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Berks County 2012 Proposed Budget

We are pleased to present the 2012 budget for consideration and adoption by the Board of Commissioners. We feel 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 burden upon the citizens of Berks County. This budget specifically achieves the Commissioners' directives to present a budget: without a tax increase, that supports our anticipated core service levels, maintains our strong financial position, limits the growth of new, discretionary County services, reduces head count, funds one-time expenditures with reserves and maintains longstanding commitments to education, transportation, economic development and library systems. This budget is the outcome of a highly collaborative effort with the Commissioners and each County department which began in January 2011. The Commissioners have provided direction and guidance as we have dealt with numerous operational and fiscal issues that impact both 2012 and future County budgets.

This budget maintains the current 2011 tax rate of 6.935 mills for 2012 and represents the 7th consecutive year without a tax increase. This is unparalleled in Southeastern Pennsylvania at a county or school district level. This is a testament to the fiscal discipline and outcome based focus of County leadership in both the Executive (i.e. Commissioners), Judicial (i.e. Judges) and Row Office branches of County government.

This budget funds our current and anticipated service levels with a responsible use of reserves to balance revenues and expenditures, in lieu of new debt borrowing. This budget provides for the continued maintenance and improvement of our facilities and parks, maintains a commitment to agricultural land preservation, satisfies our pension and debt service obligations, maintains our commitment to post secondary education (i.e. RACC), economic development (i.e. BCIDA and BEP), public transportation (i.e. BARTA and Route 222 corridor) and the Library system. This budget plan is designed to minimize recurring operating costs which will increase the size of future budget deficits.

The 2012 operating budget has a deficit of $15.3M (i.e. million), before bond funded capital projects. This means revenues do not equal expenditures and net adjustments. This deficit is inclusive of one-time expenditures totaling $13.8M for facility capital projects, 911 system municipal radio grants and principle portion of 911 system debt of $10.2M, $3M and 0.6M, respectively. The recurring operating deficit exclusive of these one-time expenditures is $1.5M compared to $1M for 2011. This budget intentionally uses reserves to fund these one-time expenditures instead of new borrowing which would increase outstanding debt and recurring debt service costs. The elimination of positions, continuation of lower service levels in courts, jail and children services, favorable healthcare claim trend and lower utility costs have combined to offset the impact of wage rate inflation, increase in pension and healthcare costs and flat tax revenue. In addition, State budget cuts impacting the County were primarily in discretionary programs, with the exception of children and juvenile services, and offset by a reduction in service levels.

Considering continued high unemployment and economic uncertainty, we believe it to be more prudent to utilize reserves to balance this budget rather than increase property taxes at this time. Our strong financial position enables us to do so and is a testament to the willingness of this Board of Commissioners to exercise sound, fundamental business principles and fiscal prudence, in all aspects of County government.

Current Fiscal Conditions

For the first time we have realized negative tax base (i.e. assessed value) growth of (0.02%) compared to 0.09% increase in 2011. This is primarily from appeals of assessed values by large commercial enterprises stemming from the 2008 economic down turn and the continuation of nominal new commercial and residential development. We anticipate our tax base to realize nominal growth over the forecast period as most significant corporate appeals have already manifested themselves. This is alarming because we have historically relied upon growth in assessed value to generate tax revenue increase to fund contractual wage increases, and higher pension and healthcare costs. In addition, both our Federal and State governments have significant budget deficits. We generally receive 44% to 50% of our revenue from these governments to provide federal and state mandated human services. If either is unwilling to raise taxes to balance their budgets and, instead, rely on funding cuts to counties, our deficit will increase more rapidly than anticipated. If this tax burden shift from the Federal and State government to the County property taxpayers continues we will be forced to make either draconian cut in core services and/or increase County property taxes at a higher rate than we would like.

Tax revenue from 2012 tax billing, net of discounts and bad debts, is projected at $122.8M, a decrease of $400K over 2011. Tax refunds, arising from assessed value appeals and tax incremental financing deals, is forecasted at $1.M, or $400K (i.e. thousand) lower than 2011, as the number of open appeals is declining. Tax revenue, from the tax lien process, is projected at $5.3M versus $4.5M for 2012 and 2011, respectively. This anticipated increase of $800K is due to a change in collection process and a continuation of higher than normal property tax defaults for 2011billings. Consequently, we anticipate total net tax revenue to increase by $900K. Between 2004 and 2007 we experienced, on average, an increase in tax revenue of $2.8M per year. While the tax revenue growth has dissipated, wage, healthcare and pension costs have not.

The 2011 financial market instability contributed to an increase in our budgeted pension cost to $9.5M from $9.3M in 2011. Collective bargain labor contracts require us to increase wage costs by 2.5% to 4% in 2012. The confluence of these facts and the likely 2012/2013 state and federal budget cuts, places the County in a very difficult position, in terms of balancing current and future budgets.

