the Charges for Service category.



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BPL is a measure of the number of businesses active in the City since each one is required to pay the \$55 annual license fee.<sup>3</sup> This applies to any business that receives payment for goods and services provided inside City limits, even if the business itself is located outside Reading. The 14.0 percent reduction relative to 2014 levels may be a timing issue that will dissipate by the end of the year, but it should be monitored.

The decrease in other licenses, permits and fees is driven by a \$148,000 decrease in remodeling permits. There was also a \$74,000 decrease in street cuts revenues because of a change in City ordinances that took effect in January. Under the City’s new program, the UGI Corporation is repairing streets on its own instead of reimbursing the City for that work. There should be an offsetting reduction in the City’s related expenditures.

**Other Licenses, Permits and Fees**

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
District court summary offenses	508,329	900,000	56.5%	444,877	63,453	14.3%
Franchise fees	209,183	750,000	27.9%	191,943	17,240	9.0%
New construction permits	285	20,000	1.4%	0	285	N/A
Traffic fines motor codes	128,875	340,000	37.9%	178,830	(49,955)	-27.9%
Business privilege licenses	244,377	300,000	81.5%	284,147	(39,770)	-14.0%
Quality of life fines	120,550	242,489	49.7%	115,919	4,631	4.0%
Other	901,112	1,970,803	45.7%	1,132,344	(231,231)	-20.4%
<b>Subtotal</b>	<b>2,112,712</b>	<b>4,523,292</b>	<b>46.7%</b>	<b>2,348,060</b>	<b>(235,348)</b>	<b>-10.0%</b>

***Intergovernmental Revenues***

The City received 11.4 percent of total budgeted intergovernmental revenues. The largest item in this category is the Commonwealth pension aid, which arrives in the second half of the year.

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
Pension-State Contributions	0	3,200,000	0.0%	0	0	N/A
Meter Surcharge	850,000	1,775,000	47.9%	850,000	0	0.0%
RAWA Supplement	0	0	0.0%	750,000	(750,000)	-100.0%
RPA Supplement	405,000	3,878,558	10.4%	337,500	67,500	20.0%
Grants and Gifts	22,242	1,389,796	1.6%	767,113	(744,871)	-97.1%
Reading Public Library	0	767,644	0.0%	158,676	(158,676)	-100.0%
Other	78,807	879,600	9.0%	212,107	(133,300)	-62.8%
<b>Total</b>	<b>1,356,049</b>	<b>11,890,598</b>	<b>11.4%</b>	<b>3,075,396</b>	<b>(1,719,347)</b>	<b>-55.9%</b>

<sup>3</sup> Berks EIT, Incorporated distributes business privilege licenses and collects the associated revenue on behalf of the City.



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The \$1.7 million decrease in intergovernmental revenues is partly because the City changed how it records some of the revenue related to its water system this year. In prior years, the City booked RAWA’s lease payment partially as a transfer from the Water Fund and partially as a supplemental payment from RAWA. Now the City is booking the entire lease payment in the transfer category. As result of this accounting change, the City will show \$0 in the “RAWA Supplement” line and a higher amount in the water fund transfer line this year.

Across these two categories, the City expects more water lease revenue this year. Following a study of the water system’s value in 2014, the City and RAWA agreed to amend the lease terms and increase RAWA’s payment to the City from \$6.7 million to \$9.2 million.<sup>4</sup> The table below shows the mid-year actual receipts and full-year budget targets for 2014 and 2015.

	2015 Q2	2015 Budget	2014 Q2	2014 Q2
RAWA Supplement	0	0	750,000	1,500,000
Transfer from RAWA	4,637,500	9,200,000	2,585,000	5,170,000
<b>Total</b>	<b>4,637,500</b>	<b>9,200,000</b>	<b>3,335,000</b>	<b>6,670,000</b>

The City received only \$22,000 in grants and gifts because of the timing of the Staffing for Adequate Fire and Emergency Response (SAFER) grant reimbursements. The City received \$963,000 in SAFER grant revenues in 2013, \$1.2 million last year, and is expected to receive another \$848,000 this year. The grant reimburses the City for 21 firefighter positions added through the grant.

