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Berks County 2015 Proposed Budget

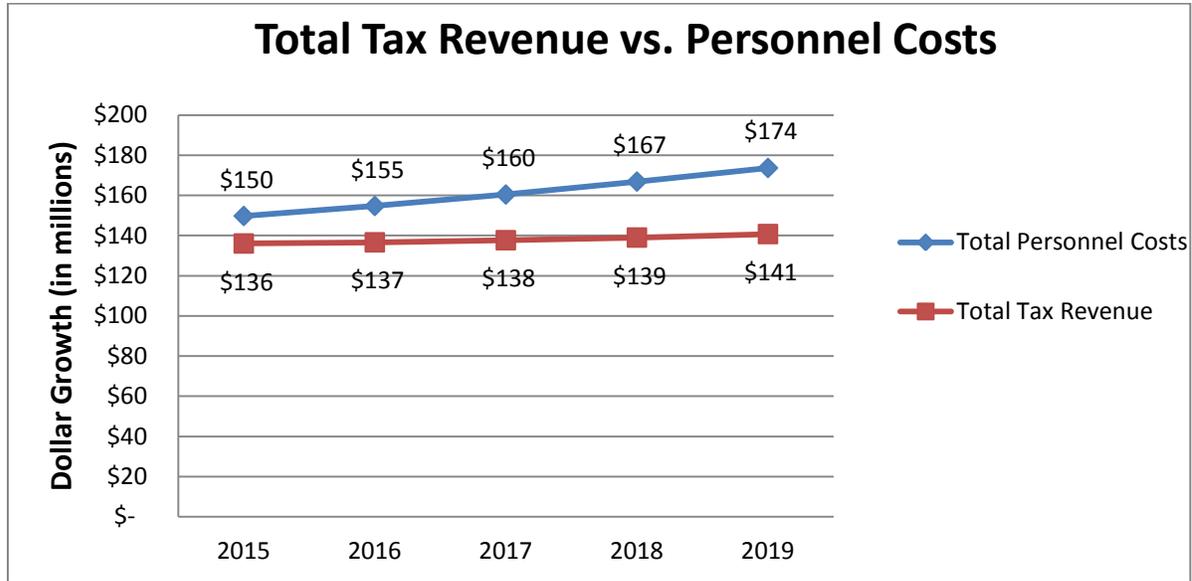
We are pleased to present the 2015 budget for consideration and adoption by the Board of Commissioners. We feel this budget is responsive to the needs of the County taxpayers and the Commissioners' goal of a responsible budget that does not place an undue tax burden upon the citizens of Berks County. 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 AAI – stable outlook bond rating, limits the growth of new discretionary County services, reduces County taxpayer funded headcount, funds one-time expenditures with reserves, and maintains long standing 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 2014. The Commissioners have provided direction and guidance as we have dealt with numerous operational and fiscal issues that impact both 2015 and future years.

This budget reflects a total budget deficit, excluding bond funded improvements, of \$3.2M. Our recommendation is to absorb this deficit with reserves and to maintain, rather than increase, the current tax rate of 7.372 mills for 2015. This budget assumes federal and state funding will satisfy the demand for our core human services throughout 2015. We continue to utilize 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), and the Library system. For the first time our 2015 budget does not contain any local match for Berks Regional Transportation Authority (i.e. BARTA) due to the anticipated approval of a merger with Red Rose Transit Authority (RRTA) in Lancaster County. As an inducement to merge, PADOT has agreed to fully fund the county match for five years beginning in 2015. This saves \$0.5M in 2015 and \$2.7M over 5 years.

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 base and corresponding property tax revenue. This disparity becomes very evident when one compares the projected net tax revenue (i.e. Gross tax revenues minus expected tax refunds from appeals and tax incremental financing) to personnel expenditures as depicted in Exhibit 1.

