COUNTY OF BERKS, PENNSYLVANIA
Office of Budget & Finance

Services Center, 13th Floor
633 Court Street
Reading, PA 19601

Phone: 610.478.6190
Fax: 610.478.6206

Berks County 2021 Proposed Budget

We are pleased to present the 2021 budget for consideration and adoption by the Board of Commissioners. This budget is the product of a highly collaborative effort with the Commissioners and each county department. The Commissioners have provided direction and guidance as we have dealt with the Covid pandemic's operational and fiscal impacts in 2020 and the potential impacts in 2021.

We believe this budget is responsive to the needs of the county taxpayers and the Commissioners' goal of a responsible budget that does not place an undue tax burden upon the citizens of Berks County. This budget specifically achieves the Commissioners' directive to present a budget: without a tax increase, that supports our anticipated core service levels, maintains long term financial stability and our Aaa stable outlook bond rating, limits the growth of new discretionary county services, limits headcount growth, funds one-time capital expenditures with reserves, does not add new debt, and prioritizes capital expenditures for facility/bridge infrastructure and technology that enhances process improvement.

In addition, this budget provides for the continued maintenance of our facilities and parks, maintains a commitment to agricultural land preservation, and funds our pension and debt service obligations. It also funds our formal sponsorship obligation with Reading Area Community College (RACC), economic development and local transportation (SCTA/BARTA), library and park systems, drug and alcohol treatment (COCA), and diversionary court programming that reduces the size of our jail population.

This budget recommends we maintain the current tax rate of 7.657 mills. The total deficit for all funds is ($9.3M) which is $24.7M lower than 2020 of ($34M). This decrease is primarily due to a $23.3M reduction in outstanding debt, as explained in our 2020 budget message. Consistent with prior years, we propose funding one-time capital expenditures with general and restricted fund reserves, and net assets of our Enterprise Funds. We will also absorb a nursing home net loss, rather than raise taxes, with unrestricted net assets; to bridge to more normal census anticipated for 2022. The exclusion of these items results an operating budget surplus of $2M. We have enough reserves to absorb the deficit from all funds which also assuages the need for new, recurring debt. Therefore, a tax increase in 2021 is not warranted, and in the current Covid environment is not prudent for our taxpayers.

The realization of the 2021 budget, in large part, will depend on the duration and depth of the Covid Pandemic. Our plan assumes a vaccine will be available for our public health and safety employees in Q1 followed by distribution to our citizens beginning late Q2. This should enable us to return to more normal revenue levels and tax base growth. In addition, our budget performance will be impacted by: the financial performance of our pension assets, outcome of current collective bargaining (CBA) negotiation, actual health and worker compensation claim and related inflation trend, renewal of federal and state funding for our human service operations, continuation of the Federal/State IGT funding program for our nursing home, Managed Care impact on nursing home census and bed rates, continuation of our ICE Family Shelter operation, flat demand for human services and criminal justice activity, and no new head count added before the 2021 budget.

We assume for purposes of this budget we will not incur any planning, design or bond financing costs for a new jail facility and will not add any headcount for facility security. A decision regarding a new jail facility has been delayed due to dealing with the Covid pandemic.

We continue to face structural budget challenges. The average rate of inflation in our personnel costs continues to outpace the rate of growth in our tax revenue, and Medicaid rate increases for our nursing home. Although for 2021, we have been able to narrow the gap due to reductions in personnel costs and higher tax base growth in 2020, despite Covid.

The current Board of Commissioners are keenly aware of these risks and challenges and are supportive of the following initiatives, each with the potential to increase revenues or reduce operating costs:

- Tax incentives, when necessary, to attract commercial and industrial facility investment to enhance assessed value growth.
- Implementation of new technology and software solutions that enable process improvement and lower service costs.
- Utilization of reserves for capital to avoid net new debt service costs.
- Jail diversion plan for first-time offenders, low risk offenders, crimes resulting from mental health issues. This could lower future facility (i.e. new construction) and inmate medical and treatment costs.
- Maintenance of a fair and efficient property tax rate to maintain our financial strength and Aaa stable outlook bond rating.
- Limit head count growth to mandated services.

Budget Summary and Select Highlights

<u>Real Estate Tax Comparison</u>

Total tax revenue, inclusive of tax claim taxes, is higher by $2.6M over 2020. Tax claim accounts for $0.9M of this increase and is due to Covid hardship agreements that deferred tax sale dates from 2020 to 2021. Taxable assessed value is expected to grow by 1.04%. This is the first-time growth has exceeded one percent since 2007. This is primarily attributable to commercial property development in our target development zones, including the route 61 and 78 corridors. We are also realizing a bigger percentage of LERTA exemptions as they mature to full taxable value. The following table summarizes the results.

