



The PFM Group

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Q3 2015 Financial Results

This report summarizes the City of Reading’s preliminary financial results for the period January 1, 2015 through September 30, 2015 based on trial balance financial data provided to PFM on October 23, 2015.

The City collected 77.6 percent of its budgeted revenues and spent 64.8 percent of its budgeted expenditures through September 2015. Revenues exceeded expenditures by \$11.6 million mostly because the City has yet to make the majority of its debt payments. The table below compares revenues and expenditures through September 2015 with the budget.

Budget to Actual Comparison¹

| | 2015 Q3 | 2015 Budget | % Spent/Collected |
|--------------|----------------|--------------------|--------------------------|
| Revenues | 70,420,848 | 90,785,031 | 77.6% |
| Expenditures | 58,825,758 | 90,785,031 | 64.8% |
| Difference | 11,595,090 | 0 | N/A |

On the revenue side, the City collected \$8.0 million (or 12.8 percent) more than a year ago through the same period. Much of that difference was due to a one-time increase in the Reading Parking Authority’s contribution to the City’s General Fund and the higher lease payment from the Reading Area Water Authority. Real estate and earned income tax revenues were also higher while revenue from the local services and per capita tax, housing inspections and business privilege licenses all trailed last year’s pace.

On the expenditure side, the City spent \$11.9 million (or 25.4 percent) more than a year ago through the same period. The increase is mostly due to the City making its full \$13.2 million pension contribution during the third quarter this year, instead of waiting until the fourth quarter like last year.

Year-to-Year Comparison

| | 2015 Q3 | 2014 Q3 | Difference (\$) | Difference (%) |
|--------------|-------------------|-------------------|------------------------|-----------------------|
| Revenues | 70,420,848 | 62,424,239 | 7,996,609 | 12.8% |
| Expenditures | 58,825,758 | 46,893,217 | 11,932,542 | 25.4% |
| Difference | 11,595,090 | 15,531,022 | (3,935,933) | N/A |

¹ The City’s General Ledger includes unbudgeted revenues and expenditures associated with the debt refinancing transactions completed early this year. There are \$58.8 million in bond proceeds on the revenue side and \$58.7 million in bond payments on the expenditure sides. These revenues and expenditures are generally offsetting – the City received money from its new bonds to repay the old bonds –so they are excluded from all numbers and discussion in this report. Overall the debt refinancing will reduce the City’s total spending on debt service this year as discussed later in the report.



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Eight Trends to Watch

Revenue

- Through three quarters, **current year real estate tax revenue** was higher than a year ago. The collection rate for this tax is also higher through three quarters, though the tax base itself continues to slowly decline.
- Total **earned income tax** receipts were \$443,000 (or 2.9 percent) higher than a year ago. The last large distribution for 2015 arrives from the external tax collector in early December.
- The City received \$2.3 million in **real estate transfer tax revenue**, which already surpassed the \$1.9 million annual target and was 55 percent more than a year ago. We need to review this revenue more closely to understand the volatility and whether the strong performance translates to additional recurring revenue.
- Other **economically sensitive revenues** had mixed performance. Business privilege tax revenue was higher than last year, but revenues from the local services tax and business privilege licenses were lower.

Expenditures

- **Salary spending** is generally on target with 71.4 percent of the total budget spent through September. Position vacancies throughout City government should keep total year-end spending below budget.
- Through September, the City spent approximately the same amount on **public safety overtime** as a year ago. The Fire Department will likely spend more than budgeted on overtime, but that excess could be offset by lower spending than budgeted on salaries.
- The City spent 74.4 percent of its \$11.9 million budget for **employee health insurance** through September. That is \$340,000 (or 4.0 percent) more than a year ago.
- The City has already spent more than budgeted on two non-personnel operating items. Through September, the City spent \$132,000 (or 14.6 percent) more than budgeted on **street lighting** and \$96,000 more than budgeted on the **transfer to the Self-Insurance Fund** that covers the actual cost of property, liability and worker's compensation claims.



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REVENUES

The City had \$70.4 million in General Fund revenues through September 2015. The table below compares the City’s revenue performance through the third quarter to this year’s budget and last year through the same period.

