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Berks County 2018 Proposed Budget

We are pleased to present the 2018 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 which began in January 2017. The Commissioners have provided direction and guidance as we have dealt with numerous operational and fiscal issues that impact 2018 and future years.

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: that supports our anticipated core service levels, maintains long term financial stability and our Aa1 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 (GREP), library and park systems, drug and alcohol treatment (i.e. COCA), and diversionary court programming that reduces the size of our jail population.

This budget reflects a total deficit for all funds of $19.0M inclusive of capital expenditures before any consideration of a property tax increase. Consistent with prior years we propose funding $13.4M of capital expenditures with general fund reserves. This will assuage the need for additional property tax in future years to fund net new debt service. When we exclude these one-time capital expenditures, there remains an operating deficit of $5.3M. This marks the first time in 5 years that our revenues do not equal our operating expenses. The transition to an operating deficit over the past 5 years is primarily attributable to the following items:

- Growth in our property tax base from development has lagged the rate of growth in our personnel costs. (See Exhibit 1)
- The net cost of our Jail/CRC program has exploded since 2014 as a result of new headcount in response to staff shortages, increase in mental health inmate population and acuity, higher wage increases than planned pursuant to a 2017 binding arbitration award for our correction officers, and a significant decline in revenue from housing state inmates due to state budget cuts. (See Exhibit 2)

- Declining profitability of our nursing home. This is a result of increased personnel costs, including higher pension costs, which are growing at a greater rate than our Medicaid revenue bed rate increases. These beds represent, on average, 79% of the total bed utilization. These residents generally have the highest acuity needs and therefore demand the greatest amount of staff resources. The State, in an effort to trim their budget deficits, has flat-lined our Medicaid bed rate since July 1, 2014. It is very unlikely the state will provide any increase before 2023, if at all, considering their move to Community Health Choices managed care for nursing homes to save money. See Exhibit 3 and *Specific Reasons for 2018 Operating Deficit* that follows for more details.
- State mandates and budget cuts resulting in higher net costs to the county. See *Specific Reasons for 2018 Operating Deficit* that follows for more details.

EXHIBIT 1

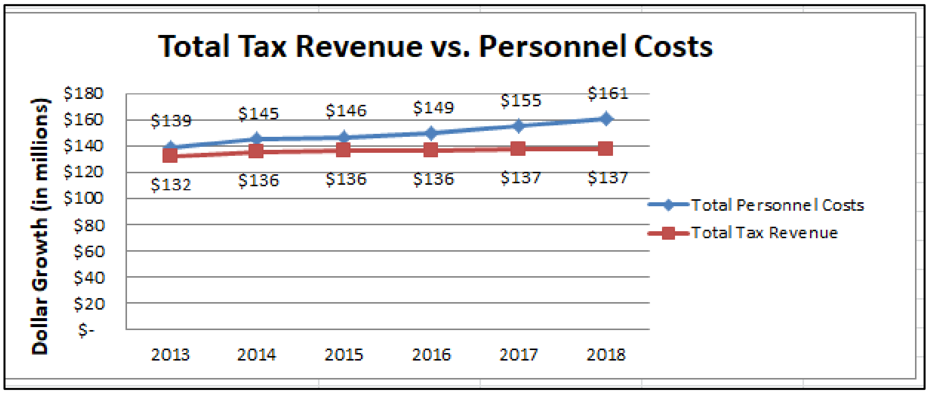

Exhibit 2

Jail & CRC	Actual				Projected	Proposed Budget
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Total Revenue	$4,979,525	$5,169,795	$4,245,755	$3,800,170	$3,195,723	$3,070,839
Total Expense	$34,955,673	$36,860,245	$37,675,754	$36,987,098	$39,036,682	$41,172,696
Net Cost to County	**($29,976,148)**	**($31,690,450)**	**($33,429,999)**	**($33,186,928)**	**($35,840,959)**	**($38,101,857)**

Exhibit 3

Berks Heim	Actual				Projected	Proposed Budget
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Total Revenue	$40,980,315	$41,150,679	$41,952,379	$47,840,174	$50,515,668	$50,254,828
Total Expense	$38,407,433	$37,756,255	$39,332,775	$46,861,213	$50,194,685	$50,534,422
Net Income/(Loss)	**$2,572,882**	**$3,394,424**	**$2,619,604**	**$978,961**	**$320,983**	**($279,594)**