Real Estate Tax Revenue in (Millions)		
	2021	2020
Millage Rate	7.657	7.657
Assessed Value -Billions	19.4B	19.2B
Percent Increase	1.04%	0.94%
Net Tax Billing	$141.8	$140.3
Interims	$0.9	$0.7
Net Tax Collections	$142.7	$141.0
Tax Claim Revenue	$5.1	$4.2
Total Tax Revenue	$147.8	$145.2

(Note: 2020 Net Tax Billing is the actual billings)

General Fund and All Fund Budget Comparison

Revenue and Expenditures (In Millions)

General Fund:	2021	2020	Inc./(Dec.)	% Change Inc./(Dec.)
Total Revenue	$238.9	$236.7	$2.2	0.93%
Total Expense	$233.5	$257.2	($23.7)	-9.21%
Plus (Less)Total Adjustments	($13.3)	($18.5)	$5.2	
Net Surplus/(Deficit)	**($7.9)**	**($39.0)**	**$31.1**	

All Funds:	2021	2020	Inc./(Dec.)	% Change Inc./(Dec.)
Total Revenue	$539.3	$542.0	($2.7)	-0.50%
Total Expense	$548.3	$579.7	($31.4)	-5.42%
Plus (Less)Total Adjustments	($0.3)	$3.7	($4.0)	
Net Surplus/(Deficit)	**($9.3)**	**($34.0)**	**$24.7**	

(Note: Adjustments in the General Fund are for Human Services' federal and state grant local match and contribution to the 911 fund for debt and capital. Adjustments in All Funds are for depreciation expense, net of capital expenditures, for our Enterprise Funds.)

Revenues

An increase in the General Fund revenues of $2.2M. This is primarily due to: higher real estate taxes of $2.6M and nursing home net asset transfer of $0.9M. This is partially offset by lower interest income of $0.4M, lower Jail revenues of $0.4M resulting from an anticipated lower ADP, and $0.1M of Clerk of Courts Fess. The decrease in interest income is Covid stimulus induced decline in Treasury yields and related bank rates, and less investable cash due to the retirement of $23.4M of debt in 2020. The decrease in Jail revenues is due to budgeting for the continuation of a lower ADP at the Jail facility, resulting in a reduction to Room & Board revenues and Commissary sales, and a reduction in grant funding. The decline in Clerk of Courts Fees reflects historic trends.

The decrease in All Funds revenue is ($2.7M). This entire amount can be attributed to a decrease in Berk Heim revenue of ($5.6M). This is offset by the General Fund increases of $2.2M, Health Choices $2.2M, Employment & Training $0.9M and COCA $0.3M. The increase in Health Choice is driven by the rising volume of claims. Employment & Training and COCA have been allocated increases in their State and Federal grant allocations.

<u>Expenditures</u>
The decrease in the General Fund expenditures of ($23.7M), is primarily attributable to: debt service reduction of ($20.7M), lower general fund funded capital of ($6.5M), lower Jail Commissary Purchases ($0.2M), and lower Professional Fees in the Information Systems Department ($0.3M). This is offset by increases in: wages and payroll taxes of $2.3M, state inter-governmental transfer (IGT) of $0.8M, and Juvenile Probation placement costs and program services for diversionary programs $0.8M.

The decrease in All Funds expenditure of ($31.4M) is primarily attributable to a reduction in debt service of ($23.4) and decrease in capital of ($13.3M), inclusive of the noted General Fund reductions for debt and capital, respectively. This is offset by increases in: wages and payroll taxes of $2.2M, inclusive of the General Fund, Health Choices $2.2M, and the previously noted IGT increase.

<u>Debt</u>
The total debt service expenditure budget for all fund types, net of bond premium amortization, is $16.8M compared to $40.2M for 2020, a decrease of ($23.4M). This is primarily due to the optional redemption of our 2013 bond, maturity of our 1993, and 2010D bonds, in 2020, of $29M and the benefits of 2020 refinancing that lowered the debt footprint for 2021. This is offset by increases in principal amortization in other outstanding issues to level debt service payments. We do not anticipate any new money debt issues in 2021. If interest rates are favorable to producing meaningful savings, we will consider refinancing current bonds.