Exhibit 1



As a result, our current forecast reveals building deficits:

Year	2016	2017	2018	2019
Deficit	\$2.2M	\$3.6M	\$9.4M	\$15.2M
Tax Equivalent %	1.84%	3.26%	7.50%	11.82%

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

Balancing 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, skilled work force, and sufficient quantity and location of land and buildings.
- 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
- Alternate ownership of MDJ office space
- Legislative changes to:
 - Remove truancy and parking violations from MDJ courts
 - Increase 911 fees on telephone and cellular lines
- Consolidation and automation of assessment/land records
- Completion of children services case management system
- Implementation of criminal court unified case management system
- Consolidation of BARTA with RRTA
- Limited use of paid overtime
- Increases in Berks Heim daily care rates
- Operational assessments

Our ability to achieve the 2015 budget results hinges upon: the financial performance of our pension assets, wage growth, healthcare costs inflation, renewal of Federal and State funding at current levels and with increases for inflation, and the actual service levels for crime, children, and aging populations remaining flat.

Budget Summary and Select Highlights

Our assessed values continue to grow at a slow pace with an increase of 0.37% between 2014 and 2015 resulting in a net tax billing increase of \$433K. Our anticipated tax refunds, arising from appeals, are lower by \$356K due to a lower corporate and industrial appeal rate than in prior years. Tax claim revenue is level due to a continuation of a very high collection rate on annual tax billing.

Taxes

	<u>2015</u>	<u>2014</u>
Millage Rate	7.372	7.372
Percent Change	0.0%	0.0%
Assessed Value	\$18,626,359,038	\$18,557,143,100
Percent Change	0.37%	0.36%
Net Tax Billing	\$ 130,953,252	\$ 130,519,443
Interims	439,100	431,064
Net Tax Collections	<u>\$ 131,392,352</u>	<u>\$ 130,950,507</u>
Tax Claim Revenue	4,672,000	4,600,000
Total Tax Revenue	<u>\$ 136,064,352</u>	<u>\$ 135,550,507</u>
Less: Tax Refunds	(600,000)	(956,000)
Net Tax Revenue	<u><u>\$ 135,464,352</u></u>	<u><u>\$ 134,594,507</u></u>

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

Revenue and Expenditures (In Millions)

Funds	2015	2014	Incr. (Decr.)	% Change Incr. (Decr.)
<u>General Fund</u>				
Revenues	\$ 215.5	\$ 217.6	\$ (2.1)	(1.0)%
Expenditures	\$ 202.8	\$ 207.9	\$ (5.1)	(2.5)%
Less: Adjustments	\$ 8.6	\$ 8.4		
Net Surplus (Deficit)	<u>\$ 4.1</u>	<u>\$ 1.3</u>		

Funds	2015	2014	Incr. (Decr.)	% Change Incr. (Decr.)
<u>All Funds</u>				
Revenues	\$ 456.5	\$ 455.8	\$ 0.7	0.2 %
Expenditures	\$ 455.3	\$ 457.7	\$ (2.4)	(0.5)%
Adjustments: Add/(Less)	\$ (4.4)	\$ (2.9)		
Net (Deficit) Surplus	<u>\$ (3.2)</u>	<u>\$ (4.8)</u>		

(Excludes capital project funds)

Revenues: The decrease in general fund revenues of \$2.1M, or 1% is due to reductions in: RACP grant \$1M, Federal Farmland grant (i.e. FFRP) of \$0.5M, indirect costs allocation of \$1.6M, and interest income of \$0.5M. The grants are expended in our 2014 agricultural land preservation program. Allocable indirect costs for internal service departments are lower because the base year utilized for the allocation has lower wages and pensions costs and building use charges have decreased due to the utilization of a vacant building by our federally funded residential center program (i.e. BCRC) and demolition of old buildings. The decrease in interest income is due to the continuation of a low interest rate environment by the Federal Reserve Board. These decreases are partially offset by: higher Act 13 shale revenue of \$1M for park improvements and an increase in total tax revenue of \$0.5M.

The increase in total operating revenue for all funds, excluding bond funded capital projects of \$0.7M or 0.7% is due to: Children and Youth Services (i.e. CYS) Act 148 and special grant funding of \$2.1M for anticipated higher service volume, BCRC expansion of \$2.3M, Berks Heim private pay and Medicaid rate increases of \$0.7M, Emergency 911 wireless and municipality revenues of \$0.6M, and Liquid Fuels funding for bridge repairs of \$0.5M. These increases are partially offset by decreases in: general fund revenues of \$2.1M, cuts in federal funding of community development grants and lower volume of affordable housing fees of \$1.1M, Health Choices state funding cuts of \$0.9M, and Aging due to the transition of in home waiver services and funding to the State, lower program income and other block grant funding of \$1.4M,

