Municipalities Financial Recovery Act

Amended Recovery Plan

City of Reading
Berks County, Pennsylvania

Prepared on behalf of the

Commonwealth of Pennsylvania
Department of Community and Economic Development
Governor's Center for Local Government Services

As Revised and Filed with the City Clerk on November 21, 2014

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Executive Summary

In the months leading up to the release of this Amended Recovery Plan, there has been much discussion about the magnitude and persistence of City of Reading's financial challenges. Like the original Recovery Plan, this Amended Plan projects that the City will have annual operating deficits as soon as 2015 unless it takes corrective action to prevent them.

As serious as these financial challenges are, they do not cancel out the progress that Reading has made since it entered Commonwealth oversight five years ago. City government has broken the string of consecutive years with annual operating deficits and built a cash reserve while also improving its day-to-day financial management. The City has finished each of the last three years with its annual revenues balanced against its annual expenditures, or very close to being so, and the Coordinator is optimistic that trend will continue in 2014.

Unfortunately two major factors change the City's financial trajectory starting in 2015. The recent amendment to the Act 47 statute sets a firmer date for the City to leave this form of oversight and hastens reductions in the earned income tax, leaving the City with less money from this source to fund day-to-day operations. Continual growth in the cost of employee pensions and retired employee health insurance pushes the City's spending higher, even as its spending on active employee compensation remains level. These two trends, coupled with ongoing erosion in the City's real estate tax base and the resumption of annual salary increases, push the City's finances out of balance again.

The Amended Recovery Plan presents a strategy for keeping the City's finances balanced using the limited tools that are solely within City government's discretion. It describes preferred alternatives for meeting the same objectives in a way that is less burdensome to taxpayers and current employees, and gives the City's elected and appointed leaders and employees flexibility to manage toward that end. It provides more funding for the basic improvements to streets, bridges and other core infrastructure that are essential to the financial stability, quality of life and economic vibrancy of any city, regardless of its Act 47 status. And it sharpens the City's focus on the improvements in management and service delivery that are necessary for the City to successfully exit Act 47 oversight.

Progress since 2010

While the challenges that Reading City government faces remain significant, so has been its progress since entering Act 47 oversight in late 2009.

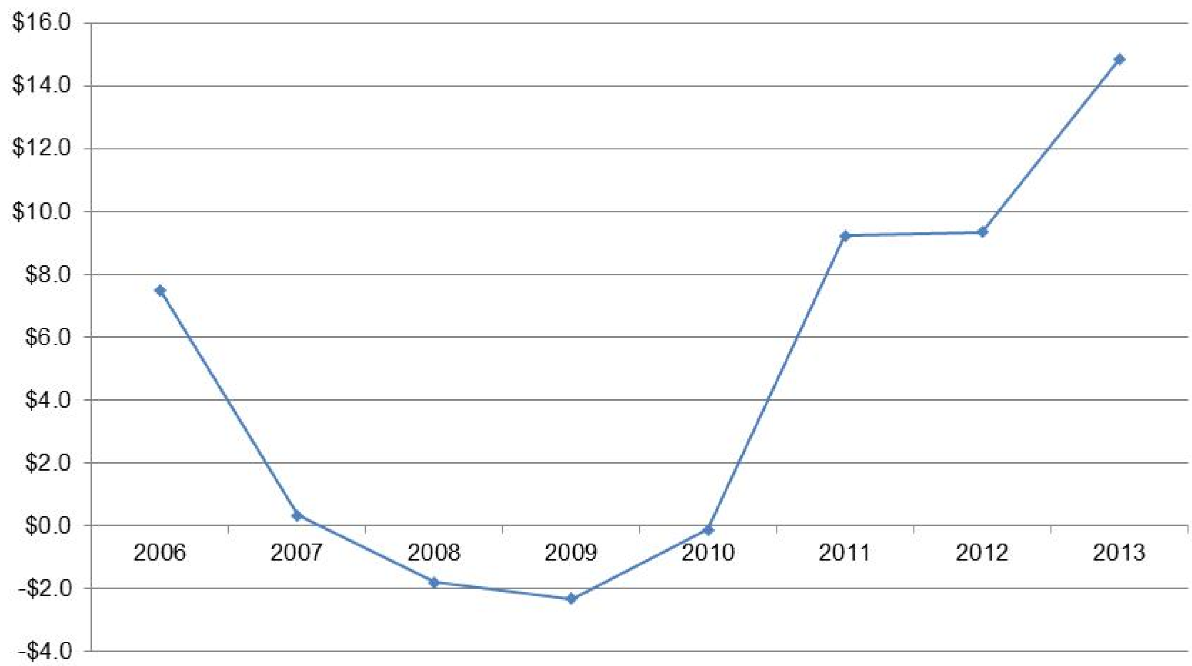
In November 2009, the Secretary of the Pennsylvania Department of Community and Economic Development (DCED) approved Mayor Thomas McMahon's petition for the City to be designated as financially distressed according to the criteria listed in Act 47. The Department's evaluation found Reading's "pattern of operating deficits [was] unsustainable and if left unabated [would] force the city to significantly reduce or eliminate fundamental services that may adversely affect the health, safety, welfare, and quality of life of the citizens."

After the Secretary appointed Public Financial Management (PFM) as the City's Recovery Coordinator, PFM and its partners and undertook their own review of the City's finances. That review confirmed that Reading's financial problems were real, severe and, if not addressed, would threaten the solvency of City government. The City had a recurring and growing operating deficit, meaning the City was repeatedly spending more money in its major operating fund than it was collecting. The deficit was even larger than apparent in the City's financial reports because of the City's reliance on one-time and short-term measures to temporarily address the recurring deficit.

In June 2010 Reading City Council approved and Mayor McMahon signed the original Recovery Plan that was aptly described at the time as strong medicine for an extremely sick patient. The original Recovery Plan required sacrifice from residents in the form of higher real estate and earned income taxes. It required sacrifice from commuters who started paying an earned income tax to the City of Reading to help fund the services they rely upon during the workday. It required sacrifice from active employees in the form of wage freezes, higher contributions to the cost of their health insurance and reductions in paid holidays. It required sacrifice from new employees who did not work for the City when the Plan was adopted, but have since joined its workforce with lower starting salaries and a more affordable set of retirement benefits.

By implementing the original Recovery Plan and taking other actions, City government broke its string of years with operating deficits and started to gain financial stability. The City went from having a cash deficit in its primary operating fund to having a cash reserve that helped it gain a credit rating upgrade and provides a buffer against unexpected shortfalls. The graph below shows how the City's cash reserves dropped before entering Act 47 and have since rebounded.

General Fund Cash and Cash Equivalents



Reading City government has also distanced itself from the mistakes that contributed to its entry into Act 47 oversight. Reading retired the past due contributions to the employee pension plans and has made the annual contributions on time each year since 2010. It repaid the multi-million dollar loan from the Sewer Fund that the City took to sustain operations in 2009. After using an unfunded debt loan at the end of 2010 to sustain operations that year, it has avoided borrowing money to fund basic operations. The City was able to repay a portion of that loan ahead of schedule. And it has implemented the types of basic financial management tools – cash flow monitoring, budget-to-actual quarterly reports, regular monitoring of position vacancies – that give the City's elected and appointed leaders, residents, credit holders and other stakeholders timely, accurate information on City government's financial condition.

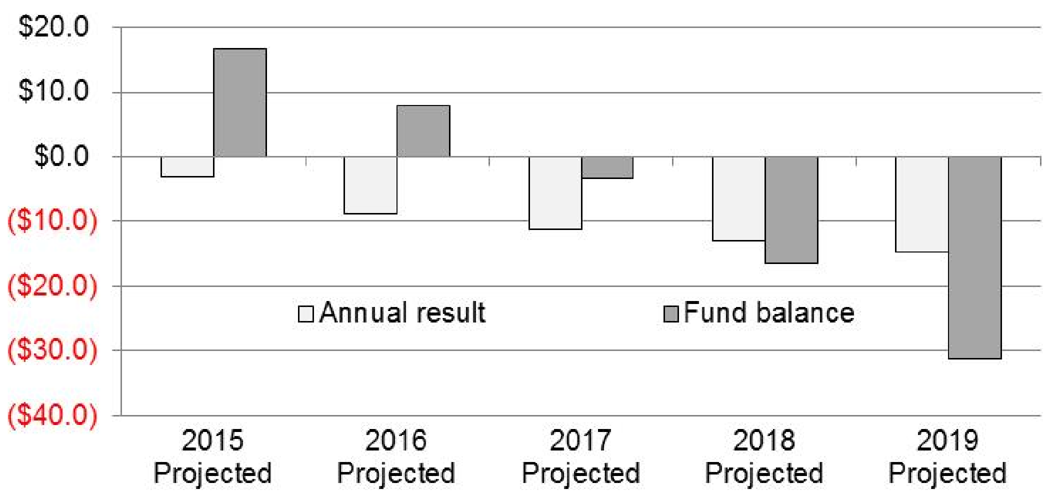
It is important to acknowledge the substantial contributions that several parties have made to help City government achieve this progress. Those contributions and others are discussed throughout the Recovery Plan chapters.

It is also important not to overstate this progress. True, full financial recovery for City government means more than reversing the trend of operating deficits and building a cash reserve, though those are requisite parts of financial recovery. True, full financial recovery involves bringing the growth in all expenditures, including the City's obligations for employee pensions and retiree health insurance, into balance with recurring revenues. It involves stabilizing, or even lowering, the tax rates so the City can better attract and retain residents and businesses. It involves having a stable source of funding for resurfacing streets, remediating bridges, repairing dams and renovating municipal government buildings.

In this Amended Recovery Plan, the Coordinator has kept these objectives and the ultimate goal of achieving true, full financial recovery in sight. The Plan has initiatives that will help the City make progress toward these objectives, while still addressing the substantial financial challenges that the City faces in the immediate term.

Projected deficits: What changed?

As required under Act 47, the Amended Recovery Plan process begins with a baseline projection of the City's revenues and expenditures in its General Fund, assuming no corrective action is taken or significant external events occur. That baseline projection is shown below.



Amended Recovery Plan Baseline Projection ($ Millions)

	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
General Fund revenues	$85.6	$80.8	$80.5	$80.9	$80.5
General Fund expenditures	$88.6	$89.7	$91.8	$94.0	$95.3
Annual result	($3.1)	($8.8)	($11.3)	($13.1)	($14.8)
Fund balance	$16.8	$8.0	($3.3)	($16.3)	($31.1)

The projection process, which is described in detail in the Introduction, began with the version of the 2015 budget that Mayor Vaughn Spencer introduced to Council on September 30, 2014. That budget relied on two non-recurring sources of revenue to temporarily bridge next year's deficit. The budget anticipated that the Reading Parking Authority (RPA) would increase its annual contribution to the City from $1.8 million to $6.3 million for one year. The budget also drew down some of the City's reserves to cover its expenditures. In the Amended Recovery Plan baseline scenario, the City would continue to draw down those hard-earned reserves until it exhausts them in 2017 and then falls back into a cumulative deficit in subsequent years.

This projection is striking in its contrast to the previous description of the City's progress. There are several factors that contribute to the reversal, but two have the largest impact.