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|-------------------------------------|-------------------|-------------------|--------------|-------------------|------------------|----------------|
| Real Estate Taxes | 20,078,198 | 21,487,933 | 93.4% | 19,955,840 | 122,357 | 0.6% |
| Act 511 Taxes | 20,257,315 | 25,480,992 | 79.5% | 19,076,225 | 1,181,091 | 6.2% |
| Licenses, Permits & Fees | 4,091,879 | 5,420,027 | 75.5% | 4,259,167 | (167,288) | -3.9% |
| Intergovernmental | 8,946,557 | 11,890,598 | 75.2% | 4,999,176 | 3,947,381 | 79.0% |
| Charges for Services | 3,550,110 | 5,398,842 | 65.8% | 3,641,239 | (91,129) | -2.5% |
| Interest and Rent | 1,117,266 | 1,365,000 | 81.9% | 927,534 | 189,732 | 20.5% |
| Other | 3,173,273 | 5,041,639 | 62.9% | 3,437,558 | (264,284) | -7.7% |
| Transfers in | 9,206,250 | 14,700,000 | 62.6% | 6,127,500 | 3,078,750 | 50.2% |
| TOTAL REVENUES | 70,420,848 | 90,785,031 | 77.6% | 62,424,239 | 7,996,609 | 12.8% |

Real estate taxes

The real estate tax generates about a quarter of all General Fund revenues and is the City’s largest revenue source. The General Fund real estate tax rate has been 15.489 mills since 2013.²

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|------------------------------|-------------------|-------------------|--------------|-------------------|-----------------|----------------|
| Current Year | 18,711,555 | 19,637,933 | 95.3% | 18,549,671 | 161,884 | 0.9% |
| Prior Years | 1,388,018 | 1,800,000 | 77.1% | 1,424,355 | (36,337) | -2.6% |
| Penalties and Interest | 302,172 | 375,000 | 80.6% | 305,615 | (3,443) | -1.1% |
| Early Payment Discount | (323,548) | (325,000) | 99.6% | (323,800) | 252 | -0.1% |
| Property Tax Subtotal | 20,078,198 | 21,487,933 | 93.4% | 19,955,840 | 122,357 | 0.6% |

Through September 2015, the City collected 0.9 percent more in current year real estate tax revenue than a year ago. The collection rate through three quarters in 2015 was higher than it was through the same period in the last two years as shown in the table below. Note that the City’s tax base has dropped by 1.1 percent over this period according to the assessment information maintained by Berks County.

² The City has an additional 0.2 mills for its Shade Tree Fund.



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Real Estate Tax Collection Rates through Third Quarter³

| | Q3 2013 | Q3 2014 | Q3 2015 |
|-------------------------------|----------------|----------------|----------------|
| Total assessed value | 2,098,317,500 | 2,093,997,600 | 2,091,057,900 |
| Less exemptions and utilities | (668,698,300) | (670,698,600) | (677,358,600) |
| Total taxable value | 1,429,619,200 | 1,423,299,000 | 1,413,699,300 |
| General Fund Millage Rate | 15.489 | 15.489 | 15.489 |
| Gross tax due | 22,143,372 | 22,045,478 | 21,896,788 |
| Amount collected through Q3 | 18,156,370 | 18,549,671 | 18,711,555 |
| Collection rate | 82.0% | 84.1% | 85.5% |

Prior year real estate tax revenues, which are collected by the Berks County Tax Claim Bureau, were \$36,000 less than a year ago but more than twice the amount received in 2013. That is partly due to the timing of prior year receipts that year. The City finished 2013 with \$1.4 million in prior year revenue, but most came in the fourth quarter.

The increase over prior years is also due in part to the 9 percent tax increase enacted 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 third quarters of the last three years.

| | 2013 Q3 | 2014 Q3 | 2015 Q3 | % Change from 2013 - 2015 |
|--------------|-------------------|-------------------|-------------------|--------------------------------------|
| Current Year | 18,156,370 | 18,549,671 | 18,711,555 | 3.1% |
| Prior Years | 679,966 | 1,424,355 | 1,388,018 | 104.1% |
| Total | 18,836,336 | 19,974,026 | 20,099,573 | 6.7% |

Act 511 Taxes

Act 511 taxes are the City's largest revenue category. The City collected 79.5 percent of budgeted revenues for this category through September 2015.

³ Assessment and tax exemption information provided by Berks County. Note that the collection rate differs in this table from the prior table because these collection rates are relative to the total amount due, and not the amount budgeted



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| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|--------------------------|-------------------|-------------------|--------------|-------------------|------------------|----------------|
| Earned Income Tax | 15,579,898 | 20,565,992 | 75.8% | 15,137,081 | 442,817 | 2.9% |
| Business Privilege Tax | 1,477,309 | 1,600,000 | 92.3% | 1,444,066 | 33,243 | 2.3% |
| Real Estate Transfer Tax | 2,253,687 | 1,900,000 | 118.6% | 1,453,969 | 799,718 | 55.0% |
| Local Services Tax | 753,759 | 1,200,000 | 62.8% | 828,235 | (74,476) | -9.0% |
| Per Capita Tax | 192,663 | 215,000 | 89.6% | 212,874 | (20,211) | -9.5% |
| Total | 20,257,315 | 25,480,992 | 79.5% | 19,076,225 | 1,181,091 | 6.2% |

The earned income tax (EIT) is by far the largest item in this category and the City’s second largest source of revenue after the real estate tax. Berks EIT, Incorporated collects the EIT for the City and all other governments in Berks County according to the terms of Pennsylvania Act 32 of 2008. EIT revenues outpaced last year’s level through the third quarter by 2.9 percent.

