COMMITTEE of the WHOLE

CITY COUNCIL

MINUTES
April 18, 2016
6:00 P.M.

COUNCIL MEMBERS PRESENT:
S. Marmarou, M. Goodman-Hinnershitz, C Daubert, B. Twyman, D. Reed, J. Slifko, J. Waltman

OTHERS PRESENT:
L. Kelleher, T. Coleman, D. Cituk, C. Younger, W. Scott, C. Castner, G. Mann, C. Hess

The Committee of the Whole meeting was called to order at 6:04 pm by Mr. Waltman.

I. Act 47 re 2015 Year End Results

Mr. Mann explained that it takes approximately three (3) months to close out the year and that the projected figures (surplus or deficit) is a projection until the external audit is completed. He stated that at the end of 2015 PFM projected the surplus to be $4.3M; however, Mr. Cituk's projections at the end of March show that the surplus may be approximately $7M.

Mr. Mann stated that Act 511 revenue exceeds the budget projection by approximately $2M. However, he noted that Property Tax collection lagged due to the increase in the milage rate. He also noted that the assessed values of the properties are decreasing. He stated that this area requires additional analysis.

Mr. Mann stated that the EIT revenue exceeds that budgeted by approximately 6%. He stated that PFM believes that due to Act 32 Berks EIT is now collecting more from those filing tax returns and that Berks EIT has increased the number of people who pay EIT. He noted that the commuter tax is not growing at the same pace. The commuter tax has only increased by 0.9%. Berks EIT initially stated that the lag may be caused by the abnormally high tax rate; however, they are doing more analysis.

Mr. Mann reported again that Business Privilege Tax revenue (BPT) is lagging 7% behind the budget projection again in 2015. He stated this tax is still collected internally and improperly.

Mr. Waltman agreed and predicted that this tax is probably under collected by approximately $1M. He stated that the under collection of the BPT was identified as a problem during the 2014 budget discussions and again during the 2015 budget discussions. He noted that Mr. Pottiger was to develop a correction plan, which would transfer the collection to Berks EIT. Council will follow up.

Mr. Mann reported that rental permit revenue collection rate for 2015 is 100%. He congratulated Mr. Natale for a job well done. He also reported that Mr. Natale and Mr. Arentz worked closely with Ms. Santamoor to develop a performance management system for the Property Maintenance Division. He noted the decrease in rental inspection revenue but predicted that this area will rebound.

Ms. Kelleher reminded the group that during the 2016 budget discussions Mr. Natale explained that the Division has been experiencing turnover, where experienced inspectors are leaving to work for other municipalities where salaries are higher and without a multi-year salary freeze. Inspector positions are sometimes left unfilled. When the positions are filled it takes a lengthy period of time for the new inspector to complete training on inspections.

Mr. Mann explained that on the expenditure side, salaries are the largest expense using $27.M, which is $2M less than 2014. He stated that while overtime for police and fire came in over budget, the amount spent was $480K less than the prior year.

Mr. Mann reported that healthcare costs increased by 4%; although EHD predicted a 17% increase for 2015-16. He stated that these costs are being tracked two (2) separate ways. He noted that those employed under various enterprise funds are not included in these costs, as their coverage is covered by the enterprise fund where they are employed. He also noted that these expenditures do not include major illnesses that are covered under the Stop Loss policy ($150K and greater). He stated that overall healthcare claims are increased by 15%, the majority of the new claims are for prescription drugs, not illnesses. He stated that nationally healthcare claims have risen by 5%.

Mr. Mann stated that EHD has predicted that the City's healthcare claims will fall to 6% next year.

Mr. Marmarou questioned if the administration has taken any action to relieve the City from providing healthcare coverage for those retirees who are now employed by the County and other companies. He stated that the cost to provide City healthcare coverage to retirees working for the County is $1.2M annually.

Ms. Goodman-Hinnershitz questioned where Mr. Marmarou obtained that figure. Mr. Marmarou reported that he obtained the figure from the former Managing Director.