The City received \$405,000 in parking authority supplement, \$67,500 more than through the same period last year. The apparent increase is due to a timing quirk last year when there was a delay in the posting of the June payment. The City will also receive a larger supplement this year since the Authority is budgeted to contribute \$3.9 million versus the \$0.8 million it contributed in 2014.

The shortfall in the Reading Public Library is due to a timing quirk where there is a delay in the payment, whereas the shortfall in the other category is due to an audit adjustment where the City had to reverse a payment from the payment-in-lieu-of-taxes line in 2015.

***Charges for Services***

The City collected 44.6 percent of budgeted revenues from charges for services, which was \$15,000 (or 0.6 percent) more than a year ago.

The largest item in this category is the City’s charges for EMS service where the City collected \$1.2 million (or 5.4 percent) less than a year ago. The City discontinued its non-emergency

<sup>4</sup> This excludes additional revenue from the meter surcharge, which is \$1.8 million budgeted in 2015.



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transport program effective June 30, 2015 as recommended by the Amended Recovery Plan (initiative FD02). Revenue from that particular function is a small portion of the \$3.0 million total EMS user fee revenue target. Discontinuing the service midyear will result in lower revenues and expenditures than budgeted for that function.

Revenue that the Police Department generates by providing additional coverage to specific entities at a reimbursable rate is partially reported in the Police Service/Copy Service line. The City also records some of the revenue it receives to offset reimbursed overtime activities under grants and gifts in the Intergovernmental Revenue category. That revenue is lower than last year, but overtime expenditures have increased, as described more below.

The City levies a 5.0 percent admissions tax on events at the Santander Arena, Santander Performing Arts Center and FirstEnergy Stadium. Through June 2015, the City collected \$273,000 in admissions tax, \$127,000 (or 86.6 percent) more than through June 2014. The increase was due in part to an audit adjustment that increased 2015 revenues by \$93,000, but also because the City had more events at the Santander Arena through June this year.

Housing inspection revenue continues to trail last year’s pace, with the City receiving \$84,000 (or 20.9 percent) less than through the same period last year. The table below shows the large items in this category.

**Service Charge Revenue**

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
EMS User Fees	1,199,618	3,000,000	40.0%	1,268,117	(68,499)	-5.4%
Housing Inspection	316,969	830,655	38.2%	400,760	(83,791)	-20.9%
Kenhorst Police Contract	224,192	448,384	50.0%	215,569	8,623	4.0%
Admissions Fee/Tax	272,807	325,000	83.9%	146,213	126,595	86.6%
Police Service/Copy Service	87,458	225,000	38.9%	89,431	(1,973)	-2.2%
Zoning Housing Appeals	66,099	127,609	51.8%	60,305	5,794	9.6%
Other	238,879	442,194	54.0%	210,655	28,224	13.4%
<b>Total</b>	<b>2,406,023</b>	<b>5,398,842</b>	<b>44.6%</b>	<b>2,391,050</b>	<b>14,974</b>	<b>0.6%</b>

***Interest and rent***

The City reports \$183,000 more in revenue from interest and rent than through June 2014. The apparent increase in revenue is due to a timing lag last year in the receipt and posting of the \$83,000 monthly Parking Authority’s rental payment and an accounting adjustment related to debt repayment from the Greater Berks Development Fund in 2014. Setting those quirks aside, revenues in this category are basically even with last year.



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**Interest and Rent Revenues**

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
Rental - Parking Authority	499,998	1,000,000	50.0%	416,665	83,333	20.0%
Rental on Stadium	300,000	300,000	100.0%	300,000	0	0.0%
Rent Other Property Bldgs	38,789	65,000	59.7%	38,492	298	0.8%
Repayment of Debt to City	0	0	0.0%	(95,333)	95,333	-100.0%
Other	4,875	0	0.0%	674	4,201	623.6%
<b>Total</b>	<b>843,662</b>	<b>1,365,000</b>	<b>61.8%</b>	<b>660,497</b>	<b>183,165</b>	<b>27.7%</b>

*Interfund revenues*

The largest revenue in this category is the water lease payment described earlier in the intergovernmental revenue category. The City also transfers \$3.0 million per year from the Wastewater Treatment Plant Fund to the General Fund each year as restricted by the November 2005 federal consent decree.

