

**BOROUGH OF WEST READING
BOROUGH COUNCIL BUDGET WORKSHOP/COUNCIL MEETING
AUGUST 25, 2020**

West Reading Borough Council held a Budget Workshop and Council Meeting at Borough Hall on Tuesday, August 25, 2020 with the following persons present: Council Pro-Tem Christopher Lincoln; Council Members Patrick Kaag, Jennifer Bressler, Samantha Kaag and Ryan Lineaweaver; Mayor Andrew Kearney; Police Chief Stephen Powell; Public Works Director Dean Murray; Fire Chief Chad Moyer; Recreation Director Helen Moyer; Code Department Manager Cathy Hoffman; Deputy Fire Marshal Mark Burkholder (arrived at 7:53 p.m.); Borough Manager Nicholas Imbesi; Treasurer Jeanette Rentschler; Sergeants Ryan Phillips, Wayne Holben and Chad Marks; Center for Excellence in Local Government Director Paul Janssen; and Borough Secretary Cynthia Madeira. Council President Jack Gombach and Council Vice President Philip Wert were unable to attend.

VISITORS: None

CALL TO ORDER:

Council Pro-Tem Christopher Lincoln called the meeting to order at 7:00 p.m. via Zoom, which was followed by roll call.

PUBLIC COMMENT:

There were no public comments.

CENTER FOR EXCELLENCE IN LOCAL GOVERNMENT 5-YEAR BUDGET PLAN PRESENTATION:

Mr. Imbesi noted months of work with the Borough Treasurer and Mr. Janssen analyzing the current and projected budget and requested staff and Council members to take a deep look into the unpleasant facts that are impacting the future of the Borough.

Mr. Janssen spoke of the million-dollar deficit that was budgeted for 2020 and how it will negatively impact the Borough for years to come. He addressed the changes that have occurred this year due to the COVID-19 Pandemic and projected the impact up to 2024.

Some specific discussion topics were:

- Administration and building expenses are down this year.
- Police Department expenses have increased \$400,000 since 2017, which is largely attributed to the two additional officers.
- Code Department expenses have increased \$100,000.
- Public Works has increased \$198,000 primarily associated to operations of the water, sewer and refuse services.
- Revenue transfers have increased because of the programs that are being funded.
- The Business Privilege Tax (BPT) revenue in 2017 was \$400,000, the current budget is \$193,000. This \$200,000 reduction in revenue is in part associated to hospital operations converting professional offices into tax-exempt status'.
- Parking ticket revenue decreased this year in part due to refraining from enforcement during the pandemic.
- PLIGIT Prime revenue decreased due to the prime interest rate.
- The Reading Hospital has increased their Payment in Lieu of Taxes (PILOT) by \$26,000, however, the hospital has partially caused a \$200,000 loss in BPT revenue.
- Building permits have decreased this year.
- Rental occupancy revenue was budgeted low for 2020.
- Transfers from the Sewer Fund have increased while transfers from the Water Fund have been reduced. The Water, Sewer and Sanitation Funds are proprietary funds, which are managed and run as profit-making funds. The IRS does not permit the funds to be subsidized by tax revenue.

To summarize these issues:

- The 2020 adopted General Fund budget prior to COVID-19 used \$1,048,954 in fund reserves to balance the budget, leaving only \$748,568 left in reserves for the following year.
- Estimated COVID-19 revenues should only be down \$1,261 to \$5,430,437.
- COVID-19 expenditures have been cut to \$6,017,437 requiring \$587,000 in reserves as opposed to \$1,048,954.
- The projected General Fund reserves at the end of 2020 are \$1,273,747. The combination of budget cuts and revenues are on track to require less than \$587,000 to close-out the year.
- Projecting current revenues and expenses creates a deficit in 2021 of \$834,008 leaving only \$439,738 in reserves on 12/31/2021.
- Projecting current revenues and expenses creates a deficit in 2022 of \$565,127 with a negative fund balance of (\$125,388) on 12/31/2022.
- The 2020 budget includes payroll and payroll related costs of \$3,991,566 or 62% of the General Fund budget. Exacerbating the issue is that \$1,173,822 is funded from proprietary funds and Recreation so the only General Fund specific positions funded are Police, Codes and Recreation.
- This leaves only \$2,025,871 in non-payroll related expenses to balance the budget in 2021.
- The 2021 budget projects an \$834,008 deficit which requires a cut in excess of 30% of the current non-personnel related expenses just to balance the budget. This is the number that needs to be focused on in order to balance the 2021 budget.
- The good news is that cuts to the adopted 2020 budget deficit of almost \$500,000 gives the Borough three full years to get out of the structural deficit process as opposed to running out of money by the end of 2021.
- Realistically, the Borough will need to raise revenues or cut personnel and services or both to regain a balanced budget. The Government Finance Officers Association (GFOA) target for budgetary reserves for General Funds are 20% or \$1,203,487 for the end of 2020. As the Borough stands with the COVID-19 budget, the Borough will end the year with adequate reserves. Without substantial changes in revenues and expenses this will be the last year with 20% in reserves.

