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Berks County 2017 Proposed Budget

We are pleased to present the 2017 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 2016. The Commissioners have provided direction and guidance as we have dealt with numerous operational and fiscal issues that impact both 2017 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; without a tax increase; 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 education (RACC), economic development (GREP), library and park systems, and drug and alcohol treatment (i.e. COCA).

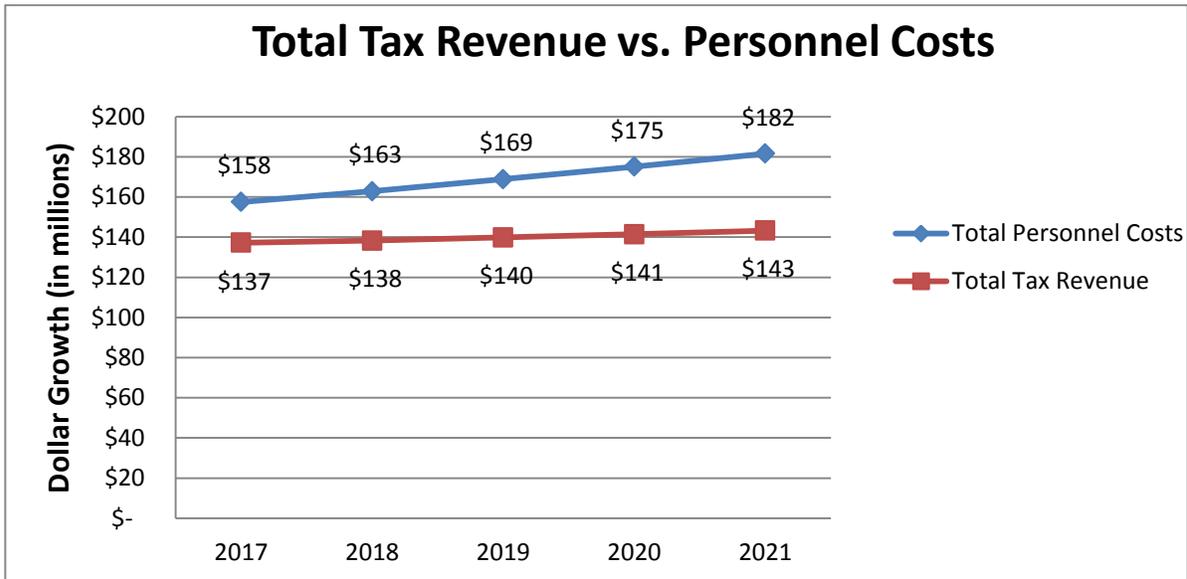
This budget reflects a total deficit of \$4.4M. Our recommendation is to absorb this deficit with reserves and to maintain, rather than increase, the current tax rate of 7.372 mills for 2017. This budget assumes federal and state funding will satisfy the demand for our core human services throughout 2017. We recommend the use of general fund reserves in the amount of \$8.8M for one-time upgrades to and/or replacement of our infrastructure and technology assets. This use of reserves does not add recurring debt service costs, which would otherwise require a future tax increase.

Our ability to achieve the 2017 budget is dependent upon: the financial performance of our pension assets; outcome of current collective bargaining negotiations on wage rate growth; actual healthcare cost inflation and claims volume; renewal of federal and state funding, at current amounts, with increases for inflation at July 1, 2017; renewal of our ICE Family Shelter license; and the actual flat demand for human services and level criminal activity.

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 projected total tax revenue to personnel expenditures as depicted in Exhibit 1.

EXHIBIT 1



Other significant challenges include: 911 radio system debt service, the Affordable Care Act tax, the Sandusky Law which drives an increase in county cost for children services and abuse investigations, and the cost to build a new county jail versus renovating an older facility. Some of these factors will be difficult to overcome without legislative change and future property tax increases.

