



**The PFM Group**

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**Q3 2014 Financial Results**

This report summarizes preliminary financial results for the period January 1, 2014 through September 30, 2014 based on trial balance financial data provided by the City on November 10, 2014.

**Overview**

The City collected 74.0 percent of its budgeted revenues and spent 55.6 percent of its budgeted expenditures through September 2014. Revenues exceeded expenditures by \$15.5 million through September because the City has yet to pay its \$10.0 million pension contribution in 2014. The table below compares revenues and expenditures with the budget target.

**Budget to Actual Comparison**

	2014 Q3	2014 Budget	% Spent/Collected
Revenues	62,424,239	84,375,519	74.0%
Expenditures	46,893,217	84,360,519	55.6%
Difference	15,531,022	15,000	N/A

On the revenue side, the City collected \$323,000 (or 0.5 percent) less through Q3 2014 than through the same period in 2013. The decrease in collections is mostly driven by the timing delay in the Commonwealth pension aid, which arrived in the fourth quarter this year as opposed to the third quarter last year. Setting aside that timing quirk, the City received \$2.7 million (or 4.4 percent) more than through the same period last year. The increase is mostly because the City collected more revenue from its real estate and earned income taxes, plus the City has more grant revenue with the receipt of the SAFER grant.<sup>1</sup>

On the expenditure side, the City spent \$46.9 million through September 2014, \$7.1 million (or 13.2 percent) less than through September 2013 because the City will make its \$10 million pension contribution during the fourth quarter this year, instead of the third quarter. Setting the timing quirk aside, the City spent \$2.8 million (or 5.3 percent) more than through the same period last year. The spending increase was attributable to \$1.4 million increase in fringe benefit spending, primarily health insurance. The City also spent more on contracted services, street paving and IT hardware, which is incorporated in the operating budget.

	2014 Q3	2013 Q3	Difference (\$)	Difference (%)
Revenues	62,424,239	62,747,324	(323,085)	-0.5%
Expenditures	46,893,217	53,993,504	(7,100,287)	-13.2%
<b>Difference</b>	<b>15,531,022</b>	<b>8,753,820</b>	<b>6,777,203</b>	<b>N/A</b>

<sup>1</sup> The City started receiving the SAFER grant revenue after March last year and the majority of the grant revenues came in during the second half of the year.



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### Eight Trends to Watch

#### Revenue

- The City's **property tax** rate remained unchanged at 15.689 mills this year. Current year revenues were 2.2 higher this year through September 2014. Once the year is complete, we can assess whether collection rates are improving or something else accounts for the positive change.
- The City's **earned income tax** revenues are outpacing last year's collections, with the City collecting \$494,000 (5.6 percent) more in current year revenues through September.
- The City increased its portion of the **per capita tax** from \$5 to \$20 in 2014. Through September 2014, the City collected \$213,000 in per capita tax revenue, and the very early indication is that the collection rate for this tax has increased over last year's level.
- The City activated a fourth ambulance in the fourth quarter of 2013 so the 2014 budget assumed \$3.5 million in annual revenue associated with that change. The City collected \$2.0 million from **EMS user fees** through September, which is basically even with last year's revenue and only 56.2 percent of the \$3.5 million target.

#### Expenditures

- Through September 2014, the City spent 71.9 percent of its budget target on **salaries**. The City reports spending \$192,000 more on **public works salaries, wages and holiday pay** than a year ago because the City shifted the salary expenses for six equipment operators from the Recycling Fund to the General Fund.
- Through September, the City spent \$27,000 less on **police overtime** and \$165,000 less on **fire overtime** than a year ago.
- The City reports spending 78.0 percent of its budget for **employee health insurance (fringe benefits)** through September. Reported expenditures were \$1.4 million (or 20.3 percent) higher than through the same period last year.
- The City spent \$203,000 (or 14.2 percent) more on **contracted services** through September 2014 than through September 2013 due to spending on capital projects, like the Pagoda wall repair.



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**REVENUES**

The City had \$62.4 million in General Fund revenues through September 2014. The table below compares the City’s revenue performance through September 2014 to this year’s budget and last year through September.