Expenditures: The decrease in general fund expenditures of \$5.1M is due to: The progress made in 2014 jail renovations resulting in lower year over year capital expenditures of \$1.4M, completion of the municipality radio grant program in 2014 of \$1.1M , transfer of debt from the General Fund to the Emergency 911 fund of \$1M due to the new system going live in Q4 2014, removal of the BARTA match of \$0.5M due to anticipated merger with RRTA, Ag Land preservation of \$0.6M due to the expenditure of FFRP funds in 2014, juvenile services of \$0.7M due to lower placements and more cost efficient programming, and operating transfers of \$1.5M primarily due to lower indirect costs as described in the revenue section and other net expenditures of \$0.2M. These decreases are partially offset by increases in: personnel costs of \$1.9M due to wage rate and healthcare cost increases.

The decrease in total operating expenditures for all funds, excluding bond funded capital projects of \$2.4M or 0.5% is due to: lower general fund expenditures of \$5.1M, Health Choices state funding cuts of \$0.9M, removal of Aging in home waiver services of \$0.8M, Liquid Fuels due to completion of municipal projects and County owned bridge design of \$0.3M, Community Development due to Federal cuts resulting in lower operating transfers for projects of \$0.9M, indirect costs and transfers of \$0.4M, and various decreases of \$0.3M. These decreases are partially offset by increases in: CYs for higher service volume of \$2.2M, BCRC's expansion of \$0.8M, Emergency 911 of \$2.3M due primarily to the new radio system, personnel costs of \$0.8M, and capital costs of \$0.2M.

Debt Issues

The proposed 2015 budget reflects annual debt service savings of \$1M arising from the refinancing of the 2008 and 2010A bonds with new 2014 and 2015 bonds. These principal and interest savings are a result of lowering the overall borrowing costs by taking advantage of lower municipal bond interest rates in Q4 of 2014. The 2015 budget does not rely upon any net new borrowings to finance capital expenditures. The 2015 budget also includes \$0.2M from a new interest rate SWAP agreement that is generating \$18K to \$20K per month and carrying a positive mark to market value. Total debt service expenditure budget for all fund types is \$27.4M, net of SWAP income of \$0.4M and bond premium amortization of \$0.3M. The revenue budget includes federal Build America Bond subsidies of \$1.2M, down slightly from 2014, due to additional federal budget sequester cuts.

Fund Balance

We project total, unassigned, general fund balance to increase by \$2.5M between December 31, 2014 and 2015 to \$130.5M. The increase is attributable to a decrease in annual debt service and pension costs as well as an increase in Berks Heim net income compared to the 2014 budget. The budget assigns fund balance for: cumulative losses at Emergency 911 of \$1.8M, catastrophic healthcare claims of \$4M, Route 222 expansion of \$5M, waste water treatment plant improvements of \$1.2M, guaranteed debt service, encumbrances, and environmental litigation funds of \$0.6M. The budget, pursuant to legal restrictions on the use of funds, restricts fund balance for: hazmat response \$1.5M, worker compensation \$0.42M, Act 198, Act 13 and parking garage funds of \$0.6M.

Personnel/Staffing

The 2015 personnel costs budget is \$149.8M compared to \$147.2M for 2014, an increase of \$2.6M or 1.8%. This increase is primarily attributable to an increase in wages and net healthcare costs, offset by lower pension and worker compensation costs. Average contractual wage rate increases for all full time employees range from 2 to 2.5%, the majority of which is pursuant to collective bargain labor agreements.

The 2015 budget adds 6.5 full time equivalent positions representing an increase of \$0.16M in wages. The net increase in headcount is attributable to the addition of 17 federally funded positions for our Residential Center. But for this expansion, there would be a net reduction in headcount of 10.5 positions. Highlights of the reductions include: 7 positions in aging services due to the transfer of in home waiver services to the State, 3 positions in Community Development transferred to the Redevelopment Authority, 3 positions in Information Services, 2 positions in the Sheriff Department, and the elimination of the Ag Coordinator position, the duties of which will be absorbed both internally and externally by other county agencies. These decreases were offset by the addition of 3 new positions to support the appointment of a new county judge and 2 positions in Children Youth Services due to anticipated higher case loads.