The 2015 budget also shows a \$2.5 million transfer from prior year fund balance (i.e. the City’s reserves). Use of prior year fund balance is not generally considered current year revenue from an accounting perspective, but the City’s budgeting convention is to list it as such. The \$2.5 million “revenue” is almost entirely offset by a \$2.3 million contingency on the expenditure side. If the City has unanticipated expenditures that it cannot handle within the confines of this year’s budget, then the City may draw down the fund balance and use it as a contingency.

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
From RAWA	4,637,500	9,200,000	50.4%	2,585,000	2,052,500	79.4%
Transfer from Sewer Fund	1,500,000	3,000,000	50.0%	1,500,000	0	0.0%
Transfer from Fund Balance	0	2,500,000	0.0%	0	0	N/A
<b>Total</b>	<b>6,137,500</b>	<b>14,700,000</b>	<b>41.8%</b>	<b>4,085,000</b>	<b>2,052,500</b>	<b>50.2%</b>

*Other Revenues*

Revenues not counted in the prior categories are grouped together in this “other” category. Between all of these revenues, the City collected 34.6 percent of the total budget and \$396,000 (or 18.5 percent) less than last year.

The largest item in this category is City employees’ contributions to the cost of health insurance.<sup>5</sup> The City’s budget increased by 13 percent from \$1.5 million to \$1.7 million, but spending

<sup>5</sup> The expenditure section of this report discusses the City’s expenses related to employee health insurance. Please note that this revenue line does not include the expenses that City employees pay to medical care providers at the time of receiving service (e.g. office or prescription drug copayments).



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through the second quarter has dropped by \$56,000 (or 8.2 percent). Position vacancies account for some of the difference since the City is not incurring health insurance expenditures or collecting employee contributions for the vacant positions. Heart and lung reimbursements are down because of the \$112,000 drop in the Fire Department.

### Other Revenues

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
Employee Ins. Contribution	623,461	1,700,000	36.7%	679,400	(55,939)	-8.2%
Indirect Cost Reimb – Sewer	551,673	1,042,954	52.9%	580,147	(28,474)	-4.9%
CDBG Revenue to Fund Codes	0	555,000	0.0%	41,733	(41,733)	-100.0%
Heart & Lung Reimbursement	49,151	290,000	16.9%	150,408	(101,257)	-67.3%
Indirect Cost Reimb – CD	0	190,000	0.0%	0	0	N/A
Rdg. Housing Auth - Reimb.	110,549	225,000	49.1%	133,119	(22,570)	-17.0%
Indirect Cost Reimb- Recycling	192,486	442,000	43.5%	221,172	(28,686)	-13.0%
Direct Cost Reimb. – Trades	0	170,000	0.0%	7,761	(7,761)	-100.0%
Other	215,025	426,685	50.4%	324,727	(109,703)	-33.8%
<b>Other Revenues Subtotal</b>	<b>1,742,344</b>	<b>5,041,639</b>	<b>34.6%</b>	<b>2,138,467</b>	<b>(396,123)</b>	<b>-18.5%</b>

### EXPENDITURES

The City spent \$30.8 million in its General Fund through June 2015, which was 34.0 percent of the \$90.8 million budget. The City spent \$1.2 million (or 3.9 percent) less than a year ago with most of the difference in debt service as explained below.

Major Expenditures	2015 Q2	2015 Budget	% Spent	2014 Q2	Difference (\$)	Difference (%)
Salaries, wages & holiday pay	14,186,445	29,453,190	48.2%	14,146,137	40,308	0.3%
Overtime	1,316,659	2,599,385	50.7%	1,390,035	(73,377)	-5.3%
Pensions	0	13,204,536	0.0%	0	0	0.0%
Fringe benefits	5,476,504	11,935,968	45.9%	4,815,141	661,363	13.7%
Other personnel	812,702	1,643,141	49.5%	843,246	(30,543)	-3.6%
Debt service	2,538,668	13,145,964	19.3%	4,227,379	(1,688,711)	-39.9%
Operating costs	4,702,972	13,627,459	34.5%	4,939,043	(236,071)	-4.8%
Other expenses	604,013	1,117,340	54.1%	448,953	155,060	34.5%
Contingencies	0	2,342,550	0.0%	132	(132)	-100.0%
Interfund transfer expenses	1,207,749	1,715,498	70.4%	1,270,848	(63,099)	-5.0%
<b>Total Expenditures</b>	<b>30,845,712</b>	<b>90,785,031</b>	<b>34.0%</b>	<b>32,080,912</b>	<b>(1,235,200)</b>	<b>-3.9%</b>