Major Revenues	2013 Q3	2014 Budget	% Collected	2013 Q3	Difference (\$)	Difference (%)
<b>Real Estate Taxes</b>	19,955,840	21,083,297	94.7%	18,721,698	1,234,143	6.6%
<b>Act 511 Taxes</b>	19,076,225	24,990,795	76.3%	17,871,533	1,204,692	6.7%
<b>Licenses, Permits, Fine</b>	4,259,167	5,887,796	72.3%	3,884,598	374,570	9.6%
<b>Intergovernmental</b>	4,999,176	10,681,789	46.8%	7,358,819	(2,359,642)	-32.1%
<b>Charges for Services</b>	3,649,881	6,247,771	58.4%	3,839,213	(189,332)	-4.9%
<b>Interest and Rent</b>	927,534	1,365,000	68.0%	1,097,641	(170,107)	-15.5%
<b>Other</b>	3,428,915	4,718,593	72.7%	3,996,323	(567,408)	-14.2%
<b>Transfers in</b>	6,127,500	9,400,478	65.2%	5,977,500	150,000	2.5%
<b>TOTAL REVENUES</b>	<b>62,424,239</b>	<b>84,375,519</b>	<b>74.0%</b>	<b>62,747,324</b>	<b>(323,085)</b>	<b>-0.5%</b>

*Real Estate Taxes*

Real estate taxes represent about a quarter of all General Fund revenues. The City’s real estate tax rate remained the same in 2014 after it increased by 9 percent in 2013 to 15.689 mills.

	2014 Q3	2014 Budget	% Collected	2013 Q3	Difference (\$)	Difference (%)
Current Year	18,549,671	19,783,297	93.8%	18,156,370	393,301	2.2%
Prior Years	1,424,355	1,300,000	109.6%	679,966	744,389	109.5%
Penalties and Interest	305,615	300,000	101.9%	201,495	104,120	51.7%
Early Payment Discount	(323,800)	(300,000)	107.9%	(316,133)	(7,667)	2.4%
<b>Property Tax Subtotal</b>	<b>19,955,840</b>	<b>21,083,297</b>	<b>94.7%</b>	<b>18,721,698</b>	<b>1,234,143</b>	<b>6.6%</b>

Through September 2014, the City collected 2.2 percent more in current year revenue than a year ago. Prior year revenues were more than twice the amount received through Q3 2013, which is partly a function of timing. The City only had \$680,000 in prior year revenue at the end of September 2013, but it received more than \$700,000 in the fourth quarter and finished 2013 with \$1.4 million. The apparent increase in prior year revenues is also partially a byproduct of the 2013 tax increase. By definition “prior year” now includes 2013, which had a 9 percent tax increase. Even with those differences, prior year revenues surpassed this year’s \$1.3 million budget target.



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**Act 511 Taxes**

Act 511 taxes are the City’s largest revenue category. The City collected 76.3 percent of its budgeted Act 511 Taxes through September 2014.

	2014 Q3	2014 Budget	% Collected	2013 Q3	Difference (\$)	Difference (%)
Earned Income Tax	15,137,081	19,602,820	77.2%	13,770,459	1,366,621	9.9%
Business Privilege Tax	1,444,066	2,100,000	68.8%	1,340,010	104,056	7.8%
Real Estate Transfer Tax	1,453,969	1,982,975	73.3%	1,895,825	(441,856)	-23.3%
Local Services Tax	828,235	1,100,000	75.3%	812,425	15,810	1.9%
Per Capita Tax	212,874	205,000	103.8%	52,813	160,060	303.1%
<b>Total</b>	<b>19,076,225</b>	<b>24,990,795</b>	<b>76.3%</b>	<b>17,871,533</b>	<b>1,204,692</b>	<b>6.7%</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 third quarter, with the City collecting \$1.4 million (or 9.9 percent) more. Most of that growth is in prior year revenue because of the 0.2 percent tax increase from 2012 to 2013.

The revenues from the other Act 511 taxes also exceeded 2013 collections, except for real estate transfer tax revenues that were 23.3 percent lower than a year ago.

This year the City increased its per capita tax rate from \$15 (\$10 for the Reading School District, \$5 for the City) to \$30 (\$10 for the School District, \$20 for the City). It also shifted collection responsibility to Berks EIT, Incorporated, the entity that collects earned income tax on behalf of the City and School District.

Per capita tax payments were mailed in July and due at a discounted rate by the end of August or the full rate at the end of October. The City received \$213,000 at the end of September and at least a portion of that revenue (i.e. anything paid before the end of August) was paid at the discounted rate. Since the increase in revenue (303 percent) is greater than the increase in the tax rate (300 percent), that suggests the collection rate for this tax is also improving.

**Licenses, Permits & Fees**

This category includes rental housing permit fees, cable franchise fees, traffic and court fines and business privilege licenses. The City collected 72.3 percent of budgeted revenues in this category, \$375,000 (or 9.6 percent) more than through the third quarter last year.



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One of the largest items in this category is the City’s charges for rental housing permits.<sup>2</sup> The City collected 78.7 percent of its current year budget target and 31.2 percent of its prior year target. The City recently contracted with an external entity to collect revenue from delinquent housing rental permits.