Major Revenue Factor: Earned income tax rate reduction

Like many other Pennsylvania municipalities, the City of Reading taxes the earned income of its residents. When the City entered Act 47 oversight in 2010, the resident earned income tax (EIT) was 1.7 percent. The Reading School District levied another 1.5 percent, bringing the total resident EIT to 3.2 percent. The original Recovery Plan added 0.4 percent to the City's levy, taking the City EIT to 2.1 percent and the total resident EIT to 3.6 percent where it remains in 2014.

The original Recovery Plan also authorized the City to seek an additional 0.3 percent EIT on commuters who work in Reading. Since many Pennsylvania municipalities levy a 1.0 percent EIT on their own residents, many Reading commuters now pay a total EIT of 1.3 percent – 1.0 percent to their home municipality and 0.3 percent to the City of Reading. Under the terms of Act 47, the City can only levy the commuter EIT if the adopted Recovery Plan authorizes the City to petition the Berks County Court of Common Pleas to do so. City officials then must file an annual petition with the Court and testify in court that the City needs the commuter tax to balance its budget.

The combination of the higher resident tax rate, new commuter tax and better collection process has boosted EIT levels far beyond what they were when the City entered Act 47. The City budgeted $11.8 million in EIT for 2010, the last year before these changes started to take effect. In 2013 EIT revenues surpassed $19 million and this year the EIT could become Reading's largest source of revenue, even larger than the real estate tax.

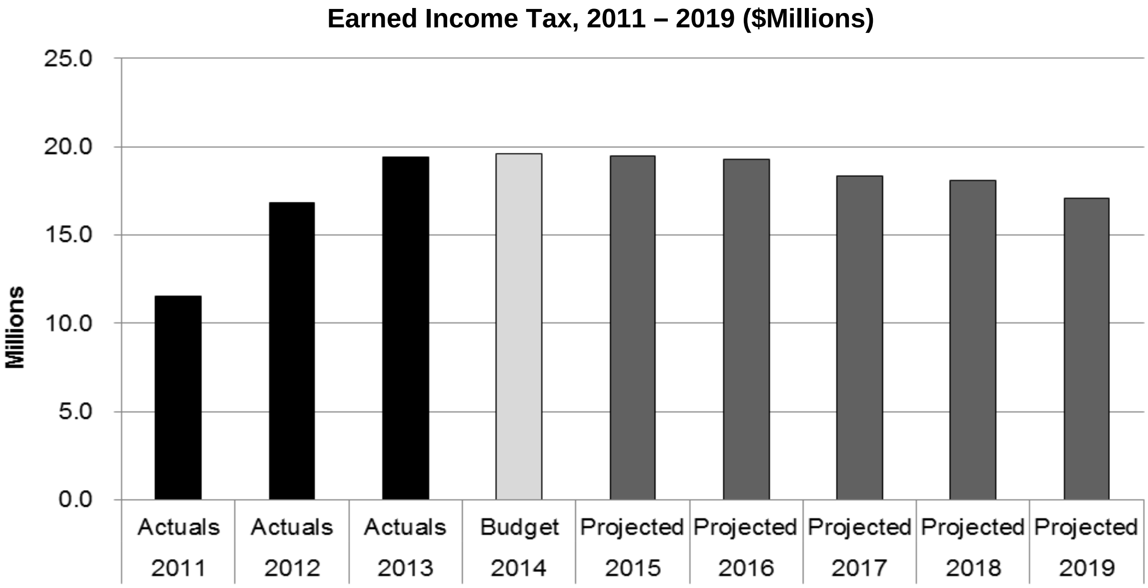
While the higher EIT revenues have helped City government stabilize its finances, the City must reduce the commuter EIT rate from 1.3 percent to 1.0 percent to exit Act 47 oversight. Nearly all of the revenue from that 1.0 percent commuter tax will return to the person's home municipality. In 2013 the commuter EIT generated $2.6 million but, absent the additional taxing authority provided under Act 47, it would have only generated $120,000.

Shortly before this Plan was released, the Pennsylvania General Assembly passed an amendment to Act 47 that sets a firmer deadline for the City to reduce its commuter tax rate.[1] The City will have to reduce make the reduction by 2019 to meet the statutory deadline for exiting Act 47.

As a Home Rule municipality, Reading does not need to reduce its resident EIT to exit Act 47. However, for economic competitiveness and equity reasons, the City's elected leaders do not want to leave the resident rate at 3.6 percent, which is the second highest resident rate in the Commonwealth behind Philadelphia.

[1] Governor Corbett signed House Bill 1773 into law as Act 144 of 2014 on October 31, 2014.

The Amended Recovery Plan baseline projection assumes the City will reduce its commuter EIT rate to 1.0 percent and the resident EIT rate to 3.3 percent by 2018, giving the City one year to show it can balance recurring revenues against recurring expenditures before its Act 47 status expires at the end of 2019. Those rate reductions turn the EIT from a source of revenue growth to a source of revenue reduction.

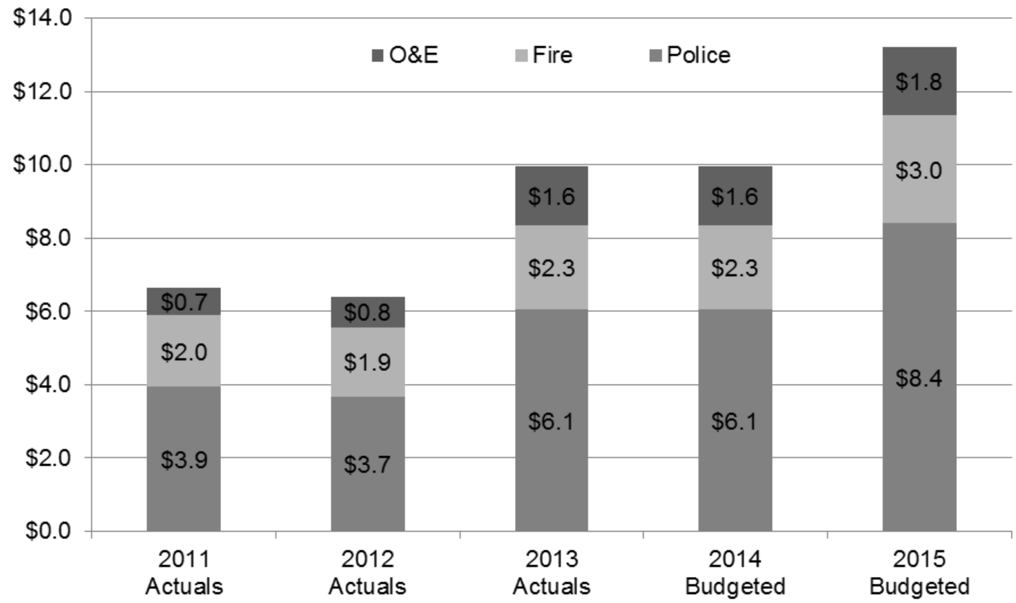


Major expenditure factor: Rising costs for retired employee obligations

Commonwealth law requires Pennsylvania municipalities to make annual contributions to their employee pension plans to ensure that sufficient money is available when current and future pension recipients retire. The annual contributions are referred to as the minimum municipal obligation (MMO). The MMO is determined by actuarial calculations and results in a net annual contribution by City government after Commonwealth pension aid, investment earnings, and employee contributions have been taken into account.

The City's required pension contribution from its General Fund has doubled from $6.6 million in 2011 to $13.2 million in 2015. The largest part of that contribution funds the pension benefits of retired and current police officers, and that contribution has grown at a faster rate than the City's contribution for other employees. Before the City entered Act 47 oversight, it agreed to an extremely costly set of changes to the police pension plan that allow police officers to retire at a younger age and with a higher annual payout than authorized in the Commonwealth's Third Class City Code. The Workforce and Retiree Benefits chapters discuss these and other cost growth factors in more detail, but the chart below shows how the City's required pension contribution have grown in recent years.

City General Fund Pension Contributions ($ Millions)[2]



The Amended Recovery Plan baseline incorporates projections from the City's actuary on how the City's MMOs will change. Those projections show the MMO staying at the 2015 level with more incremental growth through 2019 instead of the large biennial jumps shown in the chart above.

But the actuary also notes that its projections are based on a specific set of assumptions about when employees will retire, what their pensionable income will be, how much the City will gain in investment earnings, etc. Any negative variance from these assumptions – like more employees retiring earlier than assumed or lower interest earnings than assumed – will push the City's required pension contributions even higher. It would not be unusual for the City to have this kind of "experience loss," as reality diverges from the actuarial assumptions. The police plan alone had $15.8 million in experience loss between the 2011 and 2013 valuation.

The City also has a large, unfunded liability for retired employee health insurance. The City provides health care to retired employees and their spouses until they are eligible for Medicare. Many retirees contribute little toward the cost of coverage, other than payments they make when they receive service. The most recent valuation report for this liability indicates it has tripled in only four years.

There are other trends that contribute to the baseline deficit projection. The City's real estate tax base continues to erode, as discussed in the Revenue chapter. The wage freezes enacted under the original Recovery Plan have expired or will soon, so salary costs will start to rise. In 2015 the City will exhaust the large federal grant that supported 21 additional firefighter positions but the City may not drop back down to the pre-grant staffing level for a couple years.

Furthermore the City faces financial challenges that are not as easily quantifiable. The original Recovery Plan was so narrowly balanced that it left no room for capital investments. It is reasonable for cities in severe financial distress to temporarily give capital investments a lower priority until they have solidified

[2] This is the City's contribution, net of the amount contributed by employees. There are additional City contributions for the O&E plan outside the General Fund that are not shown here.

their ability to fund day-to-day operations and make scheduled debt payments for prior years' investments.

However, this is not a sustainable long-term strategy as illustrated by recent events. The Pennsylvania Department of Environmental Protection required the City to make repairs to three of its dams, and a retaining wall of the iconic Pagoda on Mount Penn was found to have deteriorated to the point of needing emergency repairs. Unless the City finds a recurring funding source to repave its streets, remediate its bridges and repair its buildings, these types of emergencies will become more common.

Amended Recovery Plan approach: Unpleasant initiatives, but with options

Under the terms of Act 47, only the Coordinator can write an Amended Recovery Plan after the City adopts the Coordinator's original Recovery Plan. And, as with the original Recovery Plan, this Amended Plan must be adopted by City Council and signed by the Mayor. So the Coordinator has met with the Administration, City Council and elected City Auditor multiple times in the months leading up to the Recovery Plan's release. Outside of the Plan amendment process, those parties convene in biweekly meetings to discuss issues related to the City's financial recovery.

In conducting the operational and financial analysis that informed this Plan, the Coordinator met with other appointed leaders in City government, including numerous department directors and division managers. The Coordinator met twice with leadership from the collective bargaining units that represent Reading's union employees – once before the Amended Recovery Plan was first released on October 27 and then again before the Amended Plan was filed on November 21. The Coordinator participated in multiple public committee meetings held by City Council to discuss the Amended Recovery Plan and the 2015 budget and gave an in depth presentation and conducted a question-and-answer session at a Town Hall meeting hosted by Mayor Spencer in August 2014. The Coordinator also met privately with several organizations that are related to City government (e.g. Reading Parking Authority, the Reading Redevelopment Authority) or those that work closely with it (e.g. Greater Reading Chamber of Commerce and Industry, Berks County Community Foundation).