Other Act 511 taxes have had mixed results. The City collected \$1.5 million in business privilege tax revenue, which was \$33,000 (or 2.3 percent) more than through the same period last year. The City also collected \$2.3 million in real estate transfer tax revenue, which was \$800,000 (or 55.0 percent) more a year ago. We need to review this revenue more closely to understand the volatility and whether the strong performance translates to additional recurring revenue.

Two other Act 511 taxes, trailed last year’s results. The City collected \$754,000 for the local services tax, which was \$74,000 (or 9.0 percent) less than last year. Per capita tax receipts were also lower. The City collected \$193,000, which was \$20,000 (or 9.5 percent) less than last year. With \$174,000 in current year revenue from this \$20 head tax, the City has only collected revenue from about 8,700 of its 69,000 residents over the age of 18.⁴

Licenses, Permits and Fees

This category includes rental housing permit fees, cable franchise fees, traffic and court fines and business privilege licenses. The City collected 75.5 percent of its budget target for this category, which was \$167,000 (or 3.9 percent) less than last year.

One of the largest items in this category is the City’s charges for rental housing permits.⁵ The City collected 103.2 percent of its current year budget target and 55.9 percent of its prior year target.

⁴ The US Census Bureau’s American Community Survey lists Reading’s population at 87,978 and estimates that 78.6 percent of that population is over age 17 (2013 ACS five-year estimates).

⁵ Revenue from rental housing inspections is tracked separately in the Charges for Service category.



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Rental Housing Permit Revenues

| | 2015 Q3 | 2015 Budget | % Collected |
|------------------------------------|----------------|----------------|----------------|
| Current Year | 753,084 | 730,000 | 103.2% |
| Prior Years | 93,196 | 166,735 | 55.9% |
| Housing/Rental Permit Total | 846,280 | 896,735 | 94.4% |

The City continues to receive very minimal revenue from new construction permits – just \$600 through September this year and \$745 last year. Business privilege license revenue trails last year’s results. Receipts from traffic fines were also lower than a year ago.

The biggest change in this category from last year is the \$124,000 decrease in street cut revenues, which is grouped with “other revenues” in the table below. Effective this January, the City changed its ordinances so the major gas utility now repairs streets on its own instead of reimbursing the City for that work. There should be an offsetting reduction in the City’s public works expenditures.

Other Licenses, Permits and Fees

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|---------------------------------|------------------|------------------|----------------|------------------|--------------------|-------------------|
| District court summary offenses | 718,429 | 900,000 | 79.8% | 680,879 | 37,550 | 5.5% |
| Franchise fees | 430,639 | 750,000 | 57.4% | 391,444 | 39,195 | 10.0% |
| New construction permits | 600 | 20,000 | 3.0% | 745 | (145) | -19.5% |
| Traffic fines motor codes | 235,325 | 340,000 | 69.2% | 281,490 | (46,165) | -16.4% |
| Business privilege licenses | 272,985 | 300,000 | 91.0% | 311,113 | (38,128) | -12.3% |
| Quality of life fines | 196,233 | 242,489 | 80.9% | 177,970 | 18,263 | 10.3% |
| Other revenues | 1,391,388 | 1,970,803 | 70.6% | 1,575,860 | (184,472) | -11.7% |
| Subtotal | 3,245,599 | 4,523,292 | 71.8% | 3,419,501 | (173,902) | -5.1% |



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Intergovernmental Revenues

The City has received 75.2 percent of total budgeted intergovernmental revenues. The largest item in this category is the Commonwealth pension aid, which arrived earlier than in 2014. That timing difference accounts for most of the apparent growth in this category compared to a year ago.