**Rental Housing Permit Revenues**

	2014 Q3	2014 Budget	% Collected
Current Year	700,372	890,000	78.7%
Prior Years	139,294	450,000	31.2%
<b>Housing/Rental Permit Total</b>	<b>839,666</b>	<b>1,340,000</b>	<b>62.7%</b>

The City received \$178,000 from quality of life fines through September 2014 versus \$281,000 last year and \$745 from new construction permits versus \$49,000 last year. The increase in other licenses, permits and fees is driven by a \$144,000 increase in remodeling permits and a \$165,000 increase in street cuts revenue.

**Licenses, Permits and Fees**

	2014 Q3	2014 Budget	% Collected	2013 Q3	Difference (\$)	Difference (%)
Housing/rental permit	839,666	1,340,000	62.7%	777,084	62,582	8.1%
District court summary offenses	680,879	850,000	80.1%	634,226	46,653	7.4%
Franchise fees	391,444	725,000	54.0%	373,306	18,138	4.9%
New construction permits	745	90,000	0.8%	49,404	(48,659)	-98.5%
Traffic fines motor codes	281,490	325,000	86.6%	224,396	57,094	25.4%
Business privilege licenses	311,113	350,000	88.9%	269,932	41,181	15.3%
Quality of life fines	177,970	390,000	45.6%	280,912	(102,942)	-36.6%
Other	1,575,860	1,817,796	86.7%	1,275,337	300,523	23.6%
<b>Total</b>	<b>4,259,167</b>	<b>5,887,796</b>	<b>72.3%</b>	<b>3,884,598</b>	<b>374,570</b>	<b>9.6%</b>

*Intergovernmental Revenues*

The City received 46.8 percent of total budgeted intergovernmental revenues through September 2014. The apparent decrease in total intergovernmental revenue is because the City received its

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



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State pension aid during the fourth quarter of this year, as opposed to the third quarter of last year.

	2014 Q3	2014 Budget	% Collected	2013 Q3	Difference (\$)	Difference (%)
Pension-State Contributions	0	3,150,000	0.0%	3,068,643	(3,068,643)	-100.0%
Meter Surcharge	1,275,000	1,700,000	75.0%	1,133,333	141,667	12.5%
RAWA Supplement	1,125,000	1,500,000	75.0%	1,125,000	0	0.0%
RPA Supplement	540,000	810,000	66.7%	607,500	(67,500)	-11.1%
Grants and Gifts	1,156,487	1,852,145	62.4%	419,151	737,336	175.9%
Reading Public Library	316,089	767,644	41.2%	337,270	(21,181)	-6.3%
Other	586,600	902,000	65.0%	667,921	(81,321)	-12.2%
<b>Intergovernmental Total</b>	<b>4,999,176</b>	<b>10,681,789</b>	<b>46.8%</b>	<b>7,358,819</b>	<b>(2,359,642)</b>	<b>-32.1%</b>

The City received \$737,000 more in grant and gift revenue than a year ago because of the timing of the SAFER grant. Last year the City received a grant from the Staffing for Adequate Fire and Emergency Response (SAFER) program administered by the US Department of Homeland Security. The grant reimburses the City for 21 firefighter positions. The City received \$963,000 in SAFER grant revenues last year, most of which arrived in the second half of the year. this year the City receives four quarters worth of grant reimbursements.

The City received \$540,000 in parking authority supplement, \$67,500 less than through the same period last year. The Parking Authority pays the City \$67,500 each month, so the shortfall is likely a delay in the receipt or posting of the September payment.

The decrease in other intergovernmental revenue is driven by a \$71,000 decrease in School District crossing guard payment. The 2014 budget anticipated a \$55,000 reduction in these payments.

*Charges for Services*

The City collected 58.4 percent of budgeted revenues from charges for services, which was \$189,000 (or 4.9 percent) less than a year ago.

The largest item in this category is the City’s charges for EMS service. The City activated a fourth ambulance in the fourth quarter of 2013 so the 2014 budget assumed EMS revenue would increase by approximately 25 percent to \$3.5 million. Through September, the City collected \$2.0 million from EMS user fees, which was basically level with the Q3 2013 results and only 56.2 percent of the \$3.5 million budget target.



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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 revenue received to offset reimbursed overtime activities under grants and gifts in the Intergovernmental Revenue category. That revenue is lower than last year, though so are overtime expenditures as described more below.

Admissions tax receipts continue to trail last year's pace, with the City receiving \$24,000 (or 11.3 percent) less than through the same period last year. The shortfall in other charges is largely driven by a decrease of \$124,000 in public health and safety inspection fees. The table below shows the large items in this category.

