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Berks County 2014 Proposed Budget

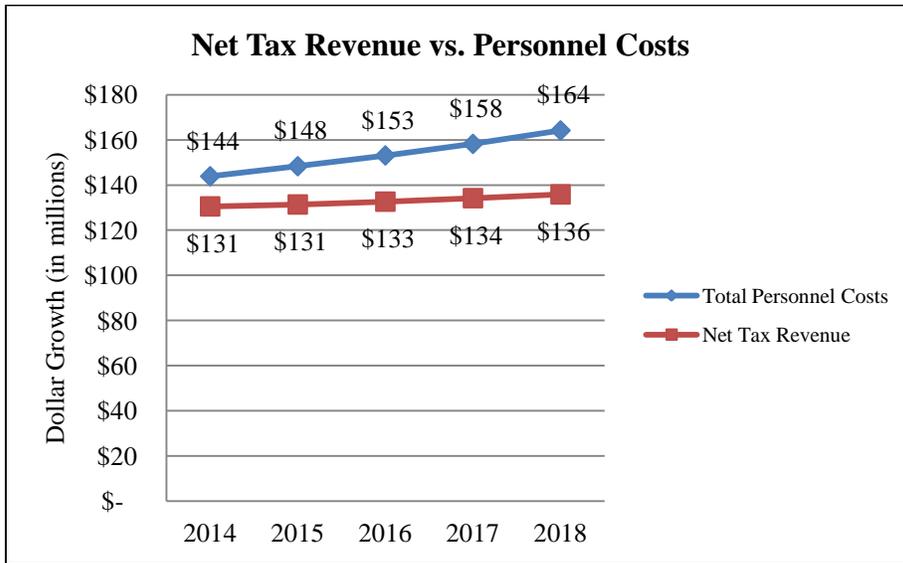
We are pleased to present the 2014 budget for consideration and adoption by the Board of Commissioners. We feel this budget is responsive to the needs of the County taxpayers and the Commissioners' goal of a responsible budget that does not place an undue tax burden upon the citizens of Berks County. 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 and AA1 – stable outlook bond rating, limits the growth of new discretionary County services, reduces headcount, 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 2013. The Commissioners have provided direction and guidance as we have dealt with numerous operational and fiscal issues that impact both 2014 and future County budgets.

This budget reflects a total budget deficit, excluding bond funded improvements, of \$5M. The recommendation is to absorb this deficit with reserves and to maintain, rather than increase, the current tax rate of 7.372 mills for 2014. This budget assumes federal and state funding will remain at a level throughout 2014 to cover our core human services. We continue to leverage reserves for one-time repair and replacement of our infrastructure assets instead of adding additional, recurring debt service costs.

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 Reading Area Community College post secondary education (i.e. RACC), economic development (i.e. GREP), public transportation (i.e. BARTA) and the Library system.

In spite of the 2013 tax rate increase, we continue to face structural budget challenges. The rate of inflation in our personnel costs, goods and services, continue to outpace the rate of growth in our tax base and corresponding property tax revenue. This disparity becomes very evident when one compares the percentage increases in property assessed value to personnel costs and net tax revenue to personnel expenditures as depicted in Exhibit 1.

Exhibit1



As a result, our current forecast reveals building deficits:

Year	2015	2016	2017	2018
Deficit	\$3.8M	\$8.4M	\$11.6M	\$17.4M
Tax Equivalent	0.2059mills	0.4603mills	0.6281mills	0.9366mills

To balance these future budgets, with minimal tax increases, will require:

- Continued prioritization and evaluation of all programs with the elimination of those that do not produce meaningful outcomes, consume more tax than benefits realized or can be better served by the private sector.
- A lower rate of growth in personnel costs which will require a cooperative effort with our six collective bargaining labor unions, the health of employees and their dependants, and a continued favorable trend in investment returns on our pension assets.
- Acceleration of growth in industrial, commercial and residential property assessed values which is dependent upon a robust economy and skilled work force.
- Federal and state funding of mandated services commensurate with demand and inflation.
- Rate increase in Medicare and Medicaid commensurate with resident care inflation at our nursing home.

The Commissioners are keenly aware of these challenges and are supportive of the following initiatives, each with the potential to reduce our operating cost footprint:

- Consolidation of certain City MDJ office locations
- Alternative ownership of MDJ offices

- Legislative changes that will remove truancy and parking violations from MDJ courts
- Consolidation and automation of assessment/land records
- Completion of children services case management system
- Implementation of criminal court unified case management system
- Completion of phase II and III of civil e-filing platform

Our ability to achieve the 2014 budget results hinges upon: the financial performance of our pension assets, renewal of Federal and State funding at current levels, and service levels for crime, children, and aging populations remaining flat.