Balancing future budgets with minimal property tax increases will require:

- Acceleration of growth in industrial, commercial and residential property assessed values which is dependent upon a robust economy, skilled work force, and the availability of properly zoned sites for development. Growth in assessed value of three-quarters of a percent yields an additional \$1.07M in tax revenue in 2018.
- A lower rate of growth in personnel costs. This will require a cooperative effort with our eight collective bargaining labor unions to limit the rate of wage increases to no more than CPI, controlling health claims with an investment in wellness and consumer choice, and a continued favorable trend in investment returns on our pension assets.
- Federal and state funding of mandated services commensurate with demand and inflation.
- Continued prioritization and evaluation of all discretionary 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.
- Rate increases in Medicare and Medicaid commensurate with resident care inflation at our nursing home.
- Continuation of the federal residential family shelter program.
- Expansion of alternative sentencing efforts to reduce the mental health population at the jail.

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

- Tax incentives to attract commercial and industrial facility investment to enhance assessed value growth
- Consolidation and automation of assessment/land records to lower service cost
- Implementation of new technology and software solutions that enable process improvement and lower service costs
- Continued support of the State IGT program to enhance Berks Heim revenues
- Elimination of the Affordable Care Act tax to lower healthcare costs
- Refinancing and defeasance of debt to reduce recurring debt service costs
- Utilization of reserves for capital to avoid net new debt service costs
- Consolidation of Jail Re-entry program back to main jail facility and lease of existing space to generate additional income
- 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), inmate medical and treatment costs.

Budget Summary and Select Highlights

Our tax revenue continues to grow at a very slow pace. Taxable assessed value is expected to grow by 0.74% an increase of 0.54% compared to the 2016 billed assessed value. This growth rate, while slow, is the first time the rate has exceeded a half of a percent increase since 2008. This increase is due to greater than anticipated new development, supported by an increase in building permits.

Taxes

	<u>2017</u>	<u>2016</u>
Millage Rate	7.372	7.372
Percent Change	0.0%	0.0%
Assessed Value	\$18,806,744,006	\$18,658,891,800
Percent Change	.74%	.20%
Net Tax Billing	\$132,332,273	\$131,281,168
Interims	\$475,874	\$421,243
Net Tax Collections	\$132,808,147	\$131,702,411
Tax Claim Revenue	\$4,396,760	\$4,478,688
Total Tax Revenue	\$137,204,907	\$136,181,099
Less: Tax Refunds	\$600,000	\$600,000
Net Tax Revenue	<u>\$136,604,907</u>	<u>\$135,581,099</u>

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

Revenue and Expenditures (In Millions)

Funds	2017	2016	Incr. (Decr.)	% Change Incr. (Decr.)
<u>General Fund</u>				
Revenues	\$ 219.7	\$ 215.0	\$ 4.7	2.2%
Expenditures	\$ 215.3	\$ 219.5	\$ (4.2)	(1.9%)
Less: Adjustments	\$ 9.5	\$ 11.7	\$ (2.2)	
Net Surplus (Deficit)	<u>\$ (5.1)</u>	<u>\$ (16.2)</u>		

Funds	2017	2016	Incr. (Decr.)	% Change Incr. (Decr.)
<u>All Funds</u>				
Revenues	\$ 498.3	\$ 475.9	\$ 22.4	4.7%
Expenditures	\$ 501.5	\$ 491.3	\$ 10.2	2.1%
Less: Adjustments:	\$ 1.2	\$ 1.2	\$ -	
Net (Deficit) Surplus	<u>\$ (4.4)</u>	<u>\$ (16.6)</u>		

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 \$4.7M, or 2.2%, is primarily due to a contribution of our nursing home net assets to the general fund of \$6.3M arising from the State IGT. This is more fully described in the Berks Heim subsection. In addition, real estate taxes and indirect cost reimbursement increases by \$1.1M and \$2.3M, respectively. These increases are offset by revenue reductions of: \$1M one-time grant revenue used to fund the 2016 Agland Preservation, \$2M of jail revenue due to housing fewer State Technical Parole Violator (TPV) inmates, \$1.7M in Act 13 and Growing Greener grants due to completion of capital projects at Antietam Lake Park, and \$.2M of other revenues.