<u>Fund Balance</u>
The total general fund and unassigned fund balance is projected to be $134.8M and $125.3M, respectively, at December 31, 2021. Unassigned fund balance can be used for any general governmental purpose. The remaining fund balance is limited to use based upon liquidity, legal restrictions, formal action of the Board of Commissioners, and informal assignments. Please see our budget book for more detail regarding specific restrictions, commitments and assignments of fund balance. Fund Balance is primarily higher than projected for 2020 due to Cares Act reimbursement of public safety personnel cost of $14M at December 31, 2020. This was not anticipated in the adopted 2020 budget.

<u>Personnel/Staffing</u>
The 2021 wage budget is $118.2M compared to 116.2M for 2020, an increase of $2.1M or 1.77%. This increase is lower than the trailing 12-month Employment Cost Index for State and Local Governments (ECI) of 2.5%. The defunding of 23 full time equivalent positions (FTE) combined with a reduction in COLA increases has enabled us to do so. The table below summarizes the FTE changes. The reduction at Berks Heim (Heim) is in response to the Covid Pandemic impact on bed census. Re-aligning Heim staff levels with projected census saves $0.9M in wages and payroll tax.

Net employee benefits, inclusive of pension and health care costs, is $42.7M compared to 2020 of $43M, a decrease of ($0.3M) or (0.62%). This is significantly lower than the ECI benefit increase of 2.3%. This is due to our favorable medical claim trend, including a change to our schedule of covered drugs, which saves $1.9M annually. In developing the medical claim budget, we ignored the Covid shutdown months, as these were much lower than we would normally expect due to deferral of non-emergency procedures and office visits. Pension contribution is estimated at $5.7M, an increase of $0.8M over the required contribution for 2020. This increase is due to economic contraction caused by Covid resulting in the likelihood we will not achieve our investment rate of return assumption.

Funded, full-time equivalent positions have decreased by 23 positions for a total 2,163.5. We re-aligned our staff to meet our anticipated service level demands, most notably at our nursing home, due to the Covid Pandemic. The pandemic required us to change the way we do business internally and externally including the utilization of new and existing technology to enable us to realize service delivery efficiencies.

Change in Full-time equivalent headcount

Status	2021	2020	Inc (Dec)	Explanation
Full Time	2017	2032	(15)	**Zero Fund/Eliminate:** 12 Heim LPN/CNA/Aides/Amin/Unit Secr., 4 Prothy Acct Clk./OS, 2 IS Developers, 2 Controller Acct. Clk., 2 Courts OS, 1 ROD OS, 1 CAO Exec. Assist. 1 CYS OS. **Added:** Assist Dir. 3 - DES, Commissioners, Planning, 2 Aging CW/Exec. Dir., 1 CYS Supervisor, 1 CAO PR Officer, 1 JTPS Fiscal staff, 1 Assist. Solicitor, 1 Facility Support Mechanic.
Part Time	146.5	154.5	(8)	**Zero Fund/Eliminate:** 8.5 Heim CNA, Dietary, Laundry, 1 MDJ OS, .5 Library Progr. Specialist. **Added:** 2 Heim RN & LPN.
Total	**2163.5**	**2186.5**	**(23)**	

Jail

The 2021 net cost of operations, inclusive of its reentry program, is $44.9M, an increase of $2.2M, compared to 2020 of $42.7M. This increase is primarily attributable to a reduction in revenue and increases in wages, inmate health and capital. Inmate room and board, commissary fees, and grants declined by ($0.4M). Wages increased by $1.2M, inclusive of: $0.5M in CBA rate increases and full funding for six correction officers added July 1, 2020 and increase in OT pay of $0.6M. Inmate health and capital increased by $0.2M and $0.8M, respectively. These increases are partially offset by ADP variable costs savings in contracted services, food, linens, and commissary purchases of ($0.5M).

Children and Youth Services

The required county contribution for CYS in 2021 is $6.7M compared to $7.2 in 2020, a decrease of ($0.5M). The decrease is attributable to a lower number of children in placement settings and a more favorable mix of funding sources that require a lower match. These attributes were low enough to offset a modest increase in CBA wages of $133K. In addition, the negative growth in fringe benefit costs, as explained in the preceding Personal Section, resulted in a lower growth in match than would have otherwise been expected.