**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

***Personnel***

Most of the City's General Fund expenditures are for employee compensation, including fringe benefits (health insurance) and the City's pension contribution. Personnel-related costs account for two-thirds of the City's mid-year spending and 65 percent of the City's General Fund budget.

The largest portion of the City's personnel expenditures are for the “regular” pay of City employees: their salaries, temporary wages, and holiday pay. The table below shows that spending by department. All departments are close to the 50 percent spending level expected through the first quarter of the year with the exception of Administrative Services, which has vacant positions and a \$100,000 budget error.<sup>6</sup>

**Salaries, Temporary Wages and Holiday Pay by Department**

	2015 Q2	2015 Budget	% Spent	2014 Q2	Difference (\$)	Difference (%)
Police	6,420,643	13,251,784	48.5%	6,306,953	113,690	1.8%
Fire	4,238,672	8,757,254	48.4%	4,278,292	(39,620)	-0.9%
Public Works	894,969	1,804,917	49.6%	856,658	38,311	4.5%
Administration	841,752	1,962,484	42.9%	897,914	(56,161)	-6.3%
Community Dev	1,040,516	2,107,034	49.4%	1,001,720	38,796	3.9%
Other	749,893	1,569,717	47.8%	804,600	(54,708)	-6.8%
<b>Total</b>	<b>14,186,445</b>	<b>29,453,190</b>	<b>48.2%</b>	<b>14,146,137</b>	<b>40,308</b>	<b>0.3%</b>

***Overtime***

The City’s overtime expenditures through June 2015 were \$73,000 (or 5.3 percent) less than through June 2014. The decrease is due to lower Fire overtime.

	2015 Q2	2015 Budget	% Spent	2014 Q2	Difference (\$)	Difference (%)
Police	878,674	1,693,781	51.9%	859,766	18,907	2.2%
Fire	360,145	849,604	42.4%	446,952	(86,808)	-19.4%
Public Works	62,343	52,000	119.9%	72,021	(9,678)	-13.4%
Other	15,498	4,000	387.4%	11,296	4,202	37.2%
<b>Total</b>	<b>1,316,659</b>	<b>2,599,385</b>	<b>50.7%</b>	<b>1,390,035</b>	<b>(73,377)</b>	<b>-5.3%</b>

The Police Department spent \$19,000 (or 2.2 percent) more than it did through June last year when overtime spending finished at \$1.8 million. The 2.2 percent increase in overtime spending

<sup>6</sup> The 2015 budget allocates an additional \$100,000 for salaries that should have been removed to match the 2014 Amended Recovery Plan. The City is aware of the discrepancy and has not spent any of that allocation. Without that \$100,000, the Department of Administrative Services spent closer to 45 percent of its budget allocation. The Department also has a higher vacancy rate relative to its size than other departments.



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 PFM Asset Management LLC  
 PFM Advisors

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

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

basically matches the 2.0 percent increase in base salaries this year under the current collective bargaining agreement. Through June 2015, the City spent 6.0 percent less on base salaries than it did midway through 2012, even though the department had the same number of full-time budgeted positions (194). The reduction was likely the result of turnover. Some senior officers left the department and were replaced by more junior officers with a lower base salary. While the \$501,000 reduction base salary costs is helpful from a financial perspective, those savings have been more than offset by increases in the City’s annual contributions to the police pension plan to fund the benefits that the retired officers receive. The City’s contributions increased from \$3.7 million in 2012 to \$8.4 million budgeted for 2015.

