



**COUNTY OF BERKS, PENNSYLVANIA**  
**Office of Budget & Finance**

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## **Berks County 2013 Proposed Budget**

We are pleased to present the 2013 budget for consideration and adoption by the Board of Commissioners. The development of this budget was the most challenging in 8 years. The 2012 budget was the first budget in 7 years with an operating deficit. The forecast, at that time, predicted the deficits would grow due to operating costs increasing at a greater rate than tax base growth and anticipated federal and state funding cuts. The early prognosis of the 2013 budget validated our expectation, as we were looking at a preliminary deficit in excess of \$12M with a need for a 10% tax increase to balance revenues and expenditures. Consequently, the Commissioners' directed we do the following to either avert or, at a minimum, reduce the size of a 2013 tax increase:

- **Eliminate inefficient processes**
- **Eliminate discretionary programs**
- **Reduce and/or freeze discretionary spending**
- **Enhance non-tax revenues**
- **Reduce headcount**
- **Freeze payroll**

In response to these directives and with Commissioners' guidance at weekly budget meetings the following actions have already been taken in 2012 or will be taken as part of the 2013 budget:

- Propose a wage freeze for all management positions and expired and expiring collective bargain labor agreements. This reduces wages and payroll tax expense by \$2.1M. Our ability to achieve this directive is dependent upon the outcome of binding arbitration with collective labor scheduled in Q1 2013.
- Closed the County Youth Center and utilize a lower cost, in county, alternatives for detention and shelter care services. This reduces operating costs by \$1.4M. This action reduced headcount by 58 full time positions in 2012. In addition, this released CDBG funding that will be used to fund BCIDA and RACC which eliminates the need for county tax dollar funding, for an additional savings of \$59K and \$250K, respectively.
- Fund the unfunded pension liability per the pension actuarial valuation dated January 1, 2012 of \$63.1M with a pension bond borrowing of \$30.6M completed

in November 2012 and \$32.5M of reserves to be completed in December 2012. This reduces the pension costs from \$9.4M to an estimated \$3.4M and adds \$1.9M of new annual fixed rate debt service for a net savings of \$4.1M

- Increase Federal immigration net revenue by negotiating to keep this immigration service in Berks County in a new location. This was accomplished in 2012 and increases net non-tax revenue by \$800K.
- Eliminate positions in Aging Services to offset losses in revenue due to state budget cuts in Aging and Berks Heim of 9 and 8 positions, respectively. Eliminate and reduce additional positions due to vacant judgeship in 2013 and process efficiency gains in Berks Heim, Prothonotary and Recorder of Deeds offices, to name a few. The aggregate impact is 28.5 less funded positions and \$1.35M in personnel cost savings.
- Increase fees for Sheriff Department central processing \$29K, Register of Wills \$338K, Prothonotary \$95K and Recorder of Deeds UPI fee \$310K as we move to a UPI based property identification system. These fee changes generate additional revenue of \$772K.
- Reduce Solid Waste Authority funding by \$25K due to the strong financial condition of the Authority. In addition, replace \$60K of tax revenue funding with non-tax revenue.

In spite of these increases in non-tax revenues and decreases in costs, we were unable to balance revenues with expenditures for 2013. We could not overcome the following increases in our operating costs and decreases in reserves with increases in fees for service and organic growth in property tax base, which has been less than one half of one percent since 2010 and less than one percent since 2008:

- Replace the 911 communication system at an estimated final aggregate price of \$54M, which adds \$4.1M of new operating costs per year as follows:
  1. Debt service \$ 2.5M
  2. 5 New positions \$ 0.2M
  3. System maintenance \$ 1.4M
- New debt service per year of \$3.3M for capital repairs to aging facilities as follows: Energy conservation facility improvements offset partially by energy savings, repairs to the service center and court house façade, parking garage, elevators, prison building, security system, and kitchen, demolition of old Berks Heim buildings, and new assessment software platform.
- Higher children and juvenile costs of \$2.3M per year since 2010 due to Federal Title IV-E funding changes, state budget cuts and higher placement rates as follows:
  1. CYS \$ 1.4M
  2. JPO \$ 0.9M

- Increase in Personnel Costs between 2006 and 2013, net of employee contributions to health:
  1. Wages \$11.9M (7yr avg. 1.96% per annum)
  2. Net benefit costs \$ 4.8M (7yr avg. 2.44% per annum)

These increases would have been even more dramatic but for prefunding the pension liability, the proposed wage freeze in 2013 and reduction in full time equivalent (i.e. FTE) head count (i.e. FTE) of 449 FTE from 2,626.5 to 2,177 FTE at December 31, 2005 and 2013 (projected), respectively.