The Healthcare budget net of employee contributions is \$30.5M compared to \$28.5M at 2014, an increase of \$2M or 7%. The increase includes for the first time the Affordable Care Act Reinsurance fee of \$0.2M imposed upon employers that provide healthcare plans. The remainder of the increase is attributable to healthcare cost inflation. Employee pension cost of \$1.3M decline by \$1M from 2014 due to a continuation of favorable investment returns.

Contingency

The 2015 budget contains a contingency reserve of \$3.5M or 0.76% of the total operating expenditure budget of \$455.3M, well within GFOA guidelines of 5%. This will be used to cover unforeseen: building improvement costs, cuts in federal and state funding sources due to 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 2015 nursing home budget projects an increase in net income of \$0.9M to \$1.7M compared to the 2014 budget of \$800K. This improvement is attributable to lower: pension cost, interest cost from the debt refinancing, and increases in Medicaid and private pay rates. The opening of our dedicated therapy unit in Q4 2014 is expected to protect our market share, not increase revenues.

Jail and CRC Operations

The 2015 Jail and Community Release Center (a.k.a. CRC) combined operating budget, net of revenue from housing state inmates, is \$31.2M compared to \$32.4M for 2014, a decrease of \$1.2M. This decrease is primarily attributable to lower utility costs due to water consumption controls and capital.

Children and Youth Services

The general fund will contribute 13.79% of planned program expenditures of \$6M to match federal and state dollars, for the protection and placement of children in 2015. This is \$0.2M higher than the 2014 budget of \$5.8M. The increase is due to the anticipated spike in child abuse regulations arising from a legislative response to the Jerry Sandusky child abuse scandal. We anticipate up to a 22% percent increase in investigations resulting in higher placements. Two new positions are added to handle this expected increase.

911 Communications

The 2015 budget projects a net loss from operations of \$2.1M and a net loss, after depreciation and interest expense, of \$7.5M. By comparison, 2013 had net income from operations of \$2.5M and net income after depreciation and interest expense of \$1.9M. This change from positive to negative income is a result of the County funded \$60M investment in the new 911 radio system, which has come on line in Q4 of 2014. As a result, we will experience higher radio system maintenance costs, interest expense on bonds, and depreciation expense representing the principal portion of the bond financing for the project. In spite of an increase in the charge to municipalities for the unfunded cost of operations of \$0.46M or 18%, the loss from operations is expected to grow by \$0.7M between 2014 and 2015. This is a result of 911 fees and charges to municipalities not keeping pace with the growth in our operating costs. These losses are funded with general fund reserves. A combination of future tax increases and higher municipality contribution will be necessary until state lawmakers enact legislation to increase the 911 fee from \$1 to \$1.25 per phone line to at least \$2 dollars per line with annual indexing for inflation.

Agricultural Land Preservation

The 2015 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 \$3.4M in general fund tax dollars to the countywide public library system in 2015, a slight increase over 2014. This includes continued funding of \$0.9M for the City of Reading Public Library System.

Sponsorship Agreements

- RACC - County continues its support of \$3.85M bifurcated between operating and capital in the amounts of \$3.1M and \$750K, respectively. The operating stipend will be funded with County tax dollars and the capital stipend will be funded by the Berks County Redevelopment Authority, with Community Development Block Grant (i.e. CDBG) funds for specific capital projects.
- BARTA – zero match anticipates approval of the BARTA-RRTA merger.
- GREP – County continues its support of \$500K, with a match potential of up to \$200K for non-governmental support. The match funding is scheduled to phase out to zero by January 1, 2018.

Capital Program

The 2015 capital expenditure plan, inclusive of bond funded capital projects, is \$25.9M. The projects are funded principally by bond proceeds, grants and to a lesser extent general fund reserves and consist of the following:

County Bridges	\$12.3 M
Facility Projects	\$2.4 M
Prison Projects	\$4.1 M
Assessment Software	\$0.8 M
County Parks	\$2.7 M
Agland Preservation	\$1.0 M
CYS Case Management System	\$1.0 M
Information Systems	\$1.0 M
Fleet Replacement	\$0.4 M
Other Projects	\$0.2 M
Total Plan	\$25.9 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 18, 2014. The proposed budget is available at the County Commissioners Office, Office of Budget and Finance and is also available on our County web site.

Respectfully Submitted,

Robert J. Patrizio, Chief Financial Officer

Date: November 13, 2014