Budget Summary and Select Highlights

Our assessed values increase by 0.44% between 2013 and 2014 resulting in a net tax billing increase of \$625K. This increase is offset by a decrease in tax claim revenue of \$780K and an increase in tax refunds arising from appeals of \$318K for a net decrease of \$473K. The decline in tax claim revenue arises from a lower default rate which reduces penalty and interest collections.

Taxes

	<u>2014</u>	<u>2013</u>
Millage Rate	7.372	7.372
Percent Change	0.0%	6.30%
Assessed Value	\$18,572,296,300	\$18,490,522,500
Percent Change	0.44%	0.09%
Net Tax Billing	\$ 130,519,443	\$ 129,942,216
Interims	431,064	383,217
Net Tax Collections	\$ 130,950,507	\$ 130,325,433
Tax Claim Revenue	4,600,000	5,380,000
Total Tax Revenue	\$ 135,550,507	\$ 135,705,433
Less: Tax Refunds	(956,000)	(637,828)
Net Tax Revenue	<u>\$ 134,594,507</u>	<u>\$ 135,067,605</u>

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

Revenue and Expenditures (In Millions)

Funds	2014	2013	Incr. (Decr.)	% Change Incr. (Decr.)
<u>General Fund</u>				
Revenues	\$ 213.8	\$ 211.0	\$ 2.8	1.3%
Expenditures	\$ 204.6	\$ 204.5	\$ 0.1	0.0%
Less: Adjustments	\$ 8.2	\$ 8.3		
Net Surplus (Deficit)	<u>\$ 1.0</u>	<u>\$ (1.8)</u>		

Funds	2014	2013	Incr. (Decr.)	% Change Incr. (Decr.)
<u>All Funds</u>				
Revenues	\$ 451.1	\$ 462.8	\$ (11.7)	(2.5%)
Expenditures	\$ 453.2	\$ 463.6	\$ (10.4)	(2.2%)
Adjustments: Add/(Less)	\$ (2.9)	\$ 3.8		
Net (Deficit) Surplus	<u>\$ (5.0)</u>	<u>\$ 3.0</u>		

(Excludes capital project funds)

Revenues: The increase in general fund revenues of \$2.8M, or 1.3% is due to: budgeting the rental income transfer from the Berks County Residential Center to the general fund, for the first time, of \$1.09M, new RACP grant revenue of \$1M, and \$1.7M of Jail revenue for housing additional state inmates. These increases are offset by a reduction in anticipated Tax Claim revenue for taxes and fees of \$1.0M.

Total operating revenue for all funds, excluding bond funded capital projects, decreases by \$11.7M or 2.5% due to: the elimination of the CCIS special revenue fund \$16.8M, reduction of Liquid Fuels and 911 Enterprise fund revenues of \$.8M and \$2.9M, respectively. These reductions are offset by increases in: general fund of \$2.8M and remaining special revenue funds of \$5.5M, most notably \$1.6M in CYS, and \$2.5M in Health Choices. The portion of the 911 radio system project funded with general fund dollars was completed in 2013 resulting in the revenue decline in that fund between 2013 and 2014.

Expenditures: General fund expenditures are essentially flat due in large part to a decrease in: indirect costs of \$1M, operating transfers of \$3.6M (i.e. 2013 one-time contribution to 911 Radio System), reduction in debt service of \$1.7M primarily due to the shift of debt to the 911 Enterprise fund pursuant to Generally Accepted Government Accounting Principles. These reductions are offset by increases in: wages and fringes of \$3.8M, capital of \$2M, with the Jail accounting for \$1.7M and \$3.1M respectively, and other operating expenses of \$0.5M.

Total operating expenditures for all funds, excluding bond funded capital projects, decreases by \$10.4M, or 2.2% principally due to: the elimination of the CCIS special revenue fund \$16.8M, decrease in Liquid Fuel and 911 Enterprise fund expenditures of \$0.6M and \$2.2M, respectively. This decrease is offset primarily by increases of: \$1.7M in CYS, \$2.5M in Health Choices, \$2.4M in Berks Heim and \$1.3M in the County Residential Center. The increases are a result of higher funding for the provision of additional services (i.e. Health Choices), higher service levels (i.e. CYS) and increases in wages, healthcare cost, operating costs and capital requirements (i.e. Berks Heim, County Residential Center).

Debt Issues

The proposed 2014 capital plan does not anticipate the issuance of any new bonds or refinancing. Total gross debt service is \$30.6M. We anticipate offsets from IRS federal subsidies of \$1.2M and SWAP income of \$0.2M.