**Service Charge Revenue**

	2014 Q3	2014 Budget	% Collected	2013 Q3	Difference (\$)	Difference (%)
EMS User Fees	1,988,976	3,536,638	56.2%	1,959,091	29,884	1.5%
Housing Inspection	577,835	800,000	72.2%	599,014	(21,179)	-3.5%
Kenhorst Police Contract	323,354	431,139	75.0%	313,936	9,418	3.0%
Admissions Fee/Tax	190,244	425,000	44.8%	214,459	(24,215)	-11.3%
Police Service/Copy Service	143,848	275,000	52.3%	196,993	(53,144)	-27.0%
Other	425,624	779,994	56.7%	555,720	(130,096)	-23.4%
<b>Total</b>	<b>3,649,881</b>	<b>6,247,771</b>	<b>58.4%</b>	<b>3,839,213</b>	<b>(189,332)</b>	<b>-4.9%</b>

*Interest and rent*

The City reports \$170,000 less in revenue from interest and rent than in 2013. The apparent drop in revenue is due to a timing lag in the receipt or 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. That adjustment appears as "negative revenue" in the trial balance report.

**Interest and Rent Revenues**

	2014 Q3	2014 Budget	% Collected	2013 Q3	Difference (\$)	Difference (%)
Repayment of Debt to City	(95,333)	0	0.0%	0	(95,333)	N/A
Rental - Parking Authority	666,664	1,000,000	66.7%	749,997	(83,333)	-11.1%
Rent Other Property Bldgs	55,448	65,000	85.3%	47,491	7,958	16.8%
Other	300,000	300,000	100.0%	300,000	0	0.0%
<b>Total</b>	<b>927,534</b>	<b>1,365,000</b>	<b>68.0%</b>	<b>1,097,641</b>	<b>(170,107)</b>	<b>-15.5%</b>



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*Interfund revenues*

The City transfers \$5.2 million from the Water Fund to the General Fund as an annual lease payment from RAWA based on their lease agreement.<sup>3</sup> 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. Both transfers are made on a monthly basis throughout the year. The City budgeted a \$1.2 million transfer from its fund balance this year to fund capital projects, like paving and information technology upgrade, but the Administration reports the City will not need to make this transfer, so it will remain \$0.

	2014 Q3	2014 Budget	% Collected	2013 Q3	Difference (\$)	Difference (%)
Transfer From RAWA	3,877,500	5,170,000	75.0%	3,727,500	150,000	4.0%
Transfer from Sewer Fund	2,250,000	3,000,000	75.0%	2,250,000	0	0.0%
Transfer from Fund Balance	0	1,230,478	0.0%	0	0	N/A
<b>Total</b>	<b>6,127,500</b>	<b>9,400,478</b>	<b>65.2%</b>	<b>5,977,500</b>	<b>150,000</b>	<b>2.5%</b>

*Other Revenues*

The City collected 72.7 percent of the total budget for all other revenues category, which was \$567,000 (or 14.2 percent) less than last year.

The largest item in this category is City employees’ contributions to the cost of health insurance<sup>4</sup> which dropped by 11.3 percent compared to through the same period last year because of a provision in the City’s Recovery Plan. According to the Recovery Plan, the City’s share of total premiums increases by five percent each year, even if the premiums themselves stay flat or decline as was the case this year.<sup>5</sup> If the total premiums decline, and the City pays a higher share of the smaller amount, then the employees’ share drops. So employees with single coverage under the Preferred Plus option are contributing 30 percent less in 2014 than in 2013 and employees with family coverage under the Preferred option are contributing 29 percent less. This contributes to the \$127,000 reduction in revenue from Q3 2013 to Q3 Q2014.

<sup>3</sup> The lease agreement also sets RAWA’s supplemental payment to the General Fund, which is tracked in intergovernmental revenues as “RAWA supplement.”

<sup>4</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 when the receive care (e.g. office or prescription drug copayments).

<sup>5</sup> If the total premium costs increase by more than five percent, than the City employees would make higher contributions to cover the difference. Employees also could reduce their contributions by selecting a different kind of coverage (i.e. moving from Preferred Plus to Preferred).