Through this process, the Coordinator sought a combination of initiatives that would erase the projected baseline deficit and preserve some level of reserves, which is necessary for the City to successfully exit Commonwealth oversight. That combination necessarily includes initiatives that increase the City's revenues and initiatives that reduce its expenditures, or at least reduce their projected growth. It is not feasible to erase the deficit by only making changes that affect one side of the financial ledger.

On the revenue side, Pennsylvania Act 199 of 2014 drives a reduction in the amount of money that the City can collect from the commuter EIT to support day-to-day operations. The City has the authority to increase its resident EIT, but taking that rate higher would make it even harder for the City to retain or attract residents or businesses, which is critical to financial recovery.

Unfortunately that leaves only one other revenue source controlled solely by City government that can reliably generate enough money to help bridge the projected deficits – the real estate tax. The first version of the Amended Recovery Plan that was filed with the City Clerk on October 27 included a 2 mill increase in the real estate tax in 2016 and 1 mill increase in each subsequent year through 2019.

Based on the input received from the Spencer Administration and City Council, the Coordinator has revised the Amended Recovery Plan to rely on a mix of real estate tax increases (one mill each in 2016 and 2018), higher contributions from the Reading Parking Authority and higher lease payments from the Reading Area Water Authority.

On the expenditure side, the Coordinator's preference is to reduce the growth in retiree benefit costs.

Since entering Act 47, the City has successfully controlled the growth in active employee compensation costs. The 2014 budget allocation for employee salaries was essentially the same as the City's actual spending on salaries in 2011. But the City's required pension contribution jumped by 50 percent over that same period and will rise again in 2015.

There are very limited options for the Coordinator to reduce pension costs through provisions solely authorized in a Recovery Plan. The Coordinator does not believe the Plan provisions can require changes to pension benefits for employees who have already retired, at least not without the City undergoing lengthy, costly litigation that does nothing to address the immediate challenges. Changing the benefits for new employees is an option, but one that the Coordinator already used in the original Recovery Plan and further changes would have little impact on the existing unfunded liability. Changing the benefits for current employees who have not retired yet would be ideal, particularly for the police officers who can access the costly pension and retiree health care benefits but haven't done so yet. But that depends on the City and those employees reaching an agreement that makes enough changes to reduce the City's costs during the Amended Recovery Plan period, or an interest arbitration decision that has the same effect.

Given those limitations, the Coordinator is left to control costs by making changes to the compensation for active employees, primarily through additional wage freezes. Given the variation in pension and retiree health insurance benefits across bargaining units, the Amended Recovery Plan does not apply the same wage pattern to all employees.

- Police officers receive a 3.5 percent wage reduction in 2017, followed by wage freezes in 2018 and 2019. Newer officers who are eligible for annual step increases receive them.

- Firefighters have a wage freeze in 2016, 2017 and 2018 with a one percent increase in 2019. Newer firefighters who are eligible for annual step increases receive them.

- Employees represented by AFSCME 2763 have a wage freeze in 2017, 2018 and 2019.

- Employees represented by AFSCME 3799 and non-represented employees have a wage freeze in 2015, 2016 and 2017 with 1 percent increases in 2018 and 2019.

As with the real estate tax increases, the Coordinator anticipates disappointment and frustration with these wage patterns. Changes to the interaction between Act 47 and Act 111 give the police and firefighters flexibility to negotiate a different wage pattern than described above, so long as the maximum annual compensation for employees in their bargaining unit do not exceed the allocations listed in the Amended Recovery Plan.

The Amended Recovery Plan also has other initiatives that, if successfully implemented, would allow for different wage patterns than those described above. The Fire Department chapter has initiatives that impact how emergency medical service is staffed and how suppression-related overtime is incurred. For the police officers, there are recommended changes that roll back the costly pension and retiree health insurance benefits for those who can still access them, but have not done so yet. There are also initiatives in the Police Department chapter that could reduce overtime spending and provide more money for base wages.

These changes alone are not enough to close the projected deficit. The wage freezes and reductions in particular do not impact the City's finances until 2016 (firefighters) or 2017 (police and AFSCME 2763). So the Amended Recovery Plan makes targeted position reductions, in addition to the vacant positions eliminated in the 2015 budget. Other Plan initiatives discuss changes in how the City provides certain services (e.g yard waste collection, recycling collection, business privilege tax collection), but they do not have explicit position reductions associated with them.

The final major piece of the deficit closing strategy is some use of the City's reserves. Ideally the City would take the reserves that it has accumulated and use them to retire debt ahead of schedule or fund capital projects. Unfortunately the City needs to use some of the reserves to meet its recurring expenditures, otherwise the tax increase, wage freeze/reduction and position cuts provisions would be more severe.

Beyond closing the deficit

As noted earlier, full financial recovery involves more than avoiding annual operating deficits. The Amended Recovery Plan requires the City to make progress on other objectives that are critical to the City's efforts to successfully exit Commonwealth oversight.

<u>Investing in the City's capital infrastructure (streets, bridges, buildings)</u>

Instead of reducing the commuter and resident earned income tax rates as described in the baseline, the Amended Recovery Plan freezes those taxes at the current levels and designates a growing portion of the tax to fund capital improvements. The commuter tax remains at 0.3 percent through 2019, but a third of the current year tax revenue goes toward capital improvements in 2015 and 2016, then two thirds in 2017 and 2018 and then all of it in 2019. Similarly 0.1 percent of the resident EIT goes toward capital improvements in 2015 and 2016, then 0.2 percent in 2017 and 2018 and then 0.3 percent in 2019. This provides a funding source to make investments in activities like street repaving and dam repairs that benefit City residents, commuters and visitors.

The Recovery Plan also requires the City to do a condition assessment of its facilities so the City has a fuller, clearer understanding of the needs and how they should be prioritized. The Coordinator requests grant funding from the Commonwealth to support this important effort.

Please see the Capital Improvement Plan chapter for more information.

<u>Advancing the improvements in financial management</u>

The City has made great strides in improving its basic financial management techniques, as described in the Administrative Services chapter. More must be done to address the recurring findings in the City's external audits, to improve the operating budget document that remains a non-descript list of numbers and to put policies in place that inform future decisions about debt and fund balance.

Please see the Administrative Services chapter for more information.

<u>Improving performance management</u>

Performance management remains an important -- and largely unutilized -- strategy for City officials to make difficult resource allocation decisions, track the impact of those decisions and make adjustments as needed. Even the wealthiest local governments should monitor the effectiveness of their programs and make reductions in those that do not deliver as much value to their residents, and the need to so is heightened in places like Reading where there are fewer resources. In place of the longer list of performance management initiatives in the original Recovery Plan, this Amended Plan focuses more on directly on Public Works and Community Development, with related initiatives for the Citizen Service Center.

Please see the Public Works and Community Development chapters for more information.

Focusing on economic development priorities

The original Recovery Plan required the City to work with external experts to design and articulate an economic development and housing strategy. The housing strategy is in place and there is an emerging consensus around the community's priorities and opportunities for economic development. The Amended Plan directs the City to focus on those priorities, including executing the Main Street Plan, taking advantage of the City's Keystone Community designation, returning the Riverview industrial site to productive use and maintaining a regular cycle for inspecting all rental units in the City.

Please see the Community Development and Economic Development chapters for more information.

Recovery Plan implementation scenario

The projection below shows the cumulative impact of the Amended Recovery Plan initiatives when applied to the baseline scenario. As noted above, the City will have to draw down some of its reserves over the next five years to meet its projected obligations. Eliminating the reliance on those reserves in the Plan's final years remains a priority so the City has a better chance to successfully exit Commonwealth oversight.

Amended Recovery Plan with Initiatives Applied ($ Millions)

	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
General Fund Revenues	88,135,067	86,331,510	85,920,954	87,645,652	87,343,413
General Fund Expenditures	87,752,877	87,362,665	89,066,322	90,451,869	91,870,934
Use of Fund Balance	0	1,031,156	3,145,368	2,806,216	4,527,521
Annual Result	382,190	0	0	0	0
Fund Balance	20,260,181	19,229,025	16,083,657	13,277,441	8,749,919

The Amended Recovery Plan is, in many respects, a continuation of the provisions that began under the original Recovery Plan. There are preferred alternatives to the Plan's most unpleasant measures that would help keep the City's finances in balance in a way that is less burdensome to taxpayers and current employees. Because of the progress that the City has made since entering Act 47 and the financial reserves that it has accumulated, there is still time to pursue those alternatives and put the City in a position to successfully exit Commonwealth oversight. The Coordinator is ready to work with the City's elected and appointed leaders, employees and other stakeholders to that end.

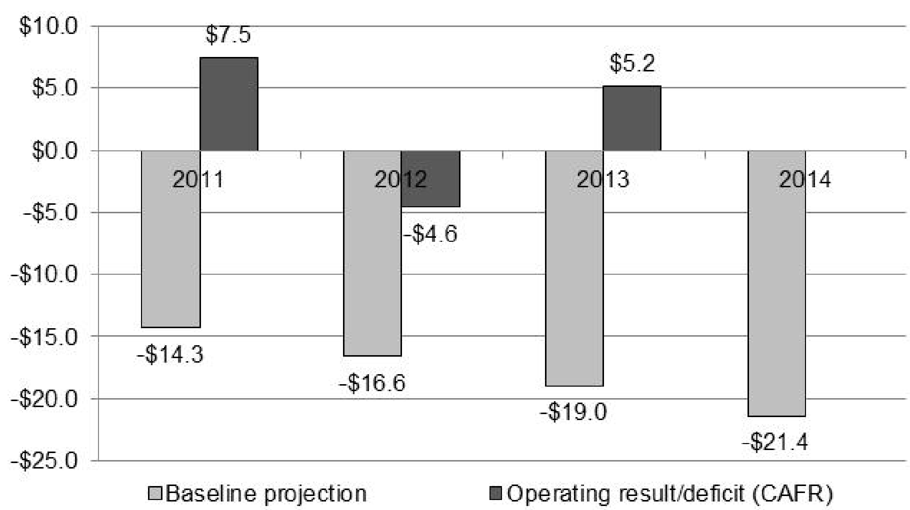
Introduction

In 2009 Reading Mayor Thomas McMahon asked the Secretary of the Pennsylvania Department of Community and Economic Development (DCED) to designate the City as financially distressed according to the criteria listed in Act 47. In November 2009, the Secretary approved the distress determination, saying Reading's "pattern of operating deficits is unsustainable and if left unabated will force the city to significantly reduce or eliminate fundamental services that may adversely affect the health, safety, welfare, and quality of life of the citizens." As a result, the Secretary appointed Public Financial Management as the Recovery Coordinator responsible for developing a Recovery Plan in 2010.

In writing that Plan, the Coordinator used the limited amount of time available under the Act 47 process to review the City's finances. That review confirmed that Reading's financial problems were real, severe and, if not addressed, would threaten solvency of City government. As described in the introduction to the original Recovery Plan, the City had a recurring and growing operating deficit, meaning the City was continually spending more money in its major operating fund than it was collecting. The deficit was even larger than apparent in the City's financial reports because of the City's reliance on one-time and short-term measures to address the recurring deficit. Some of those measures, like borrowing several million dollars from the Sewer Fund in violation of a federal consent decree or missing annual required contributions to the employee pension plans, compounded the City's financial distress.