	2012 Q2	2013 Q2	2014 Q2	2015 Q2
Police Salaries	6,921,360	6,277,055	6,306,953	6,420,643
Police Overtime	799,355	920,004	859,766	878,674
Police Longevity	162,604	139,097	134,325	110,479
<b>Total Police Cash Compensation</b>	<b>7,883,319</b>	<b>7,336,156</b>	<b>7,301,045</b>	<b>7,409,796</b>
% Change	N/A	-6.9%	-0.5%	1.5%

As discussed in our September 2013 Police Overtime Analysis, the overtime expenditures shown in the table above are only part of the story. Some overtime expenditures are reimbursed by private parties, other governmental entities, or grants. Accounting for the reimbursements tracked in the Police Service revenue line, the City had \$791,000 in unreimbursed police overtime expenditures through June, which was \$21,000 (or 2.7 percent) more than through the same period in 2014.

**Police Department Overtime including Reimbursements<sup>7</sup>**

	Budget	Q2 Actual
FY14 Overtime	1,814,500	859,766
FY14 Reimbursement	275,000	89,431
<b>FY14 Unreimbursed</b>	<b>1,539,500</b>	<b>770,335</b>
FY15 Overtime	1,693,781	878,674
FY15 Reimbursement	225,000	87,458
<b>FY15 Unreimbursed</b>	<b>1,468,781</b>	<b>791,216</b>

Through June 2015 the Fire Department spent 42.4 percent of its overtime budget and \$87,000 (or 19.4 percent) less than through the same period in 2014. The following table shows the second-quarter fire cash compensation, including base salaries and longevity, from 2012 to 2015.

<sup>7</sup> This does not include the overtime reimbursements that are recorded as grant and gift revenue.



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***Benefits***

This category includes the City's annual required contributions to the employee pension plans and spending on different types of employee insurance coverage (e.g. medical, prescription, dental, vision, life).

***Pensions***

Pennsylvania law requires the City to make an annual contribution to each of its three employee pension plans. The City's contributions, also known as the Minimum Municipal Obligations (MMOs), are calculated by an external actuary based on the pension plans' assets and liabilities, and accounting for employee contributions. The City uses Commonwealth pension aid and General Fund revenues to make the MMO payments. The City's total contributions for 2015 are \$13.2 million, which will be \$3.2 million (or 32.4 percent) higher than in 2014. The City did not make the contributions until September last year and is expected to make the contributions in the second half of this year.

<b>Pension</b>	<b>2015 Q2</b>	<b>2015 Budget</b>	<b>% Spent</b>	<b>2014 Q2</b>	<b>Difference (\$)</b>	<b>Difference (%)</b>
Police	-	8,398,280	0.0%	-	0	0.0%
Fire	-	2,956,620	0.0%	-	0	0.0%
Employees & Officers	-	1,849,636	0.0%	-	0	0.0%
<b>Total</b>	-	<b>13,204,536</b>	<b>0.0%</b>	-	0	0.0%

***Employee insurance (Fringe Benefits)***

The City spent 45.9 percent of its fringe benefit budget through June 2015, which was \$661,000 (or 13.7 percent) more than through June 2014. The City is self-insured, so it pays the cost of claims as employees receive medical care with some time lag associated with the medical billing and payment posting process. The City also has a stop-loss insurance policy that covers an employee's medical treatment after the total costs for an injury or illness reach \$225,000.

**Fringe Benefit Expenditures**

<b>2015 Q2</b>	<b>2015 Budget</b>	<b>% Spent</b>	<b>2014 Q2</b>	<b>Difference (\$)</b>	<b>Difference (%)</b>
5,476,504	11,935,968	45.9%	4,815,141	661,363	13.7%

***Other personnel***

The City spent another \$813,000 on other personnel-related expenditures through June. The \$31,000 decrease in spending compared to through the same period last year was due to lower longevity spending in Police and Fire. Longevity payment amounts and eligibility for the



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 www.pfm.com

payments are frozen under the terms of the 2010 and 2014 Recovery Plans. Spending on this type of premium pay drops when senior employees who receive longevity payments are replaced by more junior employees who receive less or no longevity payments.