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|-----------------------------|------------------|-------------------|--------------|------------------|------------------|----------------|
| Pension-State Contributions | 3,238,295 | 3,200,000 | 101.2% | 0 | 3,238,295 | N/A |
| Meter Surcharge | 1,275,000 | 1,775,000 | 71.8% | 1,275,000 | 0 | 0.0% |
| RAWA Supplement | 0 | 0 | N/A | 1,125,000 | (1,125,000) | -100.0% |
| RPA Supplement | 2,908,917 | 3,878,558 | 75.0% | 540,000 | 2,368,917 | 438.7% |
| Grants and Gifts | 835,796 | 1,389,796 | 60.1% | 1,156,487 | (320,691) | -27.7% |
| Reading Public Library | 171,618 | 767,644 | 22.4% | 316,089 | (144,472) | -45.7% |
| Other revenue | 516,932 | 879,600 | 58.8% | 586,600 | (69,668) | N/A |
| Total | 8,946,557 | 11,890,598 | 75.2% | 4,999,176 | 3,947,381 | 79.0% |

The Reading Parking Authority (RPA) increased its contribution to the City’s General Fund from \$810,000 in prior years to \$3.9 million in 2015. Through September, that higher contribution translates to \$2.4 million more recorded in the RPA supplement line. The RPA’s contribution will drop back down to \$1.0 million in the 2016 budget.

The table above shows a \$1.1 million reduction in the Reading Area Water Authority (RAWA) supplemental contribution to the City’s general fund. Following a change in Commonwealth law, RAWA no longer makes this contribution, though it has increased its annual lease payment to the City from \$5.2 million to \$9.3 million. The City now shows the entire water lease payment in the interfund transfer category.

The decrease in grant and gift revenue is due to the upcoming expiration of the Staffing for Adequate Fire and Emergency Response (SAFER) grant. That SAFER grant reimbursed the City for 21 firefighter positions for a couple years. The shortfall in the Reading Public Library revenue is due to a timing quirk where there was a delay in the payment to the City. The City expects to ultimately receive the same amount of revenue from this source as a year ago.

Reading Public Library, 2012-2015

| | 2012 | 2013 | 2014 | 2015 |
|--------------------|--------------|--------------|--------------|--------------|
| Q3 Revenues | 313,009 | 337,270 | 316,089 | 171,618 |
| Q4 Actuals/Budget | 706,041 | 581,193 | 767,092 | 767,644 |
| % Collected | 44.3% | 58.0% | 41.2% | 22.4% |



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Charges for Services

The City collected 65.8 percent of budgeted revenues from service charges, which was \$91,000 (or 2.5 percent) less than a year ago.

The largest item in this category is the City’s emergency medical system (EMS) transport service charges. The City collected about the same amount of revenue for these “user fees” as a year ago. The City also receives reimbursements from external organizations when it provides additional police coverage to them. That revenue recorded in the Police Service/Copy Service line was \$29,000 (or 20.3 percent) lower than last year.

Housing inspection revenue continues to trail last year’s pace, with the City receiving \$132,000 (or 22.8 percent) less than through the same period last year. The revenue reduction is partially a result of having less staff assigned to housing inspections, but the City’s collection rate relative to the total amount billed is also lower than a year ago.

The City shows \$35,000 (or 18.2 percent) more in admissions tax revenue than last year, mostly due to an audit adjustment. The City also notes there have been more events at Santander Arena this year. There have also been higher revenues from fire application fees, false alarm fees and the parking authority surcharge. The table below shows the large items in this category.

Service Charge Revenue

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|-----------------------------|------------------|------------------|--------------|------------------|-----------------|----------------|
| EMS User Fees | 1,984,047 | 3,000,000 | 66.1% | 1,988,976 | (4,929) | -0.2% |
| Housing Inspection | 449,188 | 830,655 | 54.1% | 581,670 | (132,482) | -22.8% |
| Kenhorst Police Contract | 298,923 | 448,384 | 66.7% | 323,354 | (24,431) | -7.6% |
| Admissions Fee/Tax | 224,938 | 325,000 | 69.2% | 190,244 | 34,694 | 18.2% |
| Police Service/Copy Service | 114,677 | 225,000 | 51.0% | 143,848 | (29,172) | -20.3% |
| Other | 478,337 | 569,803 | 83.9% | 413,147 | 65,190 | 15.8% |
| Total | 3,550,110 | 5,398,842 | 65.8% | 3,641,239 | (91,129) | -2.5% |

Interest and rent

The City reports \$190,000 more in revenue from interest and rent than a year ago. The apparent increase is due to a timing lag in the receipt and posting of the RPA’s monthly rental payment last year and an accounting adjustment last year related to debt repayment from the Greater Berks Development Fund. Setting those quirks aside, revenues in this category were just \$14,000 higher than last year.