In June 2010, City Council approved and the Mayor signed the Coordinator's proposed Recovery Plan. That Plan was, as described at the time, strong medicine for an extremely sick patient. The Plan required sacrifices from residents in the form of higher real estate and earned income taxes. It required sacrifices from commuters who pay an earned income tax to the City of Reading to help fund the services they rely upon during the workday. It required sacrifices from active employees in the form of wage freezes, higher contributions to the cost of their health insurance and reductions in paid holidays. It required sacrifices from new employees who did not work for the City at the time the Plan was adopted, but have since joined the City's workforce with lower starting salaries and a more affordable set of retirement benefits. And it required focused commitment to improve the City's essential financial management functions, like cash flow monitoring and periodic financial reports reporting.

Through these and other sacrifices and actions, the City of Reading has made important progress since it entered Act 47 oversight in 2009. The baseline projection in the original Recovery Plan showed large, recurring, unsustainable deficits through 2014 in the absence of any corrective action. The City's comprehensive annual financial reports, which account for Plan implementation and other changes that have helped City finances since 2009, show a different result.

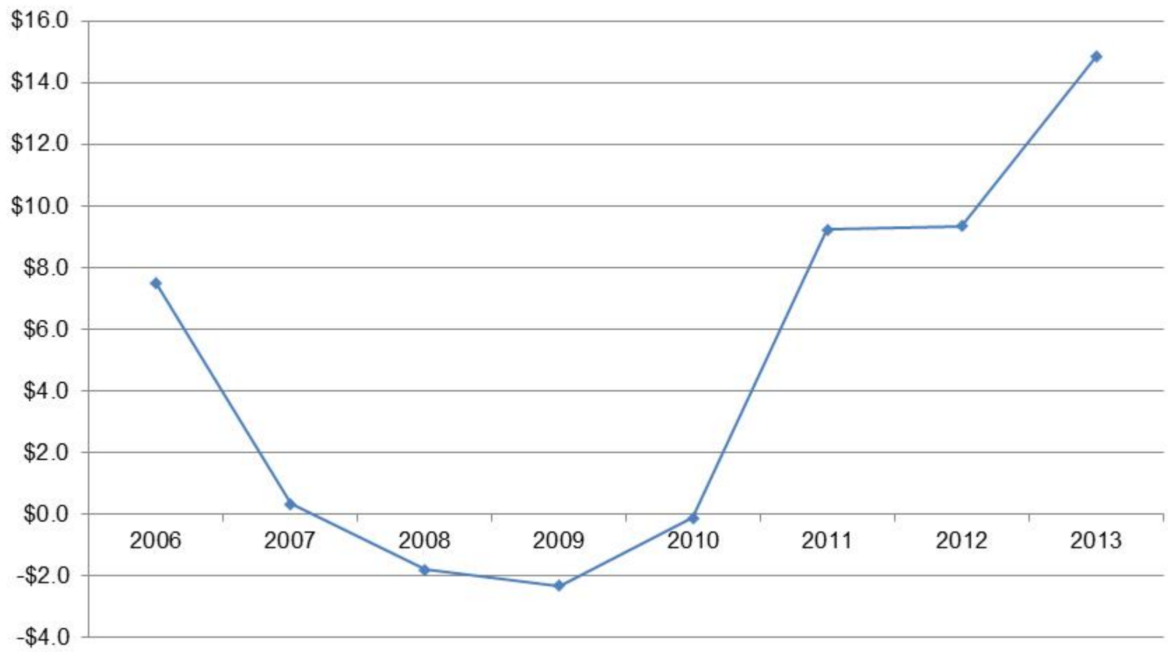


Source: 2010 Act 47 Recovery Plan baseline projection (page 3); City CAFRs

The City's external audits show positive operating results in 2011 and 2013, and the City's 2012 results were better than is apparent in that year's audit. In 2012 the City made a $5.0 million advance payment on its unfunded debt loan, over and above the amount due in that year. There was also a $2.3 million debt repayment from the Greater Berks Development Fund that was budgeted for 2012 but received in the final weeks of 2011. Absent those quirks, the City would have had a positive result in 2012, too.

Another way to measure the City's progress is by tracking the level of cash reserves in the City's General Fund. Before entering Act 47 oversight, the City's cash reserves dropped from $7.5 million in 2006 to a $2.3 million deficit in 2009, signaling that the City owed money from its General Fund to other funds at the end of that year. This cash crunch was more than a negative number on the City's balance sheet. In August 2010 the Coordinator discovered that the City would exhaust its General Fund cash before the end of the year, endangering its ability to fund basic operations. That led City officials to make the difficult decision to borrow $17.2 million in December 2010 to maintain operations for the rest of the year, repay a loan from the Sewer Fund and help retire the prior year obligations to the employee pension plans.

General Fund Cash and Cash Equivalents



Source: City CAFRs, 2006 - 2013

Since then the City's cash reserve levels have rebounded to $14.9 million as reported in the City's 2013 year-end audit. That cash reserve balance helps the City pay its obligations early in the year before tax revenues arrive, without having to do short-term cash flow borrowings and pay interest on the borrowed money. It provides a buffer against unexpected revenue shortfalls or unbudgeted expenditures. It can provide funding for some of the desperately needed investments in the City's streets, bridges and other core infrastructure. And, as described in the Administrative Services chapter, it provides a temporary source of funding to help close the deficits projected through 2019.

The City made this progress without relying on the types of ill-advised short-term fixes that the City used to address its cash crunch before it entered Act 47. The City repaid the multi-million dollar loan from the Sewer Fund at the end of 2010 and has managed its interfund loans and transfers more carefully. The City retired its past due contributions to the employee pension plans and has made the required contribution to the employee pension plans on time each year since entering Act 47. And, while the City needed an unfunded debt loan to sustain operations in 2010, it has not done additional borrowing to fund basic operations since then.

	Before Act 47	Progress to date
Annual result	The City was running out of money and needed a bank loan in December 2010 to maintain operations	The City has not done additional borrowing to fund basic operations since 2010
General Fund cash	The City's 2009 audit showed a $2.3 million cash deficit in the General Fund	The City's 2013 audit showed a $14.9 million cash balance in the General Fund
Pension payments	The City was behind on its required employee pension fund contributions as of June 2010	The City is caught up on past due contributions and has made the required pension contribution on time since 2010
Sewer fund	The City owed millions of dollars to the Sewer Fund under the terms of its federal consent decree	The City retired the debt to the Sewer Fund and has complied with the related consent decree provisions since 2010
Financial management	The City did not produce regular cash flow, headcount or budget-to-actual reports	The City has a monthly cash flow projection, monthly headcount report and quarterly budget-to-actual reports

Again, it is important to acknowledge the substantial contributions that several parties have made to help City government achieve this progress. Those contributions and others are discussed throughout the Recovery Plan chapters.

It is also important not to overstate the progress that the City has made. True, full financial recovery for City government means more than reversing the previous trend of operating deficits and building a cash reserve, though those are requisite parts of financial recovery. True, full financial recovery involves bringing the growth in all expenditures, including the City's obligations for employee pensions and retiree health insurance, into balance with recurring revenues. It involves stabilizing, or even lowering, the tax rates so the City is more competitive in its efforts to attract and retain residents and businesses. It involves having a stable source of funding for resurfacing streets, remediating bridges, repairing dams and renovating municipal government buildings.

In this Amended Recovery Plan, the Coordinator has kept these objectives and the ultimate goal of achieving true, full financial recovery in sight and provided recommendations to help the City make progress toward them, while still addressing the substantial financial challenges that the City faces in the immediate term. The next section describes those challenges and the baseline financial projection that shapes this Plan.

Baseline projection

As required under Act 47, the Recovery Plan process begins with a baseline projection of the City's revenues and expenditures in its General Fund, assuming no corrective action is taken or significant external events occur. The projection usually begins with a fixed set of numbers, accounts for known future changes (such as wage increases in existing collective bargaining agreements and scheduled debt payments) and then applies growth rates calculated based on a combination of historical performance, socioeconomic trends and other factors.

For this particular case the projection methodology is complicated because the Amended Recovery Plan has been reviewed concurrently with the 2015 budget. So, instead of having a set of numbers that were not subject to change at the start of the process,[1] the Coordinator is using the version of the 2015 budget that was introduced by Mayor Spencer on September 30, 2014 with additional adjustments discussed by the Administration and Council during the 2015 budget review process.

At the time of the Amended Recovery Plan's release, the City was still working on minor adjustments to the 2015 budget that could create small variances between the Amended Recovery Plan baseline projections and the 2015 budget. Those differences should not be material enough to impact the analysis and recommendations in the Amended Recovery Plan. The Coordinator has worked with the Spencer Administration throughout the year and the budget review process to align the Recovery Plan's projections with the 2015 budget and there are very few significant variances between those two documents, most of which are resolved through Amended Recovery Plan initiatives or differences in how information is presented.

For many of the City's revenues and expenditures, the Amended Recovery Plan baseline takes the amount in the 2015 budget and applies growth rates to project future results. On the revenue side, the Recovery Plan's baseline growth rates are calculated based on the Coordinator's analysis of historical revenue performance and trends in the underlying tax base. Because of the City's struggles to maintain accurate, timely financial records before entering Act 47, the Coordinator mostly relies on revenue figures reported after 2010. The Coordinator also considered the trends in the City's tax base for its major revenue sources. Since a large part of the City's locally generated revenue comes from the real estate tax and the earned income tax, the Coordinator paid particular attention to changes in the total assessed value of taxable real estate and resident and commuter earnings. That analysis is presented in the Revenue and Economic Development chapters, but a very high level summary of the major baseline revenue assumptions follows:

- Real estate tax revenues decline by 0.2 percent per year based on the historical declining trend in the total value of taxable real estate in Reading

- Revenues from the business privilege, real estate transfer tax and admissions tax increase by 2.0 percent per year

- Revenue from the local services tax and per capita tax increase by 1.0 percent per year

- Growth in revenues from licenses, permits, fines and service charges ranges from 0 to 3 percent per year, depending on the individual item

- The Reading Area Water Authority's annual payment to the City is $8.0 million per year under the terms of the recent lease amendment and the transfer from the Sewer fund is $3.0 million per year under the terms of a federal consent decree. The Authority and City are discussing an increased contribution amount that is incorporated as an initiative in the Revenue Chapter.

- The Reading Parking Authority's contribution returns to $1.8 million in 2016 after a one-time increase to $6.3 million in the introduced version of the 2015 budget. The Authority and City are discussing a smaller contribution in 2015 and additional amounts in 2016 through 2019 that are incorporated as an initiative in the Revenue Chapter.

The baseline projection does not assume any changes in the City's tax rates or fee levels, with one very important exception, the earned income tax, described later in this Introduction.