Specific Reasons for the 2018 Operating Deficit:

State Legislative & Budget Impacts **$5.2M:**

- Child Protective Services Law & Child Abuse Prevention and Treatment Act:
    - Significant increase in Intake calls, investigations 2015-2017.
    - Added 13 CYS and 4 Detectives positions.
    - Increase in CYS personnel net cost of $0.1M.
    - Increase in DA detective personnel cost of $0.4M.
- Frozen Medicaid Bed Rate since July 1, 2014 - $1.6M. Lost revenue opportunity, assuming a modest 1.5% increase per year creating a deficit in Berks Heim.
- Decrease in Common Pleas and Senior Judge Staff reimbursements of $0.7M.
- Decline in State Technical Parole Violator revenue at the County Jail $2.4M.

County Decision Impacts **$3.5M:**

- Add staff at County Jail $1.8M:
    - 22 correction officers – including 9 for mental health inmates.
    - 3 clerk positions in records department.
- Increase in contracted mental health staff $0.4M.
- Add 2 deputy sheriffs - higher transports & more senior judge court rooms $0.1M.
- Increases in DA/PD pay scale and Management Confidential on-call pay in 2018 $0.2M.
- Change to 2013 pension mortality table in 2018 – increase pension costs $0.8M:
    - Contributes to deficit in Berks Heim.
- Increase RACC operating support in 2017, 1st time in over 10 years $0.2M.

If not for these reasons we would not have a budgeted operating deficit. The actual operating deficit is lower than the sum of the items listed above primarily due to increases in revenues as follows: property tax revenue, interest income, landfill fees, Row Officer Fees combined with cuts in library programming, headcount reductions, lower utility costs, five year deferment of BARTA match, and defeasance of debt service over the same period of time.

In an attempt to reduce or eliminate the 2018 operating deficit we reviewed the following discretionary programs for possible cuts:

Berks Heim	COCA	GREP
Parks	Treatment Courts	Dept. of Agriculture
Library Support	Central Processing	Community Re-entry
Berks County Pre-trial Svcs.	Veterans Affairs – Claims	Law Library
PSU Ag Extension	Muni - Detective Services	Fire Training

It was determined by the Commissioners these programs either have value to law abiding citizens or if cut have unintended consequences. For example, most citizens never experience county court operations but do enjoy our park system which they pay for with property tax dollars. We know from empirical evidence the elimination of pre-trial assessment services, treatment courts, COCA funding, and community re-entry will result in a higher jail population at a much higher cost. Library services and GREP have already been cut over the last few years. COCA and PSU Ag Extension have been capped. Currently, Berks Heim and the Jail are being evaluated to see if these costs can be reduced with alternative ownership. Due to the value and unintended consequences there is not a consensus among the Commissioners to render additional cuts at this time.

Consequently, as required by our fiscal policy, we are recommending for the first time in five years a modest property tax increase of 4.08%. This increase is less than the 7.3% cumulative CPI increase for all urban cities measured over the same period of time between 2013 - 2017. If this budget is enacted, the current tax rate of 7.372 mills for 2017 will increase to 7.668 Mills. The annual impact to property taxpayers is as follows:

Tax Impact to Homeowner - 4.08% Increase		
	Average Assessed Value	Increase in Annual Tax Bill
City of Reading	$41,395	$12
Non-City	$107,817	$32
Other	$200,000	$59

In spite of this tax increase our forecast, as seen in Exhibit 4, predicts future deficits. This forecast includes our planned defeasance of our 2013 bond issue in 2020 and the retirement of a forward interest rate hedge and related debt refinancing of our 2010C bonds. The total deficit in 2020 is much higher than 2019 as a result of the 2013 bond defeasance expenditure of $12.8M. This defeasance will save $5M in interest expense through original maturity and reduce our annual debt service requirement by $1.34M per year through 2033. We anticipate the combined termination of our forward interest rate hedge and refinancing of our 2010C bonds will save $4M through 2030. This forecast does not include any net new cost to either build or lease a new jail. It also assumes we continue to own and operate Berks Heim and the Jail.