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**Other Revenues**

	2014 Q3	2014 Budget	% Collected	2013 Q3	Difference (\$)	Difference (%)
Employee Ins. Contribution	994,939	1,500,000	66.3%	1,122,261	(127,322)	-11.3%
Indirect Cost Reimb - Sewer	870,221	1,161,432	74.9%	859,200	11,020	1.3%
CDBG Revenue to Fund Codes	295,039	500,000	59.0%	339,415	(44,375)	-13.1%
Heart & Lung Reimbursement	222,474	290,000	76.7%	289,414	(66,939)	-23.1%
Indirect Cost Reimb - CD	0	189,996	0.0%	0	0	N/A
Rdg. Housing Auth - Reimb.	184,366	200,000	92.2%	186,889	(2,523)	-1.3%
Indirect Cost Reimb- Recycling	331,758	250,216	132.6%	188,247	143,511	76.2%
Indirect Cost Reimb- Water	0	0	N/A	504,673	(504,673)	-100.0%
Direct Cost Reimb. - Trades	53,555	170,000	31.5%	80,477	(26,922)	-33.5%
Other	476,563	456,949	104.3%	425,748	50,815	11.9%
<b>Other Revenues Subtotal</b>	<b>3,428,915</b>	<b>4,718,593</b>	<b>72.7%</b>	<b>3,996,323</b>	<b>(567,408)</b>	<b>-14.2%</b>

The biggest year-to-year difference is in the indirect cost reimbursement from the water fund, which was \$0 through September 2014 compared to \$505,000 last year. The City uses resources budgeted in the General Fund to support activities budgeted outside the General Fund and then recovers those costs based on an indirect cost calculation by an external vendor. For example, the Citizen Service Center (General Fund operation) previously provided customer service support for water customers (non-General fund operation) and then recovered the costs. In the case of the indirect cost reimbursement from the water fund, that amount will eventually decline because the Reading Area Water Authority (RAWA) assumed responsibility for some of the services that the City was providing. The City budgeted \$0 for the indirect cost reimbursement in 2014, though it is likely to receive some reimbursement according to the most recent indirect cost study.<sup>6</sup>

<sup>6</sup> This indirect cost reimbursement is separate from RAWA's payment to the City under the lease agreement.



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**EXPENDITURES**

The City spent \$46.9 million in its General Fund through September 2014, which was 55.6 percent of the \$84.4 million budget. The City spent \$7.1 million (or 13.2 percent) less than a year ago because of the City has not made the \$10.0 million pension contribution as of September 2014. Setting aside that timing quirk, the City spent \$2.9 million (or 5.3 percent) more than it did through the same period last year.

Major Expenditures	2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
Salaries, wages & holiday pay	21,017,072	29,236,011	71.9%	20,309,525	707,547	3.5%
Overtime	2,138,175	2,497,300	85.6%	2,267,435	(129,261)	-5.7%
Pensions	0	9,957,024	0.0%	9,947,536	(9,947,536)	N/A
Fringe benefits	8,542,233	10,946,924	78.0%	7,103,388	1,438,845	20.3%
Other personnel	1,160,306	1,623,894	71.5%	1,165,648	(5,342)	-0.5%
Debt service	4,605,209	13,144,084	35.0%	4,596,316	8,893	0.2%
Operating costs	6,921,913	11,608,877	59.6%	6,016,335	905,578	15.1%
Other expenses	601,899	671,310	89.7%	608,013	(6,114)	-1.0%
Contingencies	139	2,133,400	0.0%	2,321	(2,182)	-94.0%
Interfund transfer expenses	1,906,271	2,541,695	75.0%	1,976,988	(70,717)	-3.6%
<b>Total Expenditures</b>	<b>46,893,217</b>	<b>84,360,519</b>	<b>55.6%</b>	<b>53,993,504</b>	<b>(7,100,287)</b>	<b>-13.2%</b>

***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 70 percent of the City's mid-year spending and 64 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. The 2014 budget increased by 6.4 percent compared to 2013 year-end actuals mostly because of firefighter positions added through the SAFER grant and increased expenses for six equipment operators that were shifted from the Recycling Fund to the General Fund. Through September 2014, the City spent \$708,000 (or 3.5 percent) more than it did through the same period last year, representing 71.9 percent of its budget target.



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

	2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
Police	9,359,644	12,940,169	72.3%	9,293,409	66,235	0.7%
Fire	6,347,843	8,850,984	71.7%	6,038,721	309,122	5.1%
Public Works	1,274,628	1,803,899	70.7%	1,082,291	192,338	17.8%
Administration	1,313,366	1,858,797	70.7%	1,191,081	122,285	10.3%
Community Dev	1,516,276	2,139,443	70.9%	1,513,588	2,689	0.2%
Other	1,205,314	1,642,719	73.4%	1,190,435	14,879	1.2%
<b>Total</b>	<b>21,017,072</b>	<b>29,236,011</b>	<b>71.9%</b>	<b>20,309,525</b>	<b>707,547</b>	<b>3.5%</b>

**Overtime**

The City's overtime expenditures through September 2014 were \$129,000 (or 5.7 percent) less than through September 2013.