On the expenditure side, the baseline projection accounts for the wage increases set in existing collective bargaining agreements for police officers, firefighters and AFSCME 2763 members. The baseline

[1] The most recent set of established (i.e. not subject to change) numbers is the City's 2014 adopted budget. For reasons discussed in the introduction, the 2014 budget is not representative of the City's financial situation going forward and 2014 will be complete shortly after this Plan is approved.

assumes a 2.0 percent annual wage increase in any year where there is not a collective bargaining agreement in place and for employees who are not represented by a collective bargaining unit. Other elements of the existing collective bargaining agreements are presumed to continue in the baseline, including the current freeze on longevity payments.

The City contracts with a third-party entity that manages its health insurance claims and provides projections of future fringe benefit costs. The third-party administrator projected that the City's total expenditures on medical, prescription drug, dental and vision coverage would grow by 7.0 percent in 2016, 6.0 percent in 2017 and 2018 and 5.0 percent in 2019. For the active employees, the City is able to offset any increase above 5.0 percent in a given year by requiring higher employee contributions, which is reflected in the revenue projections. For most retired employees, the City shoulders all or most of the additional expenditures as health insurance costs rise because the employee contributions are usually capped at the amount in place when the employee retired.

With one exception, the baseline projection does not assume any changes in employee headcount beyond those incorporated in the 2015 budget. There are no layoffs assumed in the baseline projection. The baseline does account for the scheduled departure of firefighters enrolled in the City's Deferred Retirement Option Plan (DROP). Under the terms of that program, those employees must leave City employment by a particular date.[2] For those employees, the baseline assumes the City will not backfill the vacated positions until firefighter headcount drops below the 132 level set in the 2011 interest arbitration award. The baseline projection also increases the City's spending on fire department overtime as headcount drops.

For non-personnel expenditures, the largest categories are debt service, contract and consulting and utilities. The baseline projection uses the debt schedule provided by the City's financial advisor to show the principal and interest payments that the City is expected to pay through 2019.[3] The Coordinator takes the amount budgeted for contract and consulting work in 2015, removes the one-time expenditures in the Public Works Department related to capital improvements and grows the remaining amount by a 2.0 percent general inflationary index per year. Based on national trends in energy costs as measured by the consumer price index, utility expenses grow by 4.0 percent per year for motor fuel and gasoline and 2.0 percent for all other items in this category.

The City is also reducing its budgeted transfer to the Self-Insurance Fund from $2.5 million in 2014 to $1.7 million in 2015 since the latter fund reportedly has a higher balance than necessary. The Coordinator assumes this is a one-time reduction since the City needs to consistently fund the liability coverage supported by that Fund and the City plans to draw down some of that Fund's resources for capital improvements in 2014 or 2015.

To this point, this description of the baseline projection intentionally omitted the earned income tax revenues and the City's annual required contributions to the employee pension plans. Those two items deserve special attention because changes in those areas drive much of the projected deficit.

Earned income tax: Lower rates, lower revenues

When the City entered Act 47 oversight in 2010, it levied a 1.7 percent EIT on its residents. The Reading School District levies another 1.5 percent, bringing the total resident EIT to 3.2 percent. The original Recovery Plan added 0.4 percent to the City's levy, taking the City EIT to 2.1 percent and the total resident EIT to 3.6 percent where it remains in 2014. At that rate, Reading has the second highest resident EIT rate in the Commonwealth behind Philadelphia.

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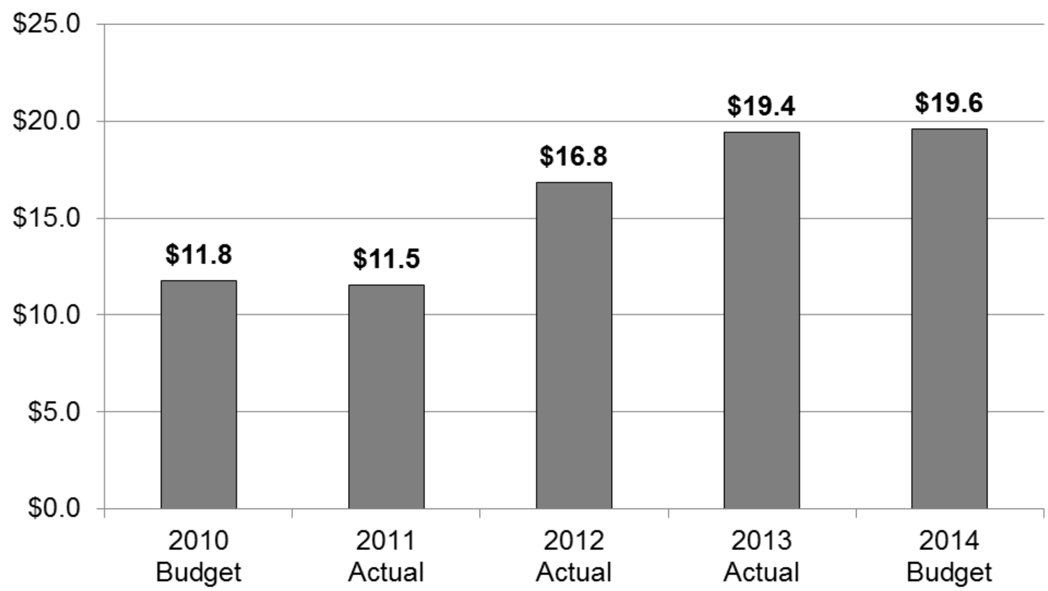
[2] The employees could leave before the mandatory departure date but, given the uncertainty whether and when that will happen, earlier departure is not assumed.

[3] At the time of Recovery Plan release, the City was converting some of its variable rate debt to fixed rate debt. The Amended Recovery Plan baseline incorporates estimated savings from that conversion as provided by the City's external financial advisor.

The original Recovery Plan also authorized the City to seek an additional 0.3 percent EIT on commuters who work in Reading. Since many Pennsylvania municipalities levy a 1.0 percent EIT on their own residents, many Reading commuters now pay a total EIT of 1.3 percent – 1.0 percent to their home municipality and 0.3 percent to the City of Reading. Under the terms of Act 47, the City can only levy the commuter EIT if the adopted Recovery Plan authorizes the City to petition the Berks County Court of Common Pleas to do so.[4] City officials then must file an annual petition with the Court and testify in court that the City needs the commuter tax to balance its budget.

The combination of the higher resident tax rate, new commuter tax and better collection process has boosted EIT levels far beyond what they were when the City entered Act 47. The City budgeted $11.8 million in EIT for 2010, the last year before these changes started to take effect. In 2011 the City would have received more than $13.0 million in EIT, but it had to repay $1.9 million due to other governments. The City's receipts were $16.8 million in 2012 and $19.4 million in 2013.

EIT Revenue (Millions)[5]



While the higher EIT revenues have helped City government stabilize its finances, the City must reduce the commuter EIT rate from 1.3 percent to 1.0 percent and balance its budget without reliance on one-time revenues to exit Act 47 oversight. Nearly all of the revenue from that 1.0 percent commuter tax will return to the person's home municipality. In 2013 the commuter EIT generated $2.6 million but, absent the additional taxing authority provided under Act 47, it would have only generated $120,000.

Shortly before this Plan was released, Governor Tom Corbett signed Act 199 of 2014, which amends Act 47 and sets a more firm deadline for the City to reduce its commuter tax rate.[6] The City will have to

[4] In some communities, the Court must also approve any resident earned income tax above 1.0 percent. As a Home Rule municipality, the City of Reading has the authority outside of Act 47 to levy a higher resident EIT and does not need Court approval to do so.

[5] These are the gross receipts, not including the 2.0 percent collection fee that Berks EIT, Incorporated charges. They include revenues from current and prior years.

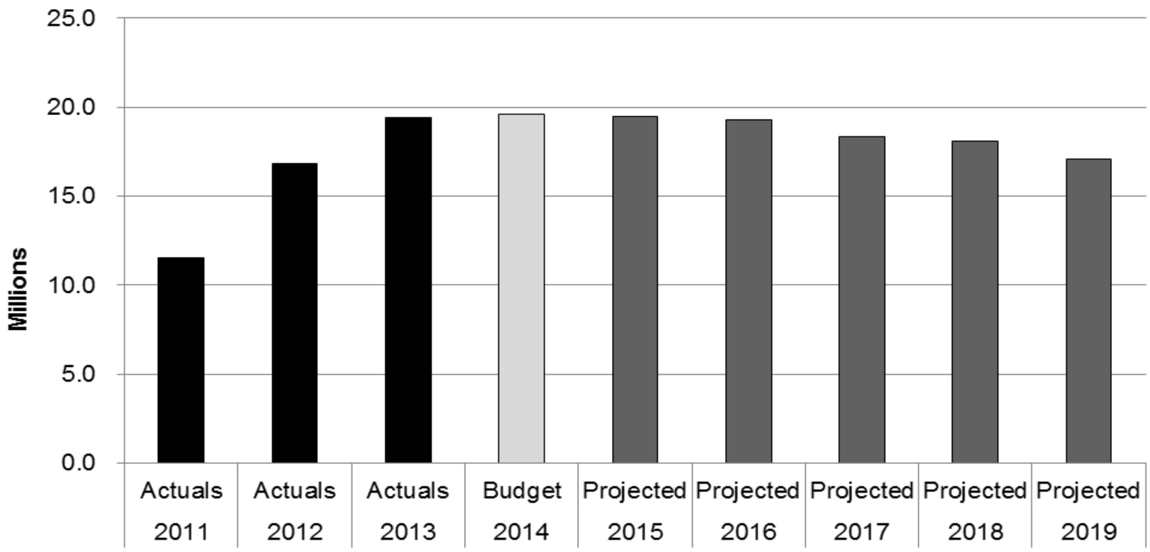
[6] House Bill 1773 was signed into law as Act 199 of 2014 on October 31, 2014.

reduce the commuter EIT rate to 1.0 by 2019 to meet the statutory deadline for exiting Act 47.[7] Again, nearly all of the revenue from that remaining 1.0 percent will return to the commuter's home municipality.

As a Home Rule municipality, Reading does not need to reduce its resident EIT to exit Act 47. However, for economic competitiveness and equity reasons, the City's elected leaders do not want to leave the resident rate at 3.6 percent.

The Recovery Plan baseline projection assumes the City will reduce its commuter EIT rate to 1.0 percent and the resident EIT rate to 3.3 percent by 2018, giving the City one year to show it can balance recurring revenues against recurring expenditures before its Act 47 status expires at the end of 2019. Those rate reductions turn the EIT from a source of revenue growth to a source of revenue reduction.

Earned Income Tax, 2011 – 2019 ($Millions)



Required pension contributions: Rising now and a risk to rise later

To fund employee pension benefits, Pennsylvania municipalities are required by Commonwealth law to make annual contributions to ensure that sufficient money will be available when current and future pension recipients retire. The annual contributions required under Commonwealth law are referred to as the minimum municipal obligation (MMO). The MMO is based on actuarial calculations and results in a net contribution from the City after state pension aid, investment earnings, and employee contributions have been taken into account.

The City's required pension contribution from its General Fund has doubled from $6.6 million in 2011 to $13.2 million in 2015. These costs do not include the $1.8 million to $3.6 million in annual debt service related to the pension bonds the City issued in 2006[8] or additional contributions for employees whose positions are budgeted outside the General Fund.