- Provision of \$2.75M of funding to assist municipalities with the purchase of radios for use with the new 911 radio system with \$1.65M in 2013.
- Significant use of reserves as follows:
  1. Fund new 911 radio system towers and other 1 time capital improvements per the 2012 and 2013 budget of \$10M, to minimize future debt costs.
  2. Loans to municipalities for the purchase of new 911 system end user radios of \$12M to be repaid over 5 to 7 years.
  3. Fund unfunded pension liability with \$32.5M of reserves in December 2012 to strengthen the pension plan and lower annual pension costs.

Therefore, we are recommending a 6.3% tax increase for 2013 which increases the current millage rate of 6.935 to 7.372 mills. The impact on a property assessed at \$100,000 is \$43.70 and \$3.64 per year and month, respectively. This will not eliminate our operating deficit but will reduce it to \$1.337M, a level that can be more reasonably absorbed by reserves. If enacted, this tax increase will take effect on January 1, 2013, exactly 8 years since the last County property tax increase which is truly remarkable given the size and scope of our programs and services and anemic tax base growth since 2007.

In conclusion, this budget is responsive to the service needs of the County taxpayers and the Commissioners' goal of a responsible budget with shared sacrifice for departments, employees and citizens of Berks County. This budget specifically achieves the Commissioners' directives to present a budget that: minimizes the size of a tax increase, supports our anticipated core service levels, maintains our strong bond rating at Aa1-Stable Outlook, eliminates and/or reduces discretionary spending due to federal and state budget cuts and process improvements, enhances non-tax revenues by increasing Row Office fee for service schedules, and freezes payroll where we can legally do so. At the same time, this budget continues to satisfy the Commissioners' commitments to agricultural land preservation, education, transportation, economic development and library systems at current 2012 funding levels.

Our ability to achieve this budget hinges on our success in negotiating a wage freeze with our representative employees, the financial performance of our pension assets and therefore, the economy as a whole, the amount of federal budget cuts to the State of Pennsylvania that are passed through to our human services and nursing home agencies, as a result of the looming "Fiscal Cliff", additional State budget cuts and increases in actual service levels related to crime and abuse of children. This budget, as presented, is very austere and our final actual deficit for 2013, in spite of the recommended tax increase, could be worse.

## Budget Summary and Select Highlights

### Taxes:

	<u>2013</u>	<u>2012</u>
Millage Rate	7.372	6.935
Percent Change	6.30%	
Assessed Value	\$18,539,982,586	\$18,449,695,768
Percent Change	0.49%	0.20%
Net Tax Billing	\$ 130,453,545	\$ 122,124,418
Interims	383,217	440,000
Net Tax Collections	\$ 130,836,762	\$ 122,564,418
Tax Claim Revenue	5,380,000	5,380,000
Total Tax Revenue	\$ 136,216,762	\$ 127,944,418
Less: Tax Refunds	(796,307)	(1,006,285)
Net Tax Revenue	<u>\$ 135,420,455</u>	<u>\$ 126,938,133</u>

(Tax billing is net of discounts and uncollectible amounts of 4.6%)

### Revenue and Expenditures

Funds	2013	2012	Incr. (Decr.)	% Change Incr. Decr.
<u>GENERAL FUND:</u>				
Revenues	\$ 209.3	\$ 200.9	\$ 8.4	4.2%
Expenditures	\$ 204.1	\$ 204.2	\$ (0.1)	0.0%
Net Surplus (Deficit)	<u>\$ 5.2</u>	<u>\$ (3.3)</u>		
<u>ALL FUNDS</u>				
Revenues	\$ 460.7	\$ 450.2	\$ 10.5	2.3%
Expenditures	\$ 462.0	\$ 464.8	\$ (2.8)	-0.6%
Net (Deficit) Surplus	<u>\$ (1.3)</u>	<u>\$ (14.6)</u>		

(Excludes capital project funds and depreciation adjustments for enterprise funds)

Revenues: The increase in general fund revenues of \$8.4M, or 4.2% is due to the proposed tax increase which adds \$7.7M of net new tax revenue representing 3.83% of the increase. The remainder is attributable to the fee increases for select Row Offices \$772K.

Total operating revenue for all funds, excluding bond funded capital projects, increases by \$10.5M or 2.3% due to the proposed net new tax revenue of \$7.7M and an increase of \$800k in Federal ICE program, \$1.8M in nursing home revenues (a.k.a. Berks Heim) and \$5M in Liquid Fuels offset by reductions in Aging of \$1.7M, MH/DD of \$2M, and Health Choices of \$1.6M.

Expenditures: General fund expenditures are essentially flat due to the elimination and defunding of positions which lowers wages and fringe benefit costs, the proposed wage

freeze, and the reduction of General Fund capital expenditures by a net of \$4.4M due to reduced fleet replacement costs of \$1.2M, new Shale Gas funding for Parks projects which reduced General Fund contributions by \$.4M, and the completion of the Services Center Parking Garage Project at \$2.4M. All of these reductions served to offset the growth in new general fund debt service incurred since March of 2012.