The increase in All Funds revenue is \$22.4M or 4.7%. This increase is attributable not only to the previously noted General Fund increase but also to increases of: \$13.4M in Health Choices funding which is restricted, a one-time \$5M Emergency 911 operating transfer to cover the fund deficit, \$7.8M in Berks Heim funding arising from the IGT program and other federal and state grant increases of \$2.8M. These increases are reduced by a decline of \$12.3M in Liquid Fuels grants due to fewer bridge projects in 2017. Other increases include: Human Services \$.6M, Domestic Relations (DRO) \$.3M, Children and Youth Services (CYS) \$.9M, Community Development \$.3M, Berks County Residential Center (BCRC) \$.6M.

Expenditures:

The General Fund expenditures decrease by \$4.2M when compared to the 2016 Adopted Budget. If not for a one-time defeasance of debt in 2016 of \$15M, the expenditures would have increased by \$10.8M, or 5.28% in 2017. This increase is attributable to: \$6.3M State IGT contribution, \$1M in Contingency, \$3.2M in Personnel costs, \$1.6M in Indirect costs, \$.4M in payments to intuitions for JPO and \$.7M in capital costs. These increases are offset by lower Interest and Principle payments in Solid Waste of \$.9M, and lower Constable costs of \$.3M, .

The All Funds expenditures increase by \$10.2M when compared to the 2016 Adopted Budget. If not for a one-time defeasance of debt, the expenditures would have increased by \$25.2M, or 5.29%. This increase is attributable not only to the previously noted General Fund increase but also to: \$13.4M in Health Choices, \$6.3M in Berks Heim net asset contribution to the General Fund, \$2.1M in other funds Personnel costs, \$5M in one-time Emergency 911 operating transfer, \$.7M in other funds Indirect costs. These increases are offset by a decrease of \$14.7M in Liquid Fuels bridge expenditures and \$.3M in Constable Cost due primarily to the transition of City of Reading parking citations from the Magisterial District Courts to the City Parking Authority.

Debt Issues

Total debt service expenditure budget for all fund types is \$28.2M, net of derivative income and bond premium amortization of \$0.5M.

In 2016 the County entered into a forward settle cash basis interest rate hedge to synthetically refinance its 2010C bonds in advance of the call date. The hedge automatically terminates on the call date of the bonds in 2020. This is expected to reduce county debt service beginning in 2021. An aggregate of \$4M of savings is anticipated through 2030.

The County's three derivative contracts have a current accretive market value of \$1.5M. The revenue budget includes federal Build America Bond subsidies of \$1.2M. We do not anticipate any new money debt issue in 2017.

Fund Balance

The total, unassigned, general fund balance is projected to be \$118.9M at December 31, 2017, compared to \$123.0M projected at December 31, 2016. The decrease is primarily attributable to required general fund contributions for federal and state grant funded programs in our human services departments.

The assigned fund balance at December 31, 2017 is for: catastrophic healthcare claims of \$4M, Route 222 expansion of \$5M, and other assignments of \$0.4M. The budget, pursuant to legal restrictions on the use of funds, restricts fund balance for: hazmat response \$1.6M, worker compensation \$.5M, Act 198 \$.4M, Act 13 \$.5M, and other restrictions of \$.82M. The budget includes committed fund balance of \$.3M for the Service Center parking garage. The budget includes non-spendable fund balances of \$1.6M for inventories, prepaid expenses and conversion pay.

Personnel/Staffing

The 2017 personnel cost budget is \$157.5M compared to \$152.3M for 2016, an increase of \$5.3M or 3%. This increase is primarily attributable to an increase in wages of \$2.5M and health care costs of \$2.7M. The average wage rate increase for all employees is 2.4%, the majority of which is pursuant to collective bargain labor agreements, three of which are currently in negotiation.

The proposed 2017 budget includes a reduction of four and half full time equivalent employee funded positions representing a wage decrease of \$0.2M. We add seven and a half positions. The positions added are one in CYS, one Victim Witness Coordinator in the District Attorney's Office, three Deputy Sheriff's for additional building security, and one and a half in Berks Heim for an Admissions Clerk and dedicated Wound Care Nurse.

We eliminate 13 positions including: five vacant 911 Telecommunicator positions, one Human Services Director, one Risk and Safety Coordinator, one District Justice Office Support, and one and a half Office Support positions in the Prothonotary's Office.