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Interest and Rent Revenues

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|----------------------------|------------------|------------------|--------------|----------------|-----------------|----------------|
| Repayment of Debt to City | 0 | 0 | N/A | (95,333) | 95,333 | -100.0% |
| Rental - Parking Authority | 749,997 | 1,000,000 | 75.0% | 666,664 | 83,333 | 12.5% |
| CD Bond Interest | 14,574 | 0 | N/A | 755 | 13,819 | 1829.8% |
| Rent Other Property Bldgs | 52,470 | 65,000 | 80.7% | 55,448 | (2,978) | -5.4% |
| Other | 300,000 | 300,000 | 100.0% | 300,000 | 0 | 0.0% |
| Total | 1,117,266 | 1,365,000 | 81.9% | 927,534 | 189,732 | 20.5% |

Interfund transfer revenues

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

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|----------------------------|------------------|-------------------|--------------|------------------|------------------|----------------|
| From RAWA | 6,956,250 | 9,200,000 | 75.6% | 3,877,500 | 3,078,750 | 79.4% |
| Transfer from Sewer Fund | 2,250,000 | 3,000,000 | 75.0% | 2,250,000 | 0 | 0.0% |
| Transfer from Fund Balance | 0 | 2,500,000 | 0.0% | 0 | 0 | N/A |
| Total | 9,206,250 | 14,700,000 | 62.6% | 6,127,500 | 3,078,750 | 50.2% |

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.

Other Revenues

Revenues not counted in prior categories are grouped together in this “other” category. Between all of these revenues, the City collected 62.9 percent of the total budget and \$264,000 (or 7.7 percent) less than last year.

The largest item in this category is City employees’ contributions to the cost of their health insurance.⁶ The City’s budget target increased by 13 percent this year, but revenues through the third quarter were \$41,000 (or 4.1 percent) lower than a year ago. Position vacancies account for some of the difference since the City is not incurring health insurance expenditures or collecting

⁶ 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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employee contributions for those positions. Heart and lung reimbursements were also down because of the \$167,000 drop in the Fire Department where there is an offsetting reduction in related expenditures.

Other Revenues

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|--------------------------------|------------------|------------------|--------------|------------------|------------------|----------------|
| Employee Ins. Contribution | 953,711 | 1,700,000 | 58.5% | 994,939 | (41,228) | -4.1% |
| Indirect Cost Reimb - Sewer | 827,510 | 1,042,954 | 83.4% | 870,221 | (42,710) | -4.9% |
| CDBG Revenue to Fund Codes | 288,503 | 555,000 | 53.2% | 295,039 | (6,536) | -2.2% |
| Heart & Lung Reimbursement | 61,871 | 290,000 | 76.7% | 222,474 | (160,603) | -72.2% |
| Indirect Cost Reimb - CD | 0 | 190,000 | 0.0% | 0 | 0 | N/A |
| Rdg. Housing Auth - Reimb. | 183,216 | 225,000 | 81.9% | 184,366 | (1,151) | -0.6% |
| Indirect Cost Reimb- Recycling | 288,728 | 442,000 | 75.1% | 331,758 | (43,030) | -13.0% |
| Direct Cost Reimb. - Trades | 0 | 170,000 | 31.5% | 53,555 | (53,555) | -100.0% |
| Other | 569,734 | 426,685 | 113.7% | 485,205 | 84,528 | 17.4% |
| Other Revenues | 3,173,273 | 5,041,639 | 68.2% | 3,437,558 | (264,284) | -7.7% |

EXPENDITURES

The City spent \$58.8 million from its General Fund through September 2015, which was 64.8 percent of its \$90.8 million budget. The City spent \$11.9 million (or 25.4 percent) more than a year ago with most of the difference because of the earlier pension contribution.

| | 2015 Q3 | 2014 Budget | % Spent | 2014 Q3 | Difference (\$) | Difference (%) |
|-------------------------------|-------------------|-------------------|--------------|-------------------|-------------------|----------------|
| Salaries, wages & holiday pay | 21,025,039 | 29,453,190 | 71.4% | 21,017,072 | 7,967 | 0.0% |
| Overtime | 2,133,216 | 2,599,385 | 82.1% | 2,138,175 | (4,959) | -0.2% |
| Pensions | 13,204,538 | 13,204,536 | 100.0% | 0 | 13,204,538 | N/A |
| Fringe benefits | 8,882,658 | 11,935,968 | 74.4% | 8,542,233 | 340,424 | 4.0% |
| Other personnel | 1,159,070 | 1,643,141 | 70.5% | 1,160,306 | (1,236) | -0.1% |
| Debt service | 2,596,571 | 13,145,964 | 19.8% | 4,605,209 | (2,008,638) | -43.6% |
| Operating costs | 7,139,374 | 13,627,459 | 52.4% | 6,921,913 | 217,461 | 3.1% |
| Other expenses | 873,669 | 1,117,340 | 78.2% | 601,899 | 271,771 | 45.2% |
| Contingencies | 0 | 2,342,550 | 0.0% | 139 | (139) | -100.0% |
| Interfund transfer expenses | 1,811,624 | 1,715,498 | 105.6% | 1,906,271 | (94,648) | -5.0% |
| Total Expenditures | 58,825,758 | 90,785,031 | 64.8% | 46,893,217 | 11,932,542 | 25.4% |

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



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accounted for almost 80 percent of the City's spending through September and 65 percent of the General Fund budget.