Total expenditures for all funds, excluding bond funded capital projects, decreases by \$2.8M, or 2.3% due to the: proposed wage freeze of \$2.1M, elimination of funding for an additional 28.5 positions of \$1.35M, prefunding of the pension plan which lowers the anticipated annual pension costs by \$6M and a reduction in the budgeted grant for municipalities new 911 end user radio purchases of \$1.3M. These reductions were offset by higher operating costs for new debt service, added since March of 2012 of \$3.7M for the 911 radio and facility projects, \$1.9M for the new pension bond debt service, increases in children services \$2.6M and juvenile placement costs \$1.6M.

Debt Issues: Proposed 2013 capital plan anticipates the issuance of new general obligation debt of \$20.6M to be used for the renovation of the Court House façade, demolition of the old Berks Heim Sanatorium and two additional towers for the 911 radio system.

#### Fund Balance

General fund balance at December 31<sup>st</sup> is: \$153.6M – 2011 actual, \$119.4M – 2012 projected and \$116.8M – 2013 projected. The decrease between 2011 actual and 2012 and 2013 is the use of reserves equal to \$32.5M, to fund the pension plan in December 2012 and the assignment of \$3.7M of reserves to fund a portion of the 911 radio system. The plan for 2013 continues the assignments of fund balance of: \$4M for catastrophic healthcare claims, \$1.34M for future capital needs, \$582K for Airport Authority debt guarantee and \$5M for the Route 222 corridor commitment made in 2011. We anticipate ending 2013 with \$101M in unassigned fund balance a decrease of \$15M from the actual balance at December 31, 2011. The decrease is the result of the \$32.5M use of reserves for the pension plan in 2012 offset by increase in tax revenues of \$7.7M, lower debt guarantee for BCIDA of \$3.2M and lower reserve of general fund balance for Berks Heim of \$4.6M due to the continuation of year over year net income. Unassigned fund balance represents 21.86% of the total operating expenditure budget of \$462M and covers 2.7 months of the monthly average operating budget of \$38.5M.

#### Personnel/Staffing

The 2013 personnel costs budget is \$138.9M compared to \$147.2M for 2012, a decrease of \$8.4M or 5.7%. This decrease is attributable to the lower pension cost, head count reduction and wage freeze offset by contractual growth in wages at Berks Heim, which is the largest county employee base, and the addition of 5 new positions required to run the new 911 radio system. Healthcare costs remain virtually unchanged between 2012 and 2013 at \$30.2M, primarily due to the elimination of positions at the Youth Center, Aging Services, and Berks Heim. The worker compensation budget is slightly lower for the same reasons.

### Contingency

The 2012 budget contained a contingency reserve of \$880K which was consumed due to budget overruns on capital projects. We are recommending an increase to \$3.57M or \$1.57M of general fund expenditures, well within the GFOA guideline of 10%. This increase is necessary to protect against: unforeseen additional 911 tower construction and façade costs, likely cuts to federal and state funding sources due to the “fiscal cliff”, state budget issues, unexpected spikes in prison inmate population, criminal court cases, children and juvenile placements and revenue losses attributable to State Department of Corrections announcement to place only parole violators in county jails.

### Berks Heim

The nursing home budget projects net income of \$2.5M, an increase of \$1.3M over the 2012 budget of \$1.2M. But for the reduction in county pension costs and management wage freeze, the budget would be \$1.3M net income, a slight increase over 2012. This budget includes an anticipated 1.8% increase in Medicare rates, a 0% increase in Medicaid rates and a 3.3% increase in private pay rates. The expense budget is flat between years due to the reduction of 8 full time positions, lower pension costs and a wage freeze for management employees.

### Agricultural Land Preservation

The County maintains 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 maintains its commitment of general fund tax dollars of \$3.35M to the countywide public library system. This includes \$900K for the City of Reading Public Library System.

### Reading Area Community College (i.e. RACC)

The County maintains its sponsor commitment to RACC of \$3.35M 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 (i.e. CDBG) funds for specific capital projects. The CDBG funding, in spite of federal funding cuts, is maintained due to the closure of the County Youth Center which allowed previously committed funds to be re-assigned.

### Capital Program

The 2012 capital expenditure plan, inclusive of bond funded capital projects, is \$70.9M. The projects are funded principally by bond proceeds, grants and to a lesser extent general fund reserves. This plan includes:

- \$ 5.2M - Prison security system and building repairs
- \$27.1M - Completion of New 911 radio system
- \$ 0.7M - Park improvements at: Antietam Park, Gring’s Mill, Heritage Center

### Capital Program - Continued

- \$22.1M - Old Heim and Sanatorium demos, Service Center and Court House façade, and elevator improvements
- \$11.6M - Bridge improvements Christman, Buttonwood, Berne Station, and Anthony's Mill

### **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 13, 2012. 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, 2012