	2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
Police	1,340,798	1,814,500	73.9%	1,367,871	(27,073)	-2.0%
Fire	694,447	641,300	108.3%	859,558	(165,111)	-19.2%
Public Works	82,242	39,500	208.2%	34,201	48,041	140.5%
Other	20,687	2,000	1034.4%	5,805	14,882	256.4%
<b>Total</b>	<b>2,138,175</b>	<b>2,497,300</b>	<b>85.6%</b>	<b>2,267,435</b>	<b>(129,261)</b>	<b>-5.7%</b>

The Police Department spent \$27,000 (or 2.0 percent) less than through Q3 2013. Last year police overtime spending finished at \$1.9 million. As discussed in our September 2013 Police Overtime Analysis, the overtime expenditures 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 \$1.2 million in unreimbursed police overtime expenditures through September which was \$26,000 (or 2.2 percent) more than through the same period in 2013.



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

	<b>Budget</b>	<b>Q3 Actual</b>
FY13 Overtime	1,479,063	1,367,871
FY13 Reimbursement	170,000	196,993
<b>FY13 Unreimbursed</b>	<b>1,309,063</b>	<b>1,170,879</b>
FY14 Overtime	1,814,500	1,340,798
FY14 Reimbursement	275,000	143,848
<b>FY14 Unreimbursed</b>	<b>1,539,500</b>	<b>1,196,950</b>

The Fire Department spent \$165,000 (or 19.2 percent) less on overtime than through the same period in 2013. The City spent \$1.1 million on fire overtime for all of last year.

*Overtime trends*

As noted in the Amended Recovery Plan, the City needs to improve how it tracks overtime usage in the police and fire departments so there is a better understanding of the factors driving overtime spending. For now, though, we are able to track overtime spending at a very high level for the police and fire departments on a quarter-by-quarter basis.

The police department spent \$481,000 on overtime during the third quarter (i.e. July through September). This was 7.4 percent more than the City spent during the third quarter of 2013 and 2.7 percent less than during the third quarter of 2012. This was the gross level of overtime spending and does not include the \$54,000 in reimbursement revenue that the City received during Q3 2014. This analysis uses spending data because we do not have data on the number of hours of overtime worked.

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



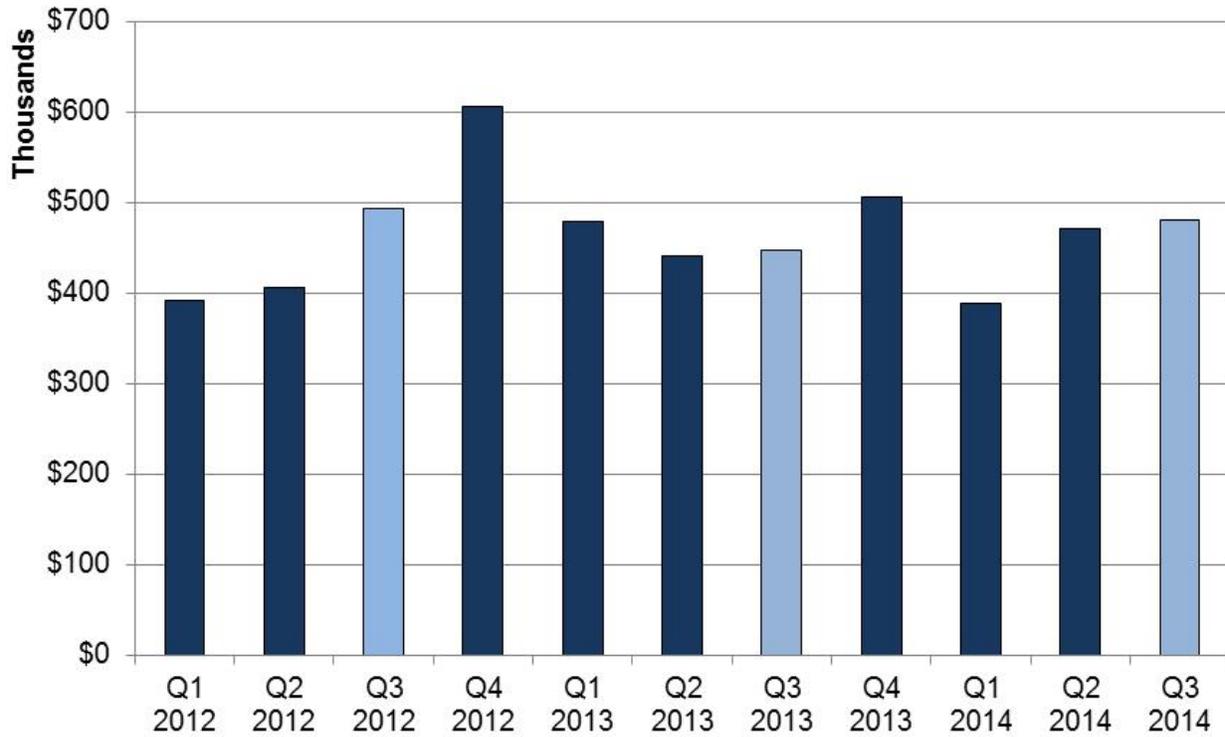
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**Police Department Overtime Spending (\$1ks) –  
Reimbursement not included**