Our current forecast reveals the following:

Year	2013	2014	2015	2016
Deficit	$9.9M	$15.1M	$22.6M	$30.1M
Tax Equivalent	0.5572mills	0.8483mills	1.2643mills	1.6691mills
% Increase	8.03%	12.23%	18.23%	24.07%

To balance these future budgets, with minimal tax increases, will require a continued prioritization and evaluation of all programs with the elimination of those that do not produce meaningful outcome, are discretionary programs, consume more tax than benefits realized or can be better served by the private sector. This vigilance is necessary to control the rate of growth in personnel costs. In addition, organic growth in tax revenues is necessary to offset inflation impacts and is dependent upon an improved economy with stable financial markets which can spawn growth in taxable property development, both residential and industrial. Finally, federal and state funding needs to be equal to the demand for mandated services.

Budget Summary and Select Highlights

<u>Revenues</u>: Proposed 2012 general fund revenue is $200.9M compared to $203.1M for 2011, a decrease of $2.2M, or 1.1%. This reflects increases in: budgeted taxes of $500K, other revenue of $500K, operating transfers and indirect costs of $2.3M. These increases are offset by decreases in grant revenue of $5.7M for park projects completed in 2011; lower IV-E funding and special grants for children and juvenile services and other miscellaneous reductions. The net new operating transfers are for the use of Community Development Block Grant funds for RACC capital and specific 911 end user radios. The change in indirect costs is attributable to increases in departmental cost in the base year of 2010 for internal service departments including Information Technology and Facilities.

Proposed 2012 total operating revenue is $450.4M, compared to $457.2M for 2011, a net decrease of $6.8M, or 1.5%. This net decrease includes the general fund decrease and is further exacerbated by the expiration of federal ARRA stimulus funds and state budget cuts to social and community services. Those departments impacted by the cuts include: Community Development Block Grant of 1.1M, CCIS (i.e. subsidized daycare) of $1.1M, Employment and Training of $2.6M, Mental Health of $0.8M, Human Service Grants of $0.8M, Children Services $0.9M, Domestic relations $0.4M. The 911 hardwire and wireless revenues are budgeted to decrease by $1.4M. This decline is twofold: transition to wireless from hard wire service and more county 911 centers vying for a limited amount of wireless revenue. These noted reductions are absorbed primarily by service level reductions, consumption of restricted and unassigned fund reserves. Additionally, revenue for Berks County Dept. of Aging was reduced $1.6M due to a change in accounting for 'In Kind' services with a corresponding decrease in expenditures.

The net decrease is inclusive of increases of $2.6M in subsidized behavioral health care for the indigent (a.k.a. Health Choices), $1.3M in nursing home revenues (a.k.a. Berks Heim) and $2.2M in Liquid Fuels.

<u>Expenditures</u>: Proposed 2012 general fund expenditures are $204.2M compared to $194.6M for 2011, an increase of $9.6M, or 4.9%. This reflects an increase in the general fund portion of personnel costs of $2.2M, net increase in capital of $7.6M, increase in indirect costs of $1.5M and net decreases in operating expenses of $1.7M. The net change in operating expenses consists of the following increases: county contribution of $3.2M for 911 system radios for municipalities and $2.8M of 911 debt service moved to the general fund for one year consistent with Generally Accepted Governmental Accounting Standards. These increases are offset by the following decreases: contingency $2.7M, utilities $1M, Jail food, inmate health and other variable costs of

$1.2M and various program costs of $2.8M. The increase in capital is attributable to an intentional decision to fund specific facility projects and fleet replacement with unassigned fund reserves, instead of new financing. The utility savings is a result of the investment made in energy efficient building improvements beginning in 2010 and completed in 2011. The Jail savings is a result of favorable daily population totals.

Proposed 2012 total expenditures is $464.4M compared to $458.5M for 2011, an increase of $5.9M, or 1.3%. This net increase includes the general fund increase and is further modified by Special Revenue and Enterprise Fund increases in personnel expenses $1.6M, capital expenses $0.7M and inter-fund transfers of $1M. These were offset by decreases in operating expenses of $6.8M. The operating expense reductions are primarily in program services and a direct result of the revenue reductions noted above.

It should be noted that while the general fund expenditures increased by the total amount of the 911 Radio project debt service of $2.7M, the total expenditure budget for all funds only increased by the principle amount of $600K. This is due to the difference between enterprise verses general fund accounting principles. This anomaly will terminate when the debt service returns to the 911 Enterprise Fund upon completion of the new 911 radio system.