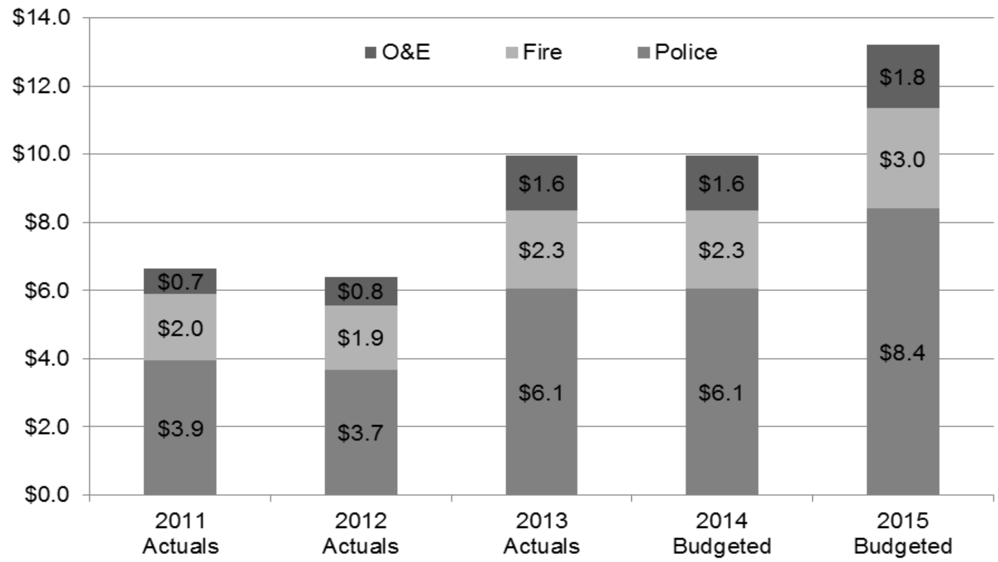
The City's pension contribution can be broken into three parts, with each one representing the City's contribution to the pension benefits received by a segment of its workforce. The largest part of the City's contribution goes toward the pension benefits of retired and current police officers, and that contribution

[7] Act 199 allows for a three year "exit plan" from Act 47 oversight but, assuming the City needs to have at least one year of balanced financial results without the commuter tax before it can exit Act 47, that would only change the 2019 deadline by a couple years at most.

[8] The 2015 budget includes $1.8 million for principal and interest payments on the 2006 pension bonds. Absent any future refunding, the scheduled debt service payments rise to $3.6 million from 2019 until the debt is fully repaid in 2031.

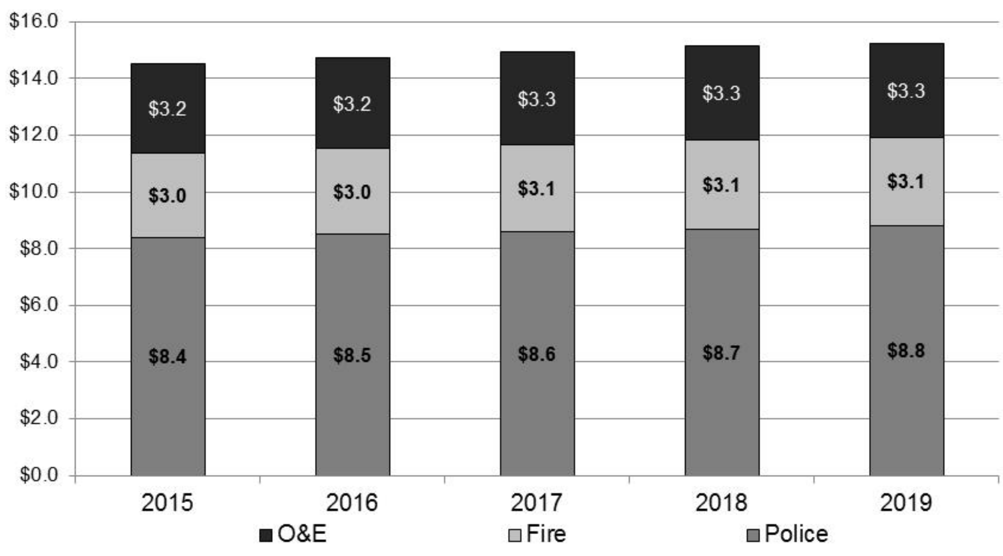
has grown at a faster rate than the City's contribution for the firefighters or non-uniformed employees (also called Officers and Employees or O&E). The Retiree Benefits chapter discusses the reasons for this growth, including costly changes to the police pension plan that predate the City's entry into Act 47, but the chart below shows the magnitude of these increases in the General Fund.

City General Fund Pension Contributions ($ Millions)[9]



To develop the baseline projection, the Coordinator requested that the City's actuary project the City's MMOs through 2019. The actuary provided the following projection using the most recent pension valuation report (January 1, 2013). Please note that these estimates show the City's entire MMO, including the portion of the O&E contribution that covers employees outside the General Fund. The Recovery Plan baseline, which shows only the General Fund contribution, will have lesser amounts.

Projected City MMOs, All Funds ($ Millions)



[9] This is the City's contribution, net of the amount contributed by employees. There are additional City contributions for the O&E plan outside the General Fund that are not shown here.

The actuary's projections are based in part on the assumption that there will be no "experience gains or losses" in each year, meaning the actuary is assuming reality will mirror the underlying actuarial assumptions about when employees retire, what their pensionable income will be, how much the City will gain in investment earnings, etc. If the City has experience loss, then there will be less money in the pension funds and the City's required contribution will increase. If the City has experience gain, the opposite is true.

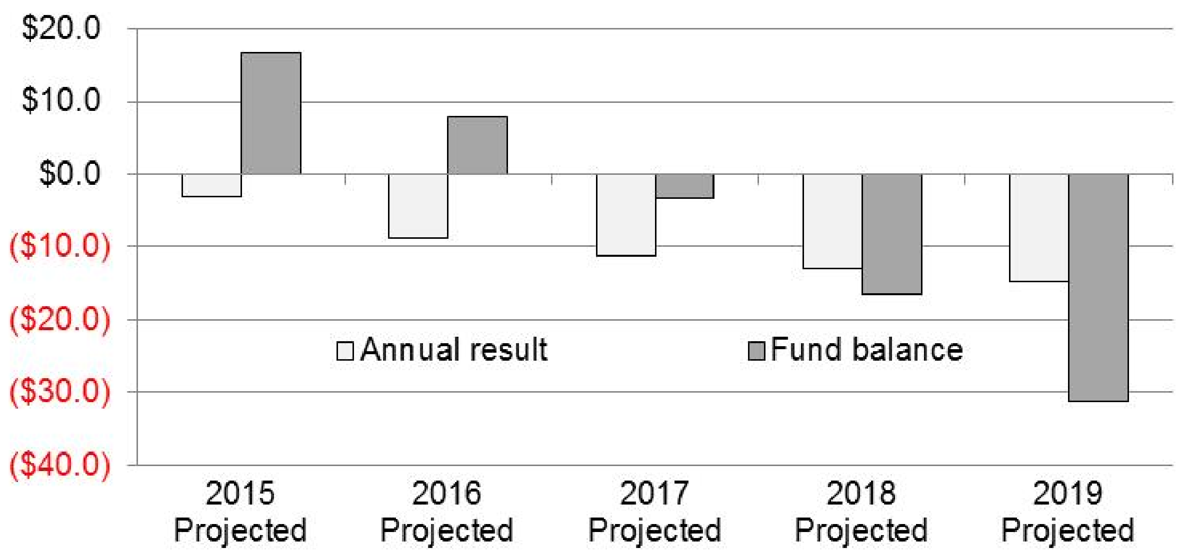
The assumption in the actuary's projection that there will be no experience loss or gain is reasonable since it sets aside the volatility related to events that are impossible to predict. But historical results show there is considerable risk that the City *will* have experience loss during this period and that the City's MMOs will continue to grow every other year. The police plan alone had $15.8 million in experience loss between the 2011 and 2013 valuation.[10]

Furthermore, the police and fire pension boards are using an element of Commonwealth law that allows the City to assume the level of assets in those plans is higher than they may actually be. Using a provision in Pennsylvania Act 44 of 2009, the actuary calculates the actuarial value of assets at 120 percent of their actual market value. The actuarially recommended (though not required) methodology would use a four-year smoothing approach, and would show the pension plans have a lower funding level than reported. For 2015 and 2016, assuming a higher funding level gives the City some relief from the already escalating annual required contributions, keeping them at the levels shown above. In the long term, though, it increases the likelihood that the City will have experience loss and higher MMO contributions after 2016 than shown in the actuary's projections incorporated in the Recovery Plan baseline.

Projected deficit

The Amended Recovery Plan's baseline projection is shown below at a summary level and in more detail in the Plan Appendix.

Recovery Plan Baseline Projection ($ Millions)



[10] City of Reading Police Pension Plan Actuarial Valuation as of 01/01/2013, page 1. The experience losses in the fire plan ($1.5 million) and O&E plan ($3.3 million) were more modest, though still not zero.

	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
General Fund revenues	$85.6	$80.8	$80.5	$80.9	$80.5
General Fund expenditures	$88.6	$89.7	$91.8	$94.0	$95.3
Annual result	($3.1)	($8.8)	($11.3)	($13.1)	($14.8)
Fund balance	$16.8	$8.0	($3.3)	($16.4)	($31.2)

The introduced version of the 2015 budget closed the projected deficit for that year by using a portion of the City's reserves. The year-end 2013 audit quantifies those reserves as $20.2 million in unassigned General Fund balance, including the $14.9 million in cash reserves described earlier. The City's 2014 budget has a small positive operating result once contingencies are removed ($0.9 million) and then the City expected to use $1.2 million of the fund balance for capital projects in 2014. That leaves $19.9 million estimated at the end of 2014, assuming the City's revenues and expenditures meet budget this year. In the baseline scenario described above the City would use $3.1 million to close the deficit in 2015, another $8.8 million to close the deficit in 2016 and then exhaust its reserves some time in 2017.[11]

Absent corrective action, the City's revenues drop from $85.6 million in 2015 to $80.8 million in 2016 with the expiration of short-term revenue (e.g. one-time RPA contribution, federal grant that supports firefighter costs) and reduction in earned income tax revenue. Revenues essentially flat line after that with minimal growth in some sources offset by the continuing decline in EIT and real estate tax revenues.

Absent corrective action, expenditures start at $88.6 million in 2015 and then grow by 1.2 to 2.4 percent per year. Spending on salaries for full-time employees grows by 1.8 to 2.7 percent annually over this period. Once growth in fringe benefit and overtime expenditures are added, total personnel costs grow by 3.1 to 3.6 percent per year. As noted earlier, there is risk that personnel costs will actually rise by a larger amount in 2017 after the next pension valuation report is completed.

Non-personnel expenditures drop by 4.6 percent over this period, but only because the baseline assumes the City undertakes very minimal improvements to its infrastructure. The baseline removes the one-time infrastructure spending starting in 2016 and accounts for the City paying off its recent information technology equipment refresh in 2018. In reality, the City won't be able to neglect its roads, bridges, municipal buildings and other capital assets over this period. As was the case in 2014 with the Pagoda foundation wall and 2015 with the dam repairs, the City will likely have to allocate some money to capital improvements, even if it does not plan to do so now.