Berks Heim

The 2021 net loss is projected at ($1.1M), a decline of ($5M) compared to 2020 budget net income of $4M. This decline is due to the Covid-induced loss of net resident bed utilization (Census) revenue of ($5.6M), offset by $0.6M expense reductions inclusive of: lower wages $0.9M, pharmacy, food and medical supplies $0.5M, and higher net asset transfer to the general fund of $0.8M, for IGT. The 2021 budget is based upon daily average census that starts at 310 and grows to 365 beds by year-end. The 2020 budget was based upon a daily census of 410 beds. We do not anticipate any Covid Cares Act grants in 2021.

Our 2020 adopted budget forecast for 2021 had net income of $0.7M, inclusive of average daily census of 410 beds. The difference to the proposed budget net loss is a decrease of ($1.8M). This is attributable to the Covid impact on forecast census revenue of ($6.2M). This is offset by a higher IGT/Medical Assistance Day One Incentive (MDOI) revenue of $1.2M. Heim Management recommended changes to align staffing with census that saves $1M compared to the forecast. The 2021 budget zero funds 28 positions and partially funds 42 positions, both full and part time. By comparison, these positions were fully funded in the forecast. The plan also reduces all variable costs such as pharmacy, dietary, and therapy costs, and medical supplies by ($0.8M). The Board of Commissioners also made a decision that lowered county health care costs substantially. This decision lowered Heim fringe benefit costs by ($0.5M). Finally, the Heim benefits from projected lower pension expense than was forecasted by ($0.8M).

Our nursing home was hard hit by the Covid Pandemic, as were most, if not all, long-term care facilities. Department of Health quarantine requirements, combined with shrinking community referrals, resulted in a precipitous decline in average monthly census beds from 404, pre-Covid, to a low of 299 on September 8th. Since then we have made changes that enable us to utilize more beds, while satisfying the mandatory quarantine requirement. We are starting to see the fruition of these changes with weekly average census totals in the 305 to 310 range. Our goal is to end 2020 at an average of 310 beds which we believe will position us to achieve a census of 365 by the end of 2021. We expect this increase to be more heavily weighted in Q3 and Q4, when a vaccine is expected to be more readily available.

We will once again participate in the State Inter-governmental transfer program (IGT). The General Fund will contribute $9.3M to the State, and in return Berks Heim will receive $15M in additional Medicaid funds, both IGT and MDOI. Berks Heim will contribute $9.3M to the General Fund as a net asset transfer. The net income benefit is $5.7M., approximately $0.1M and $1.2M higher than 2020 budget and 2021 Forecast, respectively.

Capital Program

The 2021 Capital Expenditure Plan is $15.7M. The projects are funded by restricted/special revenue fund balances and grants of $6.4M, and General Fund reserves of $9.3M. Highlights of the 2021 plan is as follows:

2021 Summary Capital Plan (Millions)			
County Bridges	$3.2	Prison infrastructure	$1.4
Facility Security Upgrade	$0.9	Facility NG Conversion	$0.7
WWTP Renovations	$0.6	Lighting Control System	$0.8
Facility Renovations	$2.4	Park infrastructure	$0.9
IS Hardware Software Upgrades	$1.1	HRMS Payroll Software Phase 2	$1.0
Ag Land Preservation	$1.0	Other Equipment/Upgrades	$1.7
		Total Capital	**$15.7**

This plan includes carryover of $4.9M of projects authorized in the 2020 budget that will not be completed due to Covid shutdown delays. These include costs to complete the Wastewater Treatment Plant and Facility security upgrades, and North Campus Facilities natural gas conversion. This saved General Fund dollars in 2020 that will be used in 2021.

Agricultural Land Preservation

The County will continue its commitment to farmland preservation in the amount of $1M per year to leverage federal and state funds for new easement acquisitions.

Library System Support

The county will contribute $3.5M in General Fund tax dollars to the countywide public library system, which maintains our contractual commitment of $0.9M to the Reading Public Library. This represents an increase of $0.2M over 2020. This includes a $150K increase in county support of member libraries.

Sponsorship Agreements

The County will continue its support and/or sponsor commitments with General Fund tax dollars as follows:

- RACC – $3.25M education operating stipend. In addition, the Berks County Redevelopment Authority will provide funding of $600K for 2021 capital projects.
- Economic Development - $750K for personnel, marketing, and business outreach.
- SCT/BARTA – County will increase its funding by 5% to $420K as required to maximize state funding.

Closing Remarks

The budget is presented today as the first step in the public review process. The Proposed Budget will be available for public inspection on the county website, in the County Commissioners' Office, and in the Office of Budget and Finance. Final adoption of the budget is scheduled for Thursday, December 17, 2020.

Respectfully Submitted,

Robert J. Patrizio, Chief Financial Officer
Date: November 19, 2020