EXHIBIT 4

	2019	2020	2021	2022
Total County Budget Surplus/(Deficit)	($5.4)	($29.8)	($5.4)	($7.6)
Operating Surplus/(Deficit)	($0.2)	($5.7)	($2.2)	($8.2)
Tax Equivalent %	0.00%	3.85%	1.43%	5.72%
Fund Balance - Unassigned	$113.9	$96.8	$98.0	$93.7

(Note: The tax equivalent percentage is what is necessary to balance each year assuming there is not a tax increase in the prior year)

The Berks Heim share of the projected operating deficits and tax requirements is as follows:

Berks Heim	2019	2020	2021	2022
Net Income/(Loss)	($1.1M)	($1.9M)	($2.7M)	($3.5M)
Tax Need for Berks Heim	0.63%	1.24%	1.88%	2.48%

The actual outcome for these future years is dependent upon the following factors: repeal of the Affordable Care Act Tax which we forecast beginning in 2020, Medicaid and Medicare bed rate increases for Berks Heim services, funding requirements and investment performance results related to pension costs, wage, health and operating costs inflationary pressure, outcome of CBA negotiations, actual tax base growth from new development, decision to build new, lease and or privatize the County Jail, decision to retain or privatize Berks Heim, and renewal of the 911 Fee assessed on landlines and mobile telecom devices which is scheduled to sunset at the end of 2019. We assume for purposes of our forecast: the 911 Fee will be extended and not cut, solid waste fees will remain flat, and tax rate maintained at a level to ensure continued funding of regular capital requirements with reserves instead of new bond financings which will increase recurring debt services costs.

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

- Tax incentives to attract commercial and industrial facility investment to enhance assessed value growth.
- Continuation of our Federal ICE Residential Center.
- Implementation of new technology and software solutions that enable process improvement and lower service costs.
- Elimination of the Affordable Care Act Tax.
- Refinancing and defeasance of debt to reduce recurring debt service costs.
- Utilization of reserves for capital to avoid net new debt service costs.
- Privatization of service delivery where quality of service can be maintained at a cost savings.
- Prison diversion plan for crimes resulting from mental health issues. This will lower future facility (i.e. new construction) and inmate medical and treatment costs.

Budget Summary and Select Highlights

Our tax revenue continues to grow at a slow pace. Taxable assessed value is expected to grow by 0.55% over the 2017 assessed value. This increase is due primarily to new commercial development.

	2018	2017
Millage Rate	7.668	7.372
Assessed Value	$18.9B	$18.8B
Percent Increase	0.55%	
Net Tax Billing	138.1M	132.3M
Interims	$0.5M	$0.5M
Net Tax Collections	$138.6M	$132.8M
Tax Claim Revenue	$4.2M	$4.4M
Total Tax Revenue	$142.8M	$137.2M
Less: Tax Refunds	($0.7)	($0.6)
Net Tax Revenue	**$142.1M**	**$136.6M**

Revenue and Expenditures (In Millions)

General Fund:	2018	2017	Inc./(Dec.)	% change Inc./(Dec.)
Total Revenue	$228.0	$219.7	$8.3	3.78%
Total Expense	$225.9	$215.0	$10.9	5.07%
Less:Total Adjustments	$13.3	$9.5	$3.8	
Net Surplus/(Deficit)	**($11.2)**	**($4.8)**	**($6.4)**	

All Funds:	2018	2017	Inc./(Dec.)	% change Inc./(Dec.)
Total Revenue	$508.0	$496.5	$11.5	2.32%
Total Expense	$520.7	$500.1	$20.6	4.12%
Less:Total Adjustments	$1.0	$1.1	($0.1)	
Net Surplus/(Deficit)	**($13.7)**	**($4.7)**	**($9.0)**	

(Note: Adjustments in the General Fund are for human services match. Adjustments in All Funds are for depreciation expense net of capital expenditures for our enterprise funds.)

Revenues

The increase in the General Fund revenues of $8.3M, or 3.8%, is primarily due to a real estate tax increase of $5.6M. In addition, other increase include: Information Systems internal service reimbursement grew by $0.7M for the CYS Case Management Project, Indirect Cost reimbursement of $1.1M, Jail $0.5M for housing more State TPV and out of county inmates, Solid Waste Tipping Fees of $0.1M, Courts of $0.1M, Row Officer Fees of $0.2M, and Interest Income of $0.4M. These increases are offset by revenue reductions of $0.2M for District Justices due to lower fees and Juvenile Probation of $0.2M in grant reductions due to placement savings.