The remainder of the Recovery Plan provides a strategy for starting to address this baseline deficit.

[11] Please note this calculation uses the City's unassigned General Fund balance to represent the City's available reserves. The cash reserves as reported at the end of 2013 were $14.9 million compared to $20.2 million in unassigned fund balance. If the City is not able to convert the receivables in its Fund Balance into cash, then the City would exhaust those cash reserves faster than shown here.

Debt

As of September 30, 2014, Reading had approximately $150.7 million in General Fund debt principal outstanding, and projected $239.9 million in scheduled General Fund debt service payments through 2033. The City's bond rating (a measure of its creditworthiness) from Moody's Investors Service was upgraded from Baa2 to Baa1 on the Municipal Ratings Scale.

The Department of Administrative Services manages debt issuance and repayment with the guidance of the City's contracted financial advisor, Financial S&lutions. Most decisions to issue debt or enter into swap agreements require City Council approval. Since the City entered Act 47, all debt issue, refunding or restructurings also require the approval of the Act 47 Coordinator according to the 2010 Recovery Plan.[1]

Limited use of debt since 2009

Since the City entered Act 47 oversight in late 2009, it has made relatively few debt transactions.

In 2010 the City secured a $17.3 million unfunded debt loan that enabled the City to repay a multi-million loan from the Sewer Fund, come current on its annual required contributions to the employee pension plans and maintain operations until the Recovery Plan provisions that elevated revenues and reduced expenditures could take affect. According to the current debt schedule, the City will repay the unfunded debt loan in 2020.

The original Recovery Plan discussed the City's use of interest rate swaps before entering Act 47 oversight. Swaps are a financial tool that allows the issuer to trade fixed for variable interest rate payments, or vice versa. Depending on the individual structure of the transaction, a city could receive a one-time upfront payment as part of a swap transaction, but it may also be obligated to issue bonds at a different interest rate in the future. The original Recovery Plan required the City terminate its existing swaps and, because of its Act 47 status, the City is not permitted to enter new swaps.

Since 2006, the City reduced its swap exposure from eight active and three forward starting swaps to one active swap that terminated on November 1, 2014.[2] The one remaining swap was part of the 2008 bond issue where the City entered into a swap agreement on $38 million in bonds with Wachovia Bank. The agreement, which was entered into in August 2008, requires that the City pay interest at a fixed rate to Wachovia and receive interest payments on a floating, or variable, rate. The index which determines the variable rate has declined since August 2008 and rendered the agreement no longer favorable for the City. The mark-to-market valuation of the swap as of December 31, 2012 was negative $1.2 million according to the City's 2013 audit report.[3]

In 2011 the City refunded its capital appreciation bonds (CABs) originally issued in 2002 with general obligation refunding notes Series A and B. Refundings are common debt transactions where an issuer pays off (or "refunds") all existing debt associated with a specific bond using new debt that is issued at a lower interest rate. The City received a portion of the savings associated with the lower interest rate. The City also terminated the swap on these CABs by paying a $1.35 million swap termination fee, as recommended in the original Recovery Plan.

[1] Initiative DS04, page 29.

[2] Moody's Rating Report, July 26, 2012

[3] City of Reading 2013 Audit Report, p. 54

In 2012, the City issued three new debt series[4] to refund existing bonds issued in 2005 and 2008[5]. The City was able to generate net savings of $275,000 through the 2011 refunding moves and $997,000 through the 2012 refunding moves.[6]

With the advice and guidance of its financial advisor, the City is currently in the process of converting all of its variable rate debt to fixed rate debt. That transaction, which is expected to close in December 2014, will result in General Fund savings for the City in the amounts of $351,000 in 2015 and $232,000 in 2016.[7]

Bond Rating Upgrade

The City's bond rating from Moody's Investors Service was upgraded from Baa2 to Baa1 on the Municipal Ratings Scale in 2014 when the City issued $35.2 million in Federally Taxable General Obligation Bonds as part of the variable-to-fixed rate conversion referenced above.

According to the Rating Report by Moody's, the upgrade to Baa1 reflects the City's improved financial position since entering into the Act 47 in 2009. The rating report notes that the City is still faced with challenges such as a weak tax base and an economically sensitive revenue composition, reliance on transfers from the water and sewer systems, and sizeable fixed costs that could result in future budgetary pressures. But Moody's believes that the City's improved financial flexibility helps to mitigate these risks. The rating also considers the City's high debt burden driven by a declining urban tax base with high poverty and unemployment rates.[8]

Historical expenditures

The table below shows the City's scheduled debt-related expenditures from its General Fund from 2011 to 2013. Because the City refunded its 2002 CABs in 2011, the $11.5 million in debt service excludes any debt service payment related to that issue. In 2012 the City was also able to make an additional $5 million payment on its 2010 unfunded debt loan, ahead of schedule and above the level shown in the table below.

Historical General Fund Debt Service Expenditures

	2011	2012	2013
Debt Service	11,490,342	12,569,639	13,531,253
% Change	*N/A*	*9.4%*	*7.7%*

[4] GO series of 2012, Series A of 2012 and Series C of 2012

[5] Series A and E of 2008

[6] City of Reading 2013 Audit Report, p. 47

[7] The City did not include the 2015 savings in the 2015 budget because the transaction had not closed yet. Anticipated savings are included in the Amended Recovery Plan's baseline projections for 2016 based on the debt schedule provided by the City's financial advisor on October 22, 2014.

[8] Moody's Rating Report Draft, October 24, 2014

Future expenditures

As shown in the chart below, the City's obligations to pay principal and interest on its debt remain stable over the Amended Recovery Plan period. Debt service represents approximately 15 percent of annual General Fund expenditures over this period.

Projected Baseline Expenditures – General Fund Debt Service[9]

	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Debt Service	13,317,823	13,385,143	13,630,901	13,701,510	13,722,687	13,617,996
% Change	*N/A*	*0.51%*	*1.84%*	*0.52%*	*0.15%*	*-0.76%*

These payments cover principal and interest on twelve outstanding issues, including the 2012 B notes where the City pays debt issued to improve FirstEnergy Stadium on behalf the Reading Fightin' Phils. The baseball club reimburses the City for the debt payment on an annual basis. This projection does not include the City's payments for a bank loan related to the 2014 information technology equipment refreshment (estimated $900,000 per year through 2018), which is paid out of the Administrative Services operating budget.

City of Reading Outstanding General Fund Debt

	Description	Last Payment	Debt Service from 2015 through 2019	Interest Rate
2003 RDA Bond	Lease revenue bond	2033	1,191,834	Increases from 3.125% to 4.25%
2006 GO Bond	Pension Obligation Bond	2031	10,811,645	Increases from 5.30% to 5.53%
2006 RDA Note	Lease Revenue Note	2026	2,852,655	6.10%
2008 GO Note (Sewer)	GO Note	2033	5,181,491	Increases from 4.125% to 6.25%
2009 GO Bond	GO Note	2029	6,245,981	Increases from 3.25% to 5.00%
2010 GO Bond (Series C)	GO Note (Sewer Projects)	2020	7,702,938	5.625%
2011 GO Note (Series A)	GO Bond	2019	17,382,206	Increases from 3.00% to 5.25%
2012 GO Bond	GO Bond	2018	5,255,100	Increases from 2.00% to 2.25%
2012 GO Note (Series A)	GO Note	2016	3,230,000	2.00%
2012 GO Bond (Series C)	GO Bond	2031	2,559,978	Increases from 3.125% to 5.125%
2012 GO Bond (Series B)	GO Note (Reading Phillies Project)	2027	1,460,476	4.8%

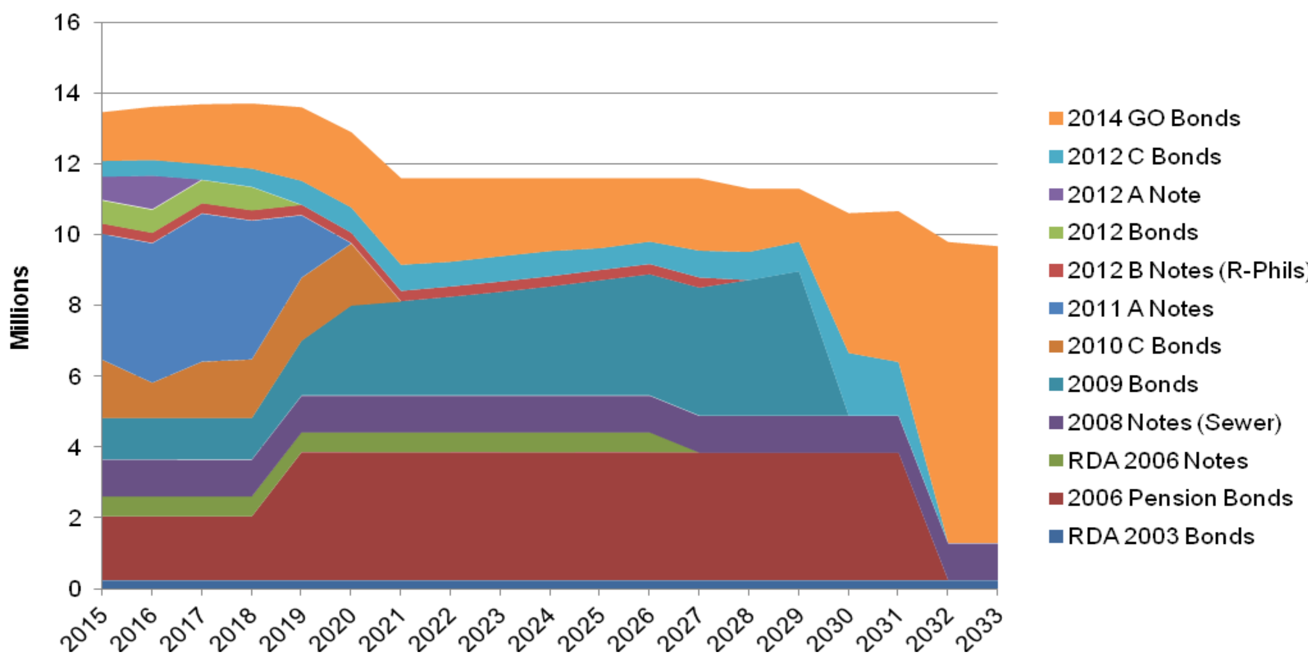
[9] The City budgets the 2003 RDA bonds under the Department of Public Works, which explains why this table does not match the debt service baseline projections in the appendix. This table is based on the debt schedule the City's financial advisor provided on October 22, 2014.

	Description	Last Payment	Debt Service from 2015 through 2019	Interest Rate
2014 GO Bond[10]	GO Bond	2033	8,519,393	Increases from 1.56% to 5.40%

Source: City of Reading Debt Schedule

Under the current debt service structure, the City will retire 50.5 percent of its existing General Obligation principal by December 31, 2024.[11] This amortization schedule is about average according to Standard & Poor's, which stated in a January 2011 criteria report that it considers "the benchmark of 50 percent of principal repaid in 10 years to be average." The City's debt burden -- one of the ratios rating agencies consider when analyzing municipal credits -- is therefore expected to remain relatively high with the average amortization of principal and the continual declining property assessments as discussed in the revenue chapter.