Fund Balance

We project total general fund balance to remain relatively flat between December 31, 2014 and 2013 at \$126M. We project unassigned general fund balance to grow from \$106.2M to \$108M, an increase of \$1.8M. The majority of this increase is attributable to the generation of net income, by our nursing home, which continues to reduce cumulative losses and the related assignment of general fund balance. The plan continues the assignments of fund balance of: \$1.9M for cumulative losses at Berks Heim, \$4M for catastrophic healthcare claims, \$0.5M for future capital needs, \$0.6M for Airport Authority debt guarantee and \$5M for the Route 222 corridor commitment made in 2011. In 2013 the County received \$1.3M from the Berks County Solid Waste Authority to be used in upgrades to the County sewage treatment plant. This is a new assignment of fund balance in 2014 and will remain until such time as the cost to upgrade the facility is in the budget. The plan continues the restriction of fund balance for farmland preservation \$2.1M, hazmat response \$1.4M and other legally restricted funds of \$0.5M.

Personnel/Staffing

The 2014 personnel costs budget is \$145.3M compared to \$139.1M for 2013, an increase of \$6.2M or 4.46%. This increase is attributable to contractual wage rate increases in all our union contracts of 2.5% and the same rate of increase for non-union and part time employees. The majority of county employees had their wages frozen in 2013. The 2014 budget adds 39.5 new FTE positions, eliminates 33 FTE positions and defunds 11.5 FTE positions, a net FTE reduction of 5 positions or \$112K in wages. Paid overtime in 24/7 operations is exceeding the budget due to increases in service levels combined with several years of not adding net new headcount. As a result we are increasing overtime wages by \$2.2M. Utilization of temporary part time employees has declined and we are able to reduce the budget by \$241K.

Healthcare costs increase by \$1.4M from \$30.2M at 2013 to \$31.6M at 2014, an increase of 4.6% due to healthcare inflation of 7% offset by favorable claims experiences attributable to an active employee wellness program. Employee pension cost declines by \$1.1M from \$3.4M for 2013 to \$2.3M for 2014 due to favorable investment returns in 2012 and 2013 to date.

Contingency

The 2014 budget contains a contingency reserve of \$3.5M or .77% of the total operating expenditure budget, well within GFOA guidelines. This will be used to cover unforeseen: 911 tower construction costs, building improvement costs, cuts in federal and state funding sources due to the "Federal fiscal cliff", state budget issues, unexpected spikes in prison inmate population, criminal court cases, children and juvenile placements and decline in State Department of Corrections placement of parole violators at our jail.

Berks Heim

The 2014 nursing home budget projects net income of \$895K compared to \$1.7M for 2013, a decrease of \$900K. For purposes of comparison, 2013 net income of \$1.7M is restated to include amortization of the net pension asset created by the prefunding of the pension plan which was not known at the time the budget was adopted. This decline is due to increases in: wage rates, employee healthcare, food prices in excess of rate increases for Medicare and Medicaid eligible residents, which account for 86% of the facility occupancy.

Jail and CRC Operations

The 2014 Jail and Community Release Center (a.k.a. CRC) combined operating budgets is \$32.4M compared to \$28.9M for 2013, an increase of \$3.5M. This increase is primarily attributable to one-time capital expenditures of \$3.1M and an increase in overtime of \$1.1M. An increase in the number of state inmates housed in our jail and a higher daily reimbursement rate yields an additional \$1.7M in net new revenue. This increase in revenue partially offsets the increase in overtime and increases in: base pay, health benefits, food and inmate medical costs, the latter of which is attributable to a higher average daily inmate population.

Children and Youth Services

The general fund will contribute \$5.6M to match federal and state dollars, for the protection and placement of children in 2014. This is \$194K higher than the 2013 budget of \$5.4M and \$1M higher than 2012 actual. The increase since 2012 is due to: higher volume of children in placement and adoption, changes in funding streams requiring higher county share of costs, and growth in personnel costs arising from contractual wage increases and employee healthcare costs.

Agricultural Land Preservation

The 2014 budget includes \$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

The County will contribute \$3.6M in general fund tax dollars to the countywide public library system in 2014, an increase of \$200K over 2013 for increases in wage rates and employee healthcare costs. This includes continued funding of \$900K for the City of Reading Public Library System.

Sponsorship Agreements

- RACC - County continues its support 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.

- BARTA – County will increase its funding by 5% to \$472K.
- GREP – County continues its support of \$500K, with a match potential of up to \$200K for non-governmental support. This funding is scheduled to phase out to zero by January 1, 2017.

Capital Program

The 2014 capital expenditure plan, inclusive of bond funded capital projects, is \$33.6M. The projects are funded principally by bond proceeds, grants and to a lesser extent general fund reserves and consist of the following:

County Bridges	\$11.0 M
Facility Projects	\$8.1 M
Prison Projects	\$6.5 M
Assessment Software	\$1.6 M
County Parks	\$1.1 M
Comm. Center Projects	\$1.1 M
Agland Preservation	\$1.0 M
Information Systems	\$1.0 M
Fleet Replacement	\$0.7 M
Other projects	\$1.5 M
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Total Plan	\$33.6 M

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 12, 2013. 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, Chief Financial Officer
Date: November 14, 2013