Other Personnel	2015 Q2	2015 Budget	% Spent	2014 Q2	Difference (\$)	Difference (%)
Premium Pay	219,712	311,938	70.4%	253,624	(33,911)	-13.4%
Social Security	480,501	1,063,992	45.2%	484,296	(3,795)	-0.8%
Unemployment Comp	20,710	100,000	20.7%	16,510	4,200	25.4%
Penny Fund	6,854	1,935	354.2%	4,022	2,831	70.4%
Uniforms/Clothing Allowance	84,925	165,276	51.4%	84,794	132	0.2%
<b>Total</b>	<b>812,702</b>	<b>1,643,141</b>	<b>49.5%</b>	<b>843,246</b>	<b>(30,543)</b>	<b>-3.6%</b>

**Debt Service**

The City spent 19.3 percent of its debt service budget through June 2015, \$1.7 million (or 39.9 percent) less than through June last year. In both years, the City budgeted \$13.1 million in debt service payments. The City will spend less than that on debt this year because it completed the debt refinancing transactions recommended in the Amended Recovery Plan.

2015 Q2	2015 Budget	% Spent	2014 Q2	Difference (\$)	Difference (%)
2,538,668	13,145,964	19.3%	4,227,379	(1,688,711)	-39.9%

**Operating Costs**

Representing 15.0 percent of the total budget, this is the category for materials and services that the City government uses in its regular operations. It includes utilities, legal services, equipment, and building maintenance.

**Operating Costs**

Operating Costs	2015 Q2	2015 Budget	% Spent	2014 Q2	Difference (\$)	Difference (%)
Contracted Services	1,204,925	4,422,684	27.2%	1,240,734	(35,808)	-2.9%
Maintenance Agreements	309,988	794,540	39.0%	501,238	(191,249)	-38.2%
Light & Power	83,832	548,800	15.3%	186,680	(102,848)	-55.1%
Gas	135,708	602,000	22.5%	313,341	(177,634)	-56.7%
General Plant Supplies	165,828	377,911	43.9%	174,331	(8,503)	-4.9%
Maintenance/Repair Equipment	468,915	1,529,386	30.7%	431,610	37,305	8.6%
Fees	192,246	519,904	37.0%	171,767	20,478	11.9%
Other Operating Cost	2,141,530	4,832,234	44.3%	1,919,341	222,189	11.6%
<b>Total</b>	<b>4,702,972</b>	<b>13,627,459</b>	<b>34.5%</b>	<b>4,939,043</b>	<b>(236,071)</b>	<b>-4.8%</b>



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The City’s spending on these items through June 2015 was \$236,000 (or 4.8 percent) lower than it was a year ago. Some of the decrease is because the 2014 budget included non-recurring expenditures, like basic information technology infrastructure upgrades in the maintenance agreement category. Spending on vehicle gasoline was also less than half of what it was a year ago.

***Other expenses***

The table below shows other expenses in the General Fund.

	2015 Q2	2015 Budget	% Collected	2014 Q2	Difference (\$)	Difference (%)
Contingencies	0	2,342,550	0.0%	132	-132	-100.0%
Miscellaneous	604,013	1,117,340	54.1%	448,953	155,060	34.5%
Interfund transfers	1,207,749	1,715,498	70.4%	1,270,848	-63,099	-5.0%

As noted earlier, the City budgets a contingency as a buffer against unanticipated revenue shortfalls or expenditure increases that could occur during the year. In 2015 the City funds this contingency by using \$2.5 million of its prior year fund balance, recorded on the revenue side as a “transfer from fund balance.” Ideally the City would not need to use much of the contingency and would not deplete its prior year fund balance, which has been the case through June 2015.

The City also budgets \$1.1 million on miscellaneous expenses, the majority of which is collection expense (\$544,000) and contribution to the Reading Public Library (\$354,000). The City increased its contribution to the library this year from \$100,000 to \$354,000, and spending to date reflects that increase.

The interfund transfer is a payment from the General Fund to the Self Insurance Fund for the actual cost of property, liability and workers compensation claims and associated administrative costs. This City reduced the transfer by \$800,000 from \$2.5 million in 2014 to \$1.7 million in 2015 because of the reserve accumulated in that fund. Through June 2015, the City made \$1.2 million (or 70 percent) of the budgeted transfer.