Additional expenditure highlights include increases in: bridge renovation and repair work of $3.4M and Health Choices at $2.6M, consistent with increases in revenue and available restricted reserves, 911 operating expense increases related to the new radio system of $.5M for system maintenance and tower rental.

<u>New Debt Issues:</u> Proposed 2012 plan anticipates the refinancing of the 2nd Series 2002 Bonds to a lower fixed rate with 2012 savings of $78K and $873K over 20 years, net of issuance costs. The County does not anticipate the issuance of any new money debt instruments in 2012, inclusive of derivative instruments. The County replaced 3 outstanding derivative instruments in 2011 with 1 new basis swap agreement that is yielding positive cash flow of $200K per annum which is included in the 2012 budget as a reduction of interest expense.

<u>Fund Balance</u>

The 2012 budget reflects the new GASB 54 financial reporting model for fund balance presentation. The 12.31.12 unassigned fund balance is projected at $112.1M. We continue the assignment of $4M of fund reserves for catastrophic healthcare claims arising from our self insured health plan and a capital replacement of $1.3M for future capital needs. In addition, we have assigned fund balance of $3.78M of BCIDA and Airport Authority debt guarantees and $5M Route 222 corridor commitment made in 2011.

<u>Personnel/Staffing</u>

The 2012 personnel costs budget is $149M compared to $145.2M for 2011, an increase of $3.8M, or 2.6%.

> <u>New Positions</u>: The proposed budget includes 20 net new positions for Berks Heim (i.e.1 full and 19 part-time); the cost of which is entirely offset by

anticipated reduction in budgeted overtime costs. There is no net increase in positions for any other department in 2012. As previously noted, the budget reflects a decrease in funded positions of 33 compared to 2011, representing a savings of $1.3M in wages and payroll tax.

Wages: Total 2012 wage budget is $101M compared to $98.8M for 2011, an increase of 2.23%. This is lower than the average collective bargain labor increases of 2.5 to 4% due to the previously noted reduction in headcount.

Pension Obligation: The 2012 budget includes an annual required pension contribution of $9.5M, an increase of $200K over 2011 budget of $9.3M. This increase is a result of the 2011 economic impact on the pension fund investments.

Health Insurance: The 2012 budget includes $30.7M for employee healthcare costs compared to $29.7M for 2011, an increase of $1M, or 3.4%. These costs are: self insured healthcare, union health and welfare, and dental. The increase is attributable to anticipated inflation in healthcare provider rates, prescription costs, union health and welfare rates and the inclusion of AFSCME represented employees in the County Dental plan. These increases are partially offset by favorable claim trends, a decrease in union health and welfare due to the exclusion of AFSCME from union health and welfare and anticipated increase in employee contributions of $500K towards their health plan benefits. Employee contributions are $3.6M and $3.1M, for 2012 and 2011, respectively.

Worker Compensation: The 2012 budget includes $1.9M for self insured worker compensation injuries compared to $1.7M for 2011, an increase of 13.33%. This increase is primarily due to an intentional decision to settle long standing claims that increase near term costs while significantly reducing long term cost exposure.

Contingency

The 2012 budget contains a contingency reserve of $1M. This will cover unexpected spikes in prison inmate population, criminal court cases, children and juvenile placements and revenue losses that might occur in 2012, due to federal or state funding cuts of mandated County services.

Berks Heim

In spite of a decrease in Medicare rates in 2012 and no increase in Medicaid rates in the current State budget, the 2012 nursing home budget projects net income after interest and depreciation expense of $1.08M, an increase of $340K over the 2011 budget of $740K. This improvement is a result of higher bed utilization, heavier weighting on short term therapy and fully insured beds yielding higher daily rate reimbursements, a 5.3% increase in private pay rates and better alignment of staff, resulting in a reduction in planned agency and overtime costs. This improvement is the result of implementing changes recommended by our current facility management company which includes proactive marketing, stream-lined admission decision process, automation of several functional processes and reasonable union contract renewals.

Jail and CRC Operations:

The 2012 Jail and Community Release Center (a.k.a. CRC) combined operating budgets, excluding bond funded capital projects, is $32.7M compared to $32.8M for 2011. In spite of an increase in wages, pension and employee healthcare, we were able to hold the line due to lower inmate healthcare costs of $660K and food costs of $141K. The investment in a more efficient kitchen design enabled a shift from bulk feeding to tray feeding which reduced costs. Act 22 regulatory change, flat average daily population and more favorable healthcare contractual terms have enabled us to trim the inmate healthcare cost. The cost of the combined operations, net of revenue, is $29.5M and $28.7M for 2012 and 2011, respectively or an increase of $.8M. The increase in net cost is due to decreased revenue at the Jail for state, out of county and federal inmates compared to 2011 budget. CRC revenues are higher due to acceptance of State inmates into the CRC program. This serves to reduce total net costs for 2012 by $181K.