A Personnel Cost Allocation Analysis indicates that the Water and Sewer Funds are only marginally transferring funds to the General Fund where personnel expenses are incurred. Administration and Public Works personnel costs are funded through specific funds such as Water, Sewer, Trash, Recreation and General. Codes, Recreation and Police personnel costs are funded entirely through the General Fund. This spreadsheet is a tool that will determine the amount of funds to be transferred to cover the costs of overhead expenses. The actual transfers to the General Fund for overhead and personnel should be at least \$475,000 for the Water Fund.

In addition, the GFOA recommends reserves for Water and Sewer accounts of 10%. Currently the Water Fund projects \$108,869 in reserves and the target should be \$189,500. The Sewer Fund projects \$118,381 in reserves and the target should be \$181,439. These target reserve amounts are intended to cover catastrophic expenses should emergency repairs be needed to water and sewer systems.

Both water and sewer rates should be adjusted in 2021 to provide appropriate personnel and overhead costs as well as proper reserves.

The Water Fund requires an additional \$16,000 for personnel and an additional \$80,000 in reserves. The good news is there are sufficient reserves to allow 3-5 years to build these reserves. If we use five years as an example, revenues would need to increase \$32,000 annually or an overall rate increase of 2%.

The Sewer Fund requires an additional \$75,000 for personnel and an additional \$181,000 in reserves. A five-year example would require a revenue increase of \$11,200 or 11.5%.

The Sanitation Fund has a number of issues:

- Due to the unanticipated increase in the cost of the Borough recycling contract, as mandated by the Commonwealth of Pennsylvania, this fund will end 2020 with a deficit of \$31,364 and no reserves.
- The actual personnel costs associated with this fund are \$76,000, however the fund only transfers \$67,000.
- The Sanitation Fund is classified as a Proprietary Fund, which is not eligible for tax deduction by the IRS. The 2020 budget has been negatively impacted by rising recycling contract fees and because there are no reserves there is a fund balance deficit.
- This fund should have reserves of 10-15% or \$45,000 to \$60,000.
- The Sanitation Fund will require a 2021 rate increase of \$9,000 in personnel costs, \$31,364 to repay the 2020 deficit, and \$23,775 to balance the 2021 budget. In addition, the fund will require an additional \$15,000 annually to rebuild these reserves. This adds up to \$80,000 or a 17% rate increase. Mr. Janssen indicated that the Borough's current trash collection fee is low for the amount of services being provided.

The Recreation Program is critical to the overall health and attractiveness of a municipality; however, it is important to note the impact on the budget. The Borough is encouraged to review the fees and services to ensure maximum revenue generation.

The next phase of the budget is to identify revenue enhancements and expense savings. The previously mentioned revenue enhancements to the Water, Sewer and Sanitation funds push the Borough to 2024 before the General Fund balance is consumed. The additional Water and Sewer funds could be transferred in 2020, which would help the General Fund in years to come. This would build money into the Proprietary Funds to ensure they are funded correctly.

At this point Borough Council needs to weigh in with direction on budget cuts versus revenue enhancements and increases. That decision is not required tonight, however, 90% of the 2021 budget is already completed. Additionally, now that the Borough has a five-year budget plan, it will be easier to understand the long-term impact of any future budget decisions, whether it is personnel, operational expenses, or revenue changes. The target for revenue enhancements and expense cuts is \$500,000 to remove the structural deficit.

The current 2020 budget deficit of \$587,000 could be addressed by increasing real estate taxes 3% in 2021. The real estate and BPT collections are on target for the year despite the pandemic. Parking ticket revenues that were budgeted at \$105,000 for 2020 are currently estimated to generate \$30,000. This form of revenue should not be impacted next year. Additional Water, Sewer and Sanitation transfers in 2020 would favorably impact the current budget.

Highlights of anticipated expenses and savings:

- Staff salary expenses are anticipated to increase 3%, while FICA should also increase 3%. Healthcare and workers' compensation are estimated to increase 5%.
- The current Administration budget should save \$22,000 due to lower heating fuel, electric, water, maintenance and supplies expenses.
- The Police Department personnel contract stipulates a salary increase of 2.75%. An adjusted 2020 overtime budget has been reduced to \$200,000 due to the cancellation of West Reading Community Revitalization Foundation events and court case delays associated to the pandemic.