The largest portion of the City's personnel expenditures are for the “regular” pay of City employees – their salaries and holiday pay – along with wages for temporary employees. The table below shows spending on those items by department. Most have spent 70 to 75 percent of their budget allocation through the third quarter, except Administrative Services which has several vacancies and a \$100,000 budget error.⁷

Salaries, Temporary Wages and Holiday Pay by Department

| | 2015 Q3 | 2014 Budget | % Spent | 2014 Q3 | Difference (\$) | Difference (%) |
|----------------|-------------------|-------------------|--------------|-------------------|-----------------|----------------|
| Police | 9,487,072 | 13,251,784 | 71.6% | 9,359,644 | 127,427 | 1.4% |
| Fire | 6,234,094 | 8,757,254 | 71.2% | 6,347,843 | (113,748) | -1.8% |
| Public Works | 1,352,604 | 1,804,917 | 74.9% | 1,274,628 | 77,976 | 6.1% |
| Administration | 1,252,789 | 1,962,484 | 63.8% | 1,313,366 | (60,577) | -4.6% |
| Community Dev | 1,559,975 | 2,107,034 | 74.0% | 1,516,276 | 43,699 | 2.9% |
| Other | 1,138,504 | 1,569,717 | 72.5% | 1,205,314 | (66,810) | -5.5% |
| Total | 21,025,039 | 29,453,190 | 71.4% | 21,017,072 | 7,967 | 0.0% |

Overtime

Across all departments the City’s overtime expenditures through September 2015 were basically even with last year.

| | 2015 Q3 | 2014 Budget | % Spent | 2014 Q3 | Difference (\$) | Difference (%) |
|--------------|------------------|------------------|--------------|------------------|-----------------|----------------|
| Police | 1,341,679 | 1,693,781 | 79.2% | 1,340,798 | 881 | 0.1% |
| Fire | 699,924 | 849,604 | 82.4% | 694,447 | 5,477 | 0.8% |
| Public Works | 71,601 | 52,000 | 137.7% | 82,242 | (10,641) | -12.9% |
| Other | 20,011 | 4,000 | 500.3% | 20,687 | (676) | -3.3% |
| Total | 2,133,216 | 2,599,385 | 82.1% | 2,138,175 | (4,959) | -0.2% |

The Public Works Department spent \$72,000 in overtime, which was \$11,000 less than last year and \$20,000 more than budgeted for this year. The Highways division accounts for almost half of overtime spending.

⁷ 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 67 percent of its budget allocation. The Department has also had a higher vacancy rate relative to its size than other departments.



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| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|------------------------------|---------------|---------------|---------------|---------------|-----------------|----------------|
| Garage | 9,935 | 10,000 | 99.3% | 13,351 | (3,416) | -25.6% |
| Highways | 32,235 | 25,000 | 128.9% | 32,449 | (213) | -0.7% |
| Parks | 17,960 | 12,000 | 149.7% | 20,182 | (2,223) | -11.0% |
| Public Property | 11,472 | 5,000 | 229.4% | 16,260 | (4,788) | -29.4% |
| Public Works Overtime | 71,601 | 52,000 | 137.7% | 82,242 | (10,641) | -12.9% |

Fire Department

Through September, the Fire Department already spent 82.4 percent of its \$850,000 annual overtime budget, so the Department is likely to spend more than budgeted this year. However, the Department also had nine vacancies in its Suppression and EMS divisions at the end of September.⁸ In addition to these vacancies, there were other firefighters who were not available for deployment because of injury or long-term illness. Vacancies are one of the primary drivers for the Department’s overtime expenditures as the City has to call back firefighters on overtime to fill open shifts. Because of these vacancies, the Fire Chief notes that the Department’s spending in excess of its overtime budget should be offset by spending less than budgeted on salaries. He has asked that those two numbers be shown together for a clearer presentation of the Department’s total spending.

The graph below shows the City’s spending on Fire Department salaries⁹ and overtime for each quarter since the beginning of 2013. Through Q3 2015, the Department spent \$7.3 million combined on salaries and overtime this year. That is 3.8 percent (or \$266,000) more than a year ago, but 72.2 percent of amount budgeted for the year. Department spending on overtime and salaries spiked during last year’s fourth quarter, so this year’s fourth quarter results are important.