The increase in All Funds revenue is $11.5M or 2.3%. This increase is attributable not only to the previously noted General Fund increase but also to increases of $3M in Health Choices and $1.9M in Liquid Fuels funding which are restricted to use. These increases are offset by decreases in Human Services of $1.1M due to the elimination of the MATP funding by the State and Community Development of $.6M for less projects anticipated in 2018.

Expenditures

The General Fund expenditures increased by $10.9M when compared to the 2017 Adopted Budget. This increase is attributable to: $5.4M in personnel costs including additional jail staff, increase in healthcare and pension costs, $4.1M in capital costs and $2.2M in contingency to cover CBA negotiation risks, tipping fee litigation, and new unfunded state and federal mandates. These increases are offset by lower JPO placement costs and facility security costs of $0.4M each.

The increase in All Funds expenditures is $20.6M when compared to the 2017 Adopted Budget. This increase is attributable not only to the previously noted General Fund increase but also to: $3M in Health Choices, $1.6M in other funds personnel costs, Children & Youth Services $0.9M, and $4.2M in capital, primarily for bridges.

Debt Issues

The total debt service expenditure budget for all fund types is $28.2M, net of derivative income and bond premium amortization of $0.4M. The County's three derivative contracts have a current accretive market value of $2.3M. The revenue budget includes federal Build America Bond subsidies of $1.2M. We do not anticipate any new money debt issue in 2018.

Fund Balance

The total general fund and unassigned fund balance is projected to be $128.7M and $114.8M, respectively, at December 31, 2018. 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 the identification of these items as projected at December 31, 2018.

Personnel/Staffing

The 2018 personnel cost budget is $164.3M compared to $157.4M for 2017, an increase of $7.0M or 4.43%. This increase is primarily attributable to an increase in wages of $2.8M and health care costs of $3.0M. The average wage rate increase for all employees is 2.5%, the super majority of which is pursuant to collective bargain labor agreements.

The 2018 Proposed Budget includes the permanent funding of: 22 correction officer positions at the County Jail for custody, control due to staffing shortages and mental health requirements, 3 positions in booking pursuant to the new Collective Bargain Labor agreement, 3 intake positions in Children Services due to increase in state mandates to evaluate children born with drugs in their system. These increases are offset by the elimination and/or defunding of: 10.5 positions in Employment and Training due to a state mandate to contract out the work, 7 positions in Magisterial District Courts due to lower case volumes, and 1 position each in both Mapping and Budget due to re-organization.

Children and Youth Services

The net cost of CYS in 2018 is $7.9M compared to $6.9M for 2017, an increase of $1M. This increase is attributable to the previously noted increase in staff, higher wages and benefit costs, and provider rate increases.

Capital Program

The 2018 capital expenditure plan is $23.1M. The projects are funded by Bond Proceeds 0.3M, grants $9.4M and General Fund Reserves of $13.4M which consists of the following:

2018 Summary Capital Plan			
County Bridges	$6.8M	Assessment Software	$0.8M
Voting System	$1.5M	Berks Heim Improvemer	$0.8M
WWTP Renovations	$2.5M	CYS Case Management	$1.5M
Security Improvements	$2.0M	Agland Preservation	$1.0M
911 Comm. Ctr.	$2.3M	Other Projects	$3.9M
		Total Capital	**$23.1M**

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 continue to contribute $3.1M in general fund tax dollars to the countywide public library system which is a slight decrease compared to 2017.

Sponsorship Agreements
The County will continue its support with general fund tax dollars as follows:
- RACC – $3.25M education operating stipend. In addition the Berks County Redevelopment Authority will provide $150K for capital projects.
- GREP – economic development support of $300K base funding, with match potential of up to $200K for non-governmental support.

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, the County Commissioners Office, and Office of Budget and Finance. Final adoption of the budget is scheduled for Thursday, December 14, 2017.

Respectfully Submitted,

Robert J. Patrizio, Chief Financial Officer
Date: November 16, 2017