The fire department spent \$247,000 on overtime during the third quarter (i.e. July through September). That was 28.6 percent less than the City spent during the third quarter of 2013 and 50.5 percent less than the City spent during the third quarter of 2012. The quarter-by-quarter trends suggests that the City’s overtime spending increases as the year goes along, at least through the first three quarters.



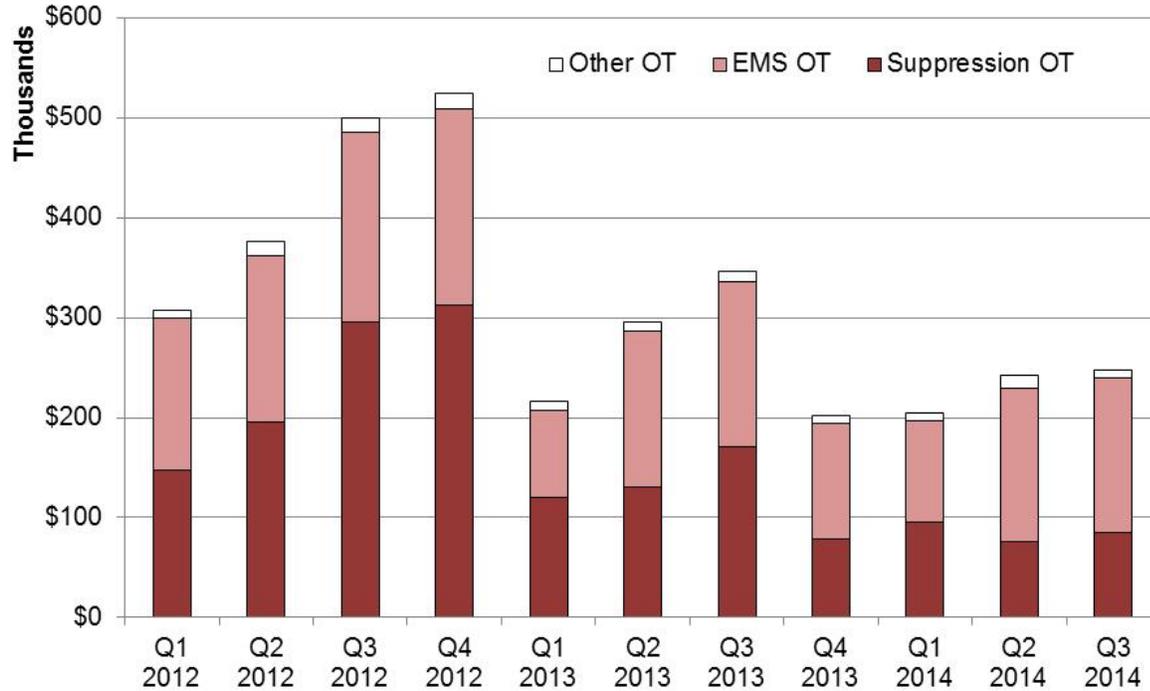
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**Fire Department Overtime Spending (\$1ks)**



**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 the employees' contributions. The City uses Commonwealth pension aid and General Fund revenues to make the MMO payments. The City's total contributions for 2014 are \$10.0 million, basically the same as in 2013. Last year the City made the pension contribution in September, after it received the pension aid. This year the City made the contribution during the fourth quarter.



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**General Fund Pension Expenditures**

	2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
Police	-	6,051,235	0.0%	6,057,188	(6,057,188)	-100.0%
Fire	-	2,282,336	0.0%	2,286,857	(2,286,857)	-100.0%
Employees & Officers <sup>8</sup>	-	1,623,453	0.0%	1,603,491	(1,603,491)	-100.0%
<b>Total</b>	-	<b>9,957,024</b>	<b>0.0%</b>	<b>9,947,536</b>	<b>(9,947,536)</b>	<b>-100.0%</b>

*Employee insurance (Fringe Benefits)*

The City spent 78.0 percent of its fringe benefit budget through September 2014, which was \$1.4 million (or 20.3 percent) more than through September 2013. 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**

2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
8,542,233	10,946,924	78.0%	7,103,388	1,438,845	20.3%

Because the City is self-insured, fringe benefit spending can vary throughout the year as claims are filed and processed. While the total fringe benefit costs include medical, prescription drug, dental, vision and life insurance, the majority (70 percent) is for medical claims.<sup>9</sup>

*Other personnel*

The City spent another \$1.2 million on other personnel-related expenditures through September. Social security spending is higher because six positions shifted from the Recycling Fund to the General Fund as described earlier.