- The 2020 Police budget is down \$55,580 due to the pandemic.
- The Fire Department daytime staff expense was updated to a full year of expenses totaling \$60,000.
- The Fire Department should save \$15,000 in expenses this year.
- Code Enforcement should save \$5,000 in administration expenses. Engineering expenses have decreased \$30,000, and fire code inspections decreased \$10,000. The Code Enforcement budget is down overall by 10% or \$40,000 due to the pandemic.
- Public Works should save \$3,000 in general expenses and \$65,000 for deferment of a vehicle replacement. The Public Works budget is down approximately \$200,000 due to the pandemic.
- Streets savings of general maintenance and repairs, deferment of a kiosk purchase and the mild winter has appreciated a savings of \$62,000.
- Shade Trees should save \$14,000 in trimming and maintenance expenses.
- Due to deferred projects the Capital Fund transfer is only \$120,700, however, next year a transfer of \$170,000 will be needed to cover these deferred expenses.
- Recreation program suspension saved \$82,000.
- Sanitation Fund started the year with \$17,000 in reserves and the disposal expenses have increased due to COVID-19 causing a \$31,364 deficit. The revenue is budgeted at \$476,000 with expenses totaling \$507,364. A due to General Fund, due from Sanitation Fund auditor phrase is needed as to the cause of this deficit in order to payback the General Fund in future years.
- Capital Fund reserves were budgeted at \$1,116,203 mostly from transfers. The Parkview Road Pedestrian Bridge shared cost with UGI will impact this fund in the amount of \$90,200.
- Special Reserve Funds are almost on target. Expenses are at zero, saving \$124,000.
- Highway Aid is projecting the entire reserve balance of \$75,000 into road reconstruction funds next year.
- Recreation estimated revenues of \$372,000 were lowered to \$97,785. There will be \$587 left in the budget. Transfers in 2021 are anticipated to return to \$172,000.

Mr. Lincoln expressed concerns regarding delayed collection of real estate taxes through mortgage payments next year because of the pandemic. Mr. Janssen indicated that mortgage companies will allow additional payments to be spread out over the year and does not anticipate any issues since typically 80% of real estate taxes are escrowed through a mortgage company.

Guidance is needed for the Borough Treasurer and Manager to fund the proprietary fund transfers in order to assist the General Fund. A list of revenue enhancements and budget cuts are needed from the department heads. A review of non-personnel related expenses and revenues are needed to make accurate projections. Budget decisions can be entered into the spreadsheet to determine the impact those decisions have on the budget as a whole.

Mr. Janssen recommended requiring rental inspections during changes in occupancy to ensure the occupants' local services tax is being allocated correctly.

Mr. Lincoln requested the percentage of increase last year to the water, sewer and trash rates. Mr. Imbesi reported a 5% increase to residential sewer rates, a 10% increase to commercial sewer rates, a 5% increase to residential and commercial water rates and the refuse fee was increased from \$54 to \$62 per quarter. The number of trash collection days per week and monthly bulk item removal were discussed. The current three-year trash and recycling contract may not allow a change to the number of days per week trash is collected. It was also noted that most residents prefer trash collection twice per week, and may be willing to pay more for this type of service. Also, the new restrictions on items that can be recycled is adding to the expense of this service.

Mr. Lincoln asked what direction is needed from Council at this time. Mr. Imbesi requested direction from Council to focus on either cutting expenses and raising revenues, solely raising revenues, solely cutting expenses, or revenue enhancements. Mr. Lincoln indicated that maximizing as much as is practical is requested, however, personnel cuts should not be considered. Coupling savings and changes in revenue would be a start to improving future budget seasons.

Mr. Janssen stated that the COVID-19 impact savings of \$500,000 has allowed additional time to solve budgeting constraints. Also, it was recommended to review other water and sewer rates in the area since West Reading's rates are among the lowest. Work is needed to educate residents with respect to these rates and that funds are being subsidized due to the low rates.

The three-year PILOT agreement with the Reading Hospital began this year and it was noted that the hospital was unwilling to contribute any additional funding.

Loss of water and inflow/infiltration were discussed. Mr. Murray stated that water loss over the past few years has decreased. However, the necessary daily flushing of lines to prevent nitrification is an expense to the Borough.

Mr. Janssen stated that budget work will now shift to the department heads and that he will report back in the fall to check progress and answer any questions. Mr. Janssen reported that the Borough Treasurer and Manager are an incredible asset to the Borough. Together they understand the structure of the budget and the Borough should be in better shape moving into the future.

ADJOURNMENT:

Motion to adjourn the meeting at 8:28 p.m. **Moved** by Mr. Kaag and seconded by Mrs. Bressler. **Motion carried 5-0.**

Respectfully submitted,

Cynthia Madeira
Borough Secretary