⁸ This does not include the Lieutenant vacancy in the Prevention Division or the five positions in the defunct non-emergency medical transport service.

⁹ This includes holiday pay and any other items that the City records in the salary account lines.



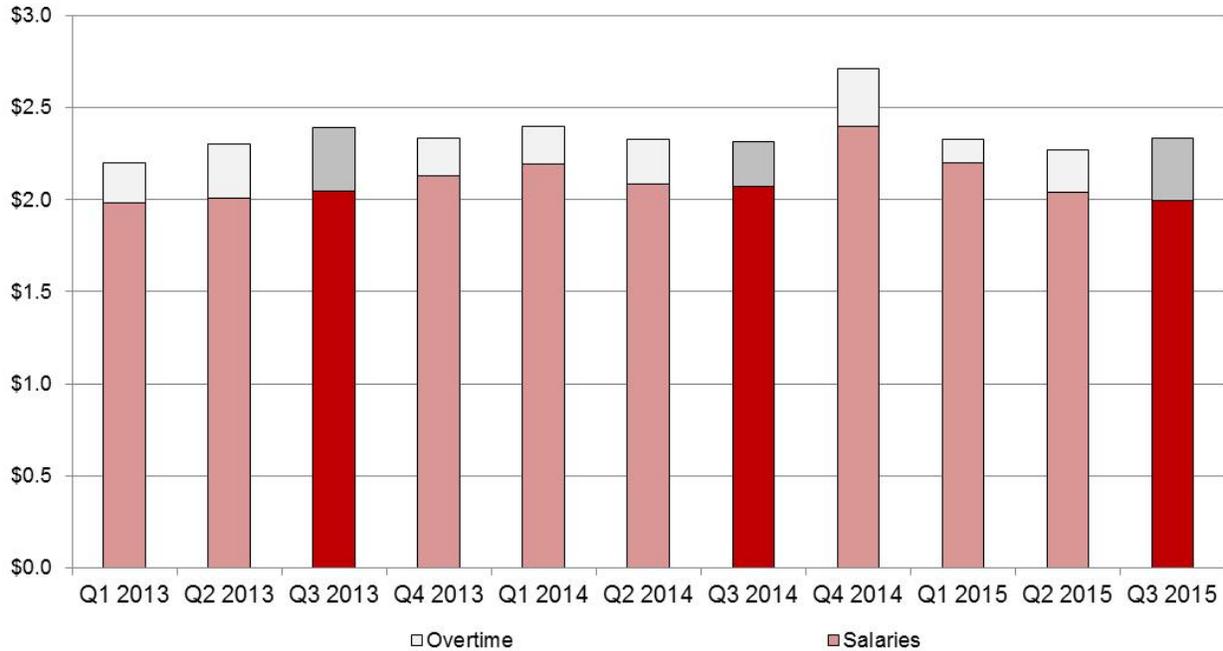
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Fire Department Salary and Overtime Spending (\$ Millions)



The Police Department spent \$1.3 million on overtime, essentially the same as it spent last year. As discussed in our September 2013 Police Overtime Analysis, the police overtime expenditures shown earlier 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 \$30,000 (or 2.5 percent) more than through the same period in 2014.

Police Department Overtime including Reimbursements¹⁰

| | Budget | Q3 Actual |
|--------------------------|------------------|------------------|
| FY14 Overtime | 1,814,500 | 1,340,798 |
| FY14 Reimbursement | 275,000 | 143,848 |
| FY14 Unreimbursed | 1,539,500 | 1,196,950 |
| | | |
| FY15 Overtime | 1,693,781 | 1,341,679 |
| FY15 Reimbursement | 225,000 | 114,677 |
| FY15 Unreimbursed | 1,468,781 | 1,227,002 |

¹⁰ 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. The City uses Commonwealth pension aid and General Fund revenues to make the MMO payments. The City's total contributions for 2015 were \$13.2 million, or \$3.2 million (or 32.4 percent) higher than in 2014. The City did not make its pension contributions until the fourth quarter last year.