Mr. Mann explained the arbitration ruling that allows the City to determine if the coverage provided to the re-employed retiree is similar to that provided by the City and the process that must be followed.

Mr. Mann reported that spending on contracted services was decreased by approximately $1M.

Mr. Waltman asked Mr. Mann to bring the spreadsheet used by PFM during the 2016 budget discussions that will show the City's financial course from 2017-19, as per the Recovery Plan. Mr. Waltman noted that using this spreadsheet has helped Council to stay focused and work to rectify the Recovery Plan with the annual budget.

Mr. Mann stated that PFM is in the process of updating the spreadsheet and that it should be ready for the May Finance meeting discussion.

Mr. Mann stated that the City is entering into the intermission point under the new Act 47 where the coordinator must prepare a financial health report card for the DCED. He explained that the new Act 47 amendment requires municipalities to three (3) courses of action after being in Act 47 for a five (5) year period: 1. Become financially healthy and exit Act 47; 2. Go into receivership or 3. Go into a three (3) year exit strategy.

Mr. Mann explained that if it is determined that the municipality is financial healthy, the DCED follows a process similar to entry into Act 47. For Reading, PFM must draft a recommendation containing five (5) year financial projections no later than June 30, 2019, which will be reviewed by the Secretary of the DCED, followed by a DCED public hearing and a final ruling by the DCED. The only difference is that Council will not need to approve the ruling.

Mr. Mann stated that if the City takes the three (3) year exit strategy, the DCED Secretary can then require the City to take drastic measures such as the sale of assets. He noted that due to Reading's size and population, the DCED cannot force the City to take measures such as outsourcing fire and police services.

Mr. Twyman noted the number of issues that cause financial hardships for municipalities but are mandated by the State such as pension requirements and different restrictions on taxes.

Mr. Mann agreed. However, he noted that Reading has done much better than most municipalities in Act 47. He predicted that the only two municipalities who will successfully exit are Reading and Pittsburgh.

Ms. Goodman-Hinnershitz agreed that Reading will be able to exit but she questioned how that financial health will be sustainable given the various State and Federal mandates and restrictions.

Mr. Waltman suggested meeting with the State delegation to initiate a discussion an allowing municipalities to retain the commuter tax in some form. He stated that he will invite the delegation to a meeting with the body of Council.

Ms. Goodman-Hinnershitz suggested that the City explore alternatives to healthcare and reconsider being self-insured. Mr. Scott stated that he has been discussing healthcare and its costs with the County Commissioners and various options are being explored.

Ms. Scott asked Mr. Mann what the City will lose when it is no longer an Act 47 municipality. Mr. Mann explained that the City will lose the commuter tax. He stated that the commuter tax rate is 0.3% and is applied to those who work inside Reading but live in another municipality. He noted that most employees do not recognize the loss of 0.3% from their paychecks and that this generates about $3M annually in revenue for the City. He stated that PFM is gradually weaning the City away from its dependence on the commuter tax to fund operations. A certain portion each year will move over to capital spending.

Mr. Mann stated that the City will also lose its protection in collective bargaining. Currently there is a salary cap in all labor agreements that cannot be exceeded. He stated that without collective bargaining protection the City will again return to the normal negotiations, without the help of PFM advising the arbitrator that the City cannot afford what the bargaining units are requesting. The City will again return to the pressure of considering salary increases or other measures such as reduced increases with other additions such as increases in uniform allowances, increases in longevity or “steps”, holiday pay, etc. He noted the difficulty in eliminating terms like that from contracts once they are in place.

Mr. Slifko reviewed the take aways from the Finance meeting and this COW session. Ms. Kelleher was asked to follow up.

- BPT collection
- Retention of the Commuter Tax
- Discussion with the Parking Authority re 2016 contribution
- Health insurance cost and exploration of alternatives
- Remove re-employed retirees who have access to similar healthcare coverage
- Pension reform
- Pension fund management

The meeting adjourned at 7:10 pm.

Respectfully Submitted by
Linda A. Kelleher, CMC, City Clerk