We expect 80% and 100% reimbursement of the additional CYS personnel cost and additional Victim Witness Coordinator personal cost.

Contingency

The 2017 Contingency expenditure budget is \$2.5M. This represents 0.5% of the total operating expenditure budget of \$501.5M, which is well under the GFOA guideline of 5%. This is \$1M higher than the 2016 budget due to the unknown financial impact of current Collective Bargaining Labor negotiations, current litigation with a landfill operator over "Tipping" fees, unforeseen building improvement costs, cuts in federal and state funding sources, and additional unfunded mandated child abuse investigation costs.

Berks Heim

The 2017 net income is \$1.7M, compared to the 2016 budgeted net income of \$1.5M, an increase of \$0.2M. The 2017 revenue budget is higher due to the continuation of the federal and state IGT revenue enhancement plan offset by an increase in personnel costs of \$1M, indirect expenses of \$.4M, and nursing agency costs of \$.1M. Under the IGT program the county anticipates it will make a general fund contribution of \$6.3M to the state and in return the nursing home will receive \$8.5M in revenue.

Children and Youth Services

Inclusive of the changes noted in the personnel and contingency sections of this document, General Fund will contribute 14.88% of planned program expenditures of \$6.9M to match federal and state dollars, for the protection and placement of children in 2017. This percentage of contribution is nearly equivalent to the 2016's adopted budget rate as personnel costs have increased, being offset by a decrease in placement expenditures which had required more county contribution. 2016's adopted budget included unfunded vendor increases whereas 2017's budget contains an adequate State and Federal contribution for the Children and Youth Services' operations.

Emergency 911 System

The 2017 budget projects a loss of \$2.4M. This is \$1M lower than the 2016 loss of \$3.4M. This improvement is due primarily to a decrease in contracted services expense. This decrease is due to \$.6M of 2016 onetime decommissioning costs, better estimate of tower maintenance costs, and onetime expenditures for aerial photos.

Capital Program

The 2017 capital expenditure plan is \$14.1M. The projects are funded by grants and general fund reserves which consist of the following:

County Bridges	\$3.6 M
Ag. Center Renovations	\$2.2 M
WWTP Renovations	\$0.8 M
Security Improvements	\$1.0 M
Elevator Modernization	\$0.7 M
Park Improvements	\$0.7 M
Jail Improvements	\$0.8 M
Assessment Software	\$0.8 M
CYS Case Management System	\$0.9 M
Agland Preservation	\$1.0 M
Other Projects	\$1.6 M
Total Plan	\$14.1 M

The largest of the County Bridge projects are: Buttonwood Street \$1.6M, Manatawny \$1M, Blandon \$.4M, Dreibelbis Station \$.2M, and the Guide Rail project of \$0.1M. Facility projects include: Ag Center roof, Ag Center Building renovations, Waste Water Treatment Plant (WWTP) renovations, security improvements and continuation of the elevator replacement and modernization for the Service Center and Court House. Parks improvements are planned for Antietam Park, the Fruit Farm buildings, Stone Cliffe Park, and Grings Mill Park. Jail improvements include access road reconfiguration, lightening protection repairs along with various kitchen and other equipment replacements. The Assessment and CYS Case Management software projects are due to current platforms no longer being supported and/or are inefficient and in need of major upgrade. Other projects include, but are not limited to: copier replacements, network servers and switches, court room audio upgrades, vehicle replacements, and cubicle replacements.

Agricultural Land Preservation

The 2017 budget includes 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 \$3.15M in general fund tax dollars to the countywide public library system in 2017, a slight decrease from 2016. In an effort to maintain funding for member libraries, a decision was made to eliminate some of the outreach programming performed by the county to schools. This budget continues to fund \$0.9M for the City of Reading Public Library System.

Sponsorship Agreements

- RACC - county will continue its operating and capital support in the amounts of \$3.25M and \$500K, 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 (CDBG) funds for specific capital projects.
- BARTA – PADOT continues to pay the local match pursuant to the SCT agreement. PADOT will cover the local match through 2019.
- GREP – county will continue its support of with \$300K base funding, with a 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 from this day until final adoption of the budget, scheduled for Thursday, December 15, 2016. 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 17, 2016