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|----------------------|-------------------|-------------------|---------------|----------|-------------------|----------------|
| Police | 8,398,280 | 8,398,280 | 100.0% | - | 8,398,280 | N/A |
| Fire | 2,956,620 | 2,956,620 | 100.0% | - | 2,956,620 | N/A |
| Employees & Officers | 1,849,638 | 1,849,636 | 100.0% | - | 1,849,638 | N/A |
| Total | 13,204,538 | 13,204,536 | 100.0% | - | 13,204,538 | N/A |

Employee insurance (Fringe Benefits)

The City spent 74.4 percent of its fringe benefit budget through September 2015, which was \$340,000 (or 4.0 percent) more than last year. 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

| 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|-----------|-------------|-------------|-----------|-----------------|----------------|
| 8,882,658 | 11,935,968 | 74.4% | 8,542,233 | 340,424 | 4.0% |

Other personnel

The City spent another \$1.2 million on other personnel-related expenditures through September. Police and fire both spent less on longevity payments than a year ago. Longevity payment amounts and eligibility for the payments are frozen under the terms of the 2010 and 2014 Recovery Plans, so spending on this type of premium pay will drop when senior employees who



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receive the payments are replaced by more junior employees who receive lower or no longevity payments.

Police and Fire longevity savings were offset by higher spending on unemployment and uniforms. The Fire Department’s budget includes a \$40,000 increase for equipment replacement.

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|-----------------------------|------------------|------------------|--------------|------------------|-----------------|----------------|
| Premium Pay | 258,836 | 311,938 | 83.0% | 308,596 | (49,760) | -16.1% |
| Social Security | 714,076 | 1,063,992 | 67.1% | 714,510 | (435) | -0.1% |
| Unemployment Comp | 42,496 | 100,000 | 42.5% | 31,769 | 10,727 | 33.8% |
| Penny Fund | 8,318 | 1,935 | 429.9% | 6,089 | 2,229 | 36.6% |
| Uniforms/Clothing Allowance | 135,345 | 165,276 | 81.9% | 99,342 | 36,003 | 36.2% |
| Total | 1,159,070 | 1,643,141 | 70.5% | 1,160,306 | (1,236) | -0.1% |

Debt service

The City spent 19.8 percent of its debt service budget through September 2015, which \$2.0 million (or 43.6 percent) less than last year. In both years, the City budgeted \$13.1 million for debt. The City will spend less than that amount this year because it completed the debt refinancing transactions recommended in the 2014 Amended Recovery Plan.

| 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|-----------|-------------|-------------|-----------|-----------------|----------------|
| 2,596,571 | 13,145,964 | 19.8% | 4,605,209 | (2,008,638) | -43.6% |

Operating costs

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

Operating Costs

| | 2015 Q3 | 2015 Budget | % Collected | 2014 Q3 | Difference (\$) | Difference (%) |
|------------------------|------------------|-------------------|--------------|------------------|-----------------|----------------|
| Contracted Services | 1,729,454 | 4,422,684 | 39.1% | 1,631,748 | 97,706 | 6.0% |
| Maintenance Agreements | 362,112 | 794,540 | 45.6% | 599,731 | (237,619) | -39.6% |
| Light & Power | 1,299,154 | 1,448,800 | 89.7% | 796,846 | 502,308 | 63.0% |
| Gas | 64,388 | 140,000 | 46.0% | 106,590 | (42,201) | -39.6% |
| Other Operating Cost | 3,684,265 | 6,821,435 | 54.0% | 3,786,998 | (102,733) | -2.7% |
| Total | 7,139,374 | 13,627,459 | 52.4% | 6,921,913 | 217,461 | 3.1% |



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The City’s spending on these items through September 2015 was \$217,000 (or 3.1 percent) higher than a year ago. The increase was driven mostly by higher street lighting expenditures where the City already exceeded its \$900,000 annual budget by \$132,000.

Partially offsetting these increases, the City spent less on maintenance agreements this year due to one-time spending on information technology infrastructure in 2014. The City also spent less on vehicle gasoline and rentals/leases than a year ago.

Other expenses

| | 2015 Q3 | 2015 Budget | % Spent | 2014 Q3 | Difference (\$) | Difference (%) |
|---------------------|-----------|-------------|---------|-----------|-----------------|----------------|
| Contingencies | 0 | 2,342,550 | 0.0% | 139 | (139) | -100.0% |
| Miscellaneous | 873,669 | 1,117,340 | 78.2% | 601,899 | 271,771 | 45.2% |
| Interfund transfers | 1,811,624 | 1,715,498 | 105.6% | 1,906,271 | (94,648) | -5.0% |

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 reserves, 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 reserves, which has been the case through September 2015.

The City also budgets \$1.1 million for miscellaneous expenditures, the majority of which is for tax collection services (\$544,000) and the City’s 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 worker’s compensation claims and associated administrative costs. The City reduced the total transfer from \$2.5 million in 2014 to \$1.7 million in 2015 because of the reserve accumulated in that fund. Through September 2015, the City has spent more than budgeted, but less than last year.