Children and Youth, Juvenile Probation and Youth Detention

The General Fund will contribute $8.6M to match federal and state dollars, for children, juvenile and youth detention services in 2012. This is $1.3M higher than the 2011 budget of $7.3M and is primarily attributable to reduced special grant and ACT 148 state funding for children and juvenile services, lower Title IV-E funding for Juveniles due to more restrictive Title IV-E eligibility requirements and higher Youth Detention Center (a.k.a. YDC) costs due to declining bed utilization. The County Youth Detention facility continues to experience low bed utilization averaging 39 beds per day for a facility that was built for 96 bed capacity. This reflects a state wide policy shift to utilize lower cost alternatives to secure detention which reduces the State budget deficit. The current and projected YDC utilization trend results in higher per diem rates which exceed available Act 148 state allocation. When combined with higher wages and fringes the YDC cost to the County increases by $690K compared to 2011 budget.

Agricultural Land Preservation

The 2012 budget includes $1.1M in anticipated farmland easement acquisition expenditures. The long term capital plan maintains a general fund commitment to farmland preservation in the amount of $1M per year to leverage federal and state funds for new easement acquisitions.

Library System Support

In spite of the 2012 deficit, the County maintains its commitment of general fund tax dollars of $3.6M to the countywide public library system. This includes $900K for the City of Reading Public Library System which is consistent with 2011 support levels.

Reading Area Community College (i.e. RACC)

In 2011 the County renewed its sponsorship agreement with RACC for an additional 20 years. Pursuant to this agreement the County continues its relationship as a financial supporter of the College operations. The County support had remained unchanged since 2008 at $3.2M per year. The 2012 budget increases the total support to $3.35M and is bifurcated between operating and capital in the amounts of $3.1M and 250K, respectively. The operating stipend will be funded with general fund taxes and the capital stipend will be funded with Community Development Block Grant funds for specific capital projects. The County intends to maintain this level of commitment through 2014.

Capital Program

The 2012 capital expenditure plan, inclusive of bond funded capital projects, is $56.4M of which $13.9M will be paid with general fund reserves and taxes. The remainder of the plan will be paid for with grants and bond proceeds. Significant 2012 projects are:

> Prison: $9.4M budget includes renovation of the prison security system and building repairs that will reduce energy consumption and eliminate water infiltration. These two projects will be funded with 2010 bond proceeds.
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> Facilities: $9.5M budget is primarily for: Services Center Garage repairs $2.4M, Old Heim building demolition $2.5M, Phase II of facility energy improvements $3.6M. These projects will be funded with general fund reserves. The cost to repair the Court House and Services Center façade is not yet known and is anticipated to be incurred in 2012. A funding determination has not yet been made.
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> Fleet: The 2012 budget includes the replacement of 73 vehicles at an estimated cost of $1.7M. The County conducted extensive review of its fleet and fleet management program over the prior 2 years. While doing so the scheduled replacement of vehicles was placed on hold. Consequently, the County needs to replace a majority of its vehicles in 2012. The cost to replace vehicles for the period 2013 through 2016 is expected to be significantly less than 2012. The fleet analysis resulted in the removal of 19 vehicles from service saving fuel, insurance, maintenance and future replacement costs.
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> 911: Radio network infrastructure replacement of $47.3M with $25.1M expected to be incurred in 2012 with a target ‘go live’ date of January 1, 2013. This will be funded with 2010 bond proceeds.
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> County Bridges: $6.6M is primarily for Christman Road, Berne Station, Buttonwood Street and Anthony’s Mill bridge improvements. These are funded by 80% federal funds with a 20% state and local County match. The local match is satisfied by state Liquid Fuel Tax and not County property tax dollars.

Financing Program – Municipal, Fire and EMS End User Radios

The 2012 general fund operating budget includes an estimated $3.2M stipend to be used to assist municipalities with their purchase of new 911 system radios for police, fire and EMS units serving their constituents. These new radios are required due to the implementation of a new countywide 911 system. This represents approximately 20% of the anticipated need and will be funded with unassigned General Fund reserves and Community Development Block Grant funds of $3M and $200K, respectively. The County has offered to provide an interest free loan to the municipalities to be repaid in equal annual payments, over 7 years, beginning with the year following the radio acquisition. It is anticipated this loan will reduce interest income for the County by approximately $840K through 2016 resulting in a total county contribution of $4.04M.

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 from this day until the final adoption of the budget, which is scheduled for Thursday, December 15, 2011. The proposed budget is available at the County Commissioners Office, Office of Budget and Finance and is available on our County web site.

Respectfully Submitted,

Robert J. Patrizio, CPA
Chief Financial Officer
Date: November 15, 2011