	2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
Premium Pay	308,596	337,083	91.5%	324,173	(15,577)	-4.8%
Social Security	714,510	1,045,650	68.3%	691,402	23,108	3.3%

<sup>8</sup> For the Employees and Officers pension plan, the City has additional pension expenditures in its enterprise funds (i.e. sewer, trash) since some active employees in that plan are supported by those funds.

<sup>9</sup> Medical claim costs account for \$8.7 million of the \$12.5 million fringe benefits budget across all funds according to the medical usage and forecast report provided by Evolution Benefits Consulting.



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	2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
Unemployment Comp	31,769	100,000	31.8%	17,639	14,130	80.1%
Penny Fund	6,089	2,035	299.2%	3,199	2,890	90.3%
Uniforms/Clothing Allowance	99,342	139,126	71.4%	129,235	(29,893)	-23.1%
<b>Total</b>	<b>1,160,306</b>	<b>1,623,894</b>	<b>71.5%</b>	<b>1,165,648</b>	<b>(5,342)</b>	<b>-0.5%</b>

**Debt Service**

The City spent 35.0 percent of its debt service budget through September 2014. The City pays its debt according to the schedules established in the individual borrowing agreements. Most of those agreements require the City to make two payments, the first in May and the second in November. The May payment often covers only interest on the borrowings while the November payment covers interest and principal. Since the November payment is larger, the City generally spends the majority of its debt service in the fourth quarter of the year.

	2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
Debt Service	4,605,209	13,144,084	35.0%	4,596,316	8,893	0.2%

**Operating Costs**

Representing 13.8 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**

	2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
Contracted Services	1,631,748	2,969,430	55.0%	1,428,407	203,341	14.2%
Maintenance Agreements	599,731	774,050	77.5%	662,513	(62,782)	-9.5%
Light & Power	796,846	1,488,800	53.5%	333,443	463,403	139.0%
Gas	106,590	123,000	86.7%	469,589	(362,999)	-77.3%
Other Operating Cost	3,786,998	6,253,597	60.6%	3,122,383	664,615	21.3%
<b>Total</b>	<b>6,921,913</b>	<b>11,608,877</b>	<b>59.6%</b>	<b>6,016,335</b>	<b>905,578</b>	<b>15.1%</b>

The City spent \$203,000 (or 14.2 percent) more in contracted services because the budget allocation includes \$779,000 in the Traffic Engineering Division of Public Works to repair three dams and the Pagoda walls.



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The \$463,000 increase in light and power expense is related to street paving. In prior years the City used money in the separate Liquid Fuels Fund to cover most street lighting expenditures. This year the City used the money in the Liquid Fuels Fund for street paving and covered the street lighting expenditures with General Fund money. So General Fund spending on this category of expenditures will be higher than in prior years.

The City also increased its budget target for machinery and equipment by \$928,000 to replace basic IT infrastructure. So spending in that line will also be higher than in prior years. Vehicle spending through September was \$244,000, \$51,000 more than through September last year. The majority of the vehicle spending was in the Police and Fire Departments.

***Other expenses***

The table below shows other expenses in the General Fund.

	2014 Q3	2014 Budget	% Spent	2013 Q3	Difference (\$)	Difference (%)
Contingencies	139	2,133,400	0.0%	2,321	(2,182)	-94.0%
Miscellaneous	601,899	671,310	89.7%	608,013	(6,114)	-1.0%
Interfund transfers	1,906,271	2,541,695	75.0%	1,976,988	(70,717)	-3.6%

The City includes a contingency in its budget to help offset unanticipated revenue shortfalls or expenditure increases. This year the City budgeted \$2.1 million, which brings the 2014 budgeted expenditures approximately equal to budgeted revenues. Through September the City spent a very small amount of the contingency.

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 transfer decreased by \$94,000 this year and the spending through September reflects that decrease.

We group all other expenditures in the “miscellaneous category.” The largest items are the City’s payment to Berks EIT, incorporated for tax collection (\$303,000 through September), the Charter Review Board’s expenditures (\$99,000 through September) and the City’s supplementary contribution to the Reading Public Library (\$75,000 through September).