City of Reading Outstanding General Fund Debt ($Millions)
Principal and Interest



The City budgeted $13.3 million in General Fund debt service payments in 2014, representing 16.2 percent of the City's budgeted expenditures. Comparing Reading with other similarly sized Pennsylvania cities, Reading has the second highest debt service as a percent of General Fund expenditures (16 percent). It also has a relatively low credit rating, though that rating was upgraded as noted above.

[10] This is the estimate provided by the City's financial advisor on October 22, 2014, inclusive of the issue that would convert variable to fixed rate debt.

[11] Excludes the 2003 RDA Bond and 2003 RDA Notes because these are revenue bonds

Debt Service of Pennsylvania Cities with Population of 50,000 and above[12]

	Reading	Allentown	Bethlehem	Erie	Harrisburg	Lancaster	Scranton
Population (2010 Census)	88,082	118,032	74,982	101,786	49,528	59,322	76,089
2014 GF Expenditures	82,242,119	113,828,330	71,035,000	69,683,906	57,575,091	50,400,630	130,195,163
Debt Service paid by the GF	13,317,823[13]	8,069,485	7,438,833	7,563,129	8,831,177	3,257,860	31,713,140[14]
Debt Service as % of GF	16.2%	7.1%	10.5%	10.9%	15.3%	6.5%	24.4%
Rating Agency	Moody's	Moody's	S&P	S&P	N/A[15]	Moody's	S&P
Credit Rating	Baa1	A3/Stable	BBB/Stable	A/Stable	N/A	A1	None[16]

Credit Ratings of Similarly Sized Pennsylvania Cities

Moody's Credit Ratings	S&P's Credit Ratings	PA Cities
Aaa	AAA	
Aa1	AA+	
Aa2	AA	
Aa3	AA-	
A1	A+	Lancaster
A2	A	Erie
A3	A-	Allentown
Baa1	BBB+	Reading
Baa2	BBB	Bethlehem
Baa3	BBB-	None[17]

As noted earlier, the City had $239.9 million in scheduled General Fund debt service payments (principal and interest) through 2033 as of September 30, 2014. In addition to that debt service paid out of the General Fund, there are more debt service payments from the City's Sewer and Water Funds. These enterprise funds pay a portion of the City's General Obligation debt since a portion of that debt funds work associated with the City's sewers and water systems. There is one issuance where 70.4 percent of the debt is paid by the Sewer Fund (2008 Sewer Notes) and two other issuances that are split between the General, Sewer and Water funds. The estimated amounts that are charged to each fund for these three issuances are listed below.

[12] While Harrisburg is smaller than Reading, it is included because of its geographic proximity and Act 47 status.

[13] Includes the 2003 RDA bonds that are budgeted under the Department of Public Works

[14] Includes two TANs (Tax Anticipation Notes) series (Series A and B) that total $17 million.

[15] The City of Harrisburg does not currently have a credit rating because it last sold debt in 2010 by borrowing against its parking revenue and was placed under state receivership in 2011.

[16] S&P assigned a credit rating of BBB- on September 30, 2011 and withdrew its credit rating on October 3, 2011.

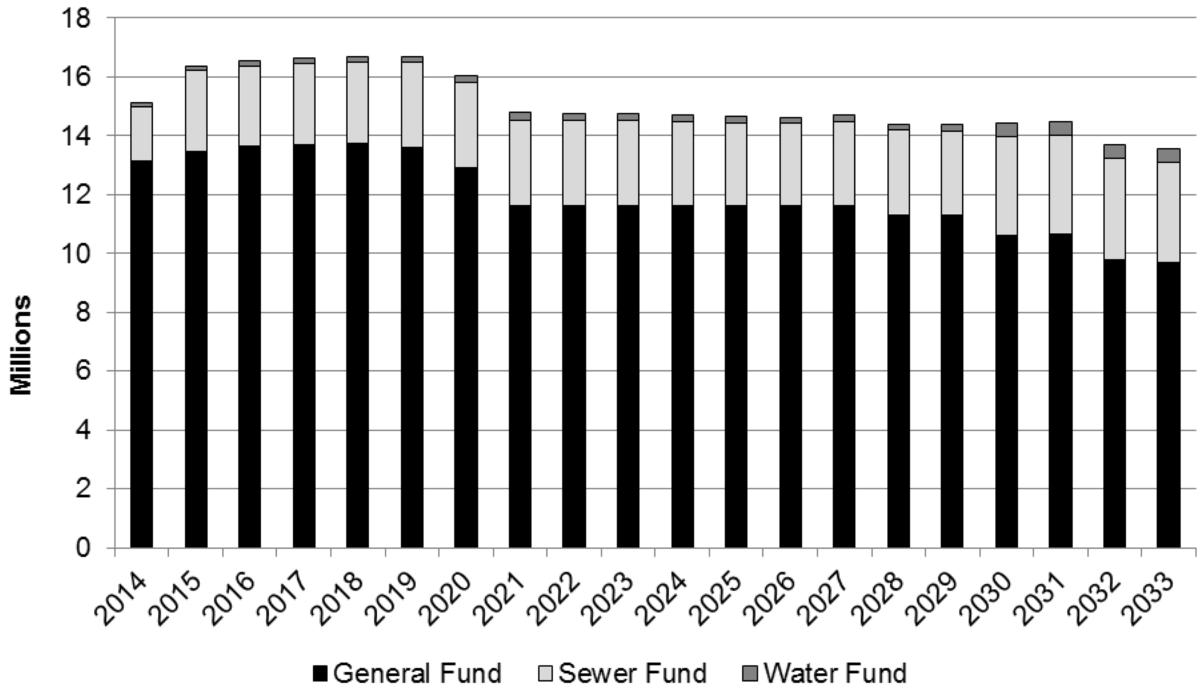
[17] S&P assigned Scranton a credit rating of BBB- on September 30, 2011 and withdrew its credit rating on October 3, 2011.

Debt Service To Be Paid by the General, Sewer and Water Funds

Debt Series	General Fund	Sewer Fund	Water Fund	Total
2008 Sewer Notes	19,693,038	46,837,496	0	**66,530,534**
2012 Series C	13,122,756	3,280,689	1,822,605	**18,226,050**
2014 Series	54,052,802	6,005,867	3,160,983	**63,219,652**
Total	**86,868,596**	**56,124,052**	**4,983,588**	**147,976,236**

The graph below shows the City's scheduled principal and interest payments on existing debt, including debt paid from the Water and Sewer Funds, on an annual basis. Non-general fund payments total $2.0 million in 2014 and increase to $2.9 million in 2015.

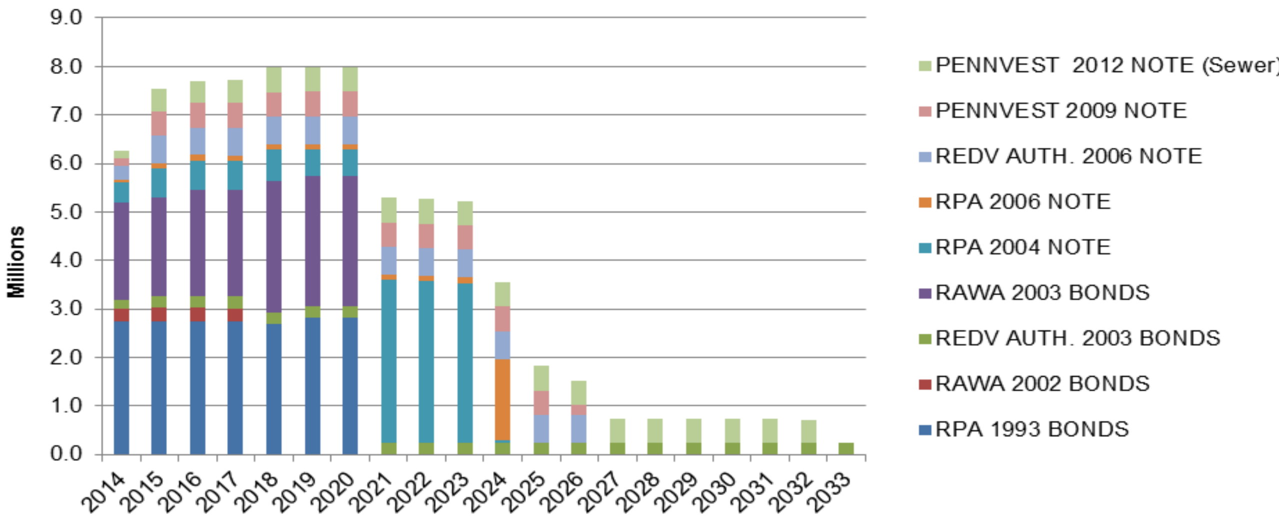
City of Reading Annual Debt Service Payments, FY2014 to FY2033



Source: City of Reading Debt Schedule

The City also has $80.5 million in guaranteed debt through 2033, including principal and interest. In these instances the City guarantees debt repayment but does not have primary responsibility for making the debt payments unless another entity does not do so. The other entities with primary responsibility for paying the debt are the Reading Parking Authority (RPA), Reading Redevelopment Authority (RDA), Reading Area Water Authority (RAWA), and Pennsylvania Infrastructure Investment Authority (PENNVEST). The debt service guaranteed by the City is listed in the chart below.

Debt Guaranteed by the City, 2014 - 2033



Initiatives

At the Coordinator's request, the City's financial advisor reviewed Reading's debt portfolio and identified the following refunding opportunities based on the terms of the City's bonds and notes, available information on market interest rates and the City's credit rating (Baa2 at the time of analysis). The City's credit rating has improved since the advisor completed his analysis, so the City may be able to generate more savings than shown here. Assuming the refunding opportunities will generate at least the amount of savings projected below, the City shall proceed with the transactions in the first three initiatives.

At the time of the financial advisor's analysis, there were no likely debt refunding opportunities through 2019. However, the City's improved credit rating and fluctuations in the market may result in other opportunities beyond the three discussed below. The use of any savings generated by any other debt refinancing is subject to the windfall provision in the Administrative Services section.

DS01.	**Refund 2006 Pension Obligation Bonds**	
	Target outcome:	Savings
	Five Year Financial Impact:	$1.0 million
	Responsible party:	Administrative Services Director

The City currently has $32.9 million in pension obligation bond principal and $21.2 million in interest, totaling $54.1 million in debt service payments related to this issue that are currently scheduled to be paid off by 2031. Proceeds of the notes were applied to the actuarial accrued liabilities in the City employee pension plans. The City's financial advisor projected the following potential savings from refunding these bonds.

Please note that the projected financial impact for 2015 is included in the Amended Recovery Plan projections, but currently not in the City's 2015 budget. With the guidance of its financial advisor, the City shall pursue these refunding opportunities and apply any 2015 savings to reduce the use of fund balance in 2015.

Projected Financial Impact

2015	2016	2017	2018	2019
400,000	600,000	0	0	0

DS02.	**Refund 2003 Redevelopment Authority (RDA) Bonds and 2006 RDA Notes**	
	Target outcome:	Savings
	Five Year Financial Impact:	$400,000
	Responsible party:	Administrative Services Director

The City has two Redevelopment Authority's Bonds (RDAs). The Redevelopment Authority was established pursuant to the Urban Redevelopment Act of 1945 (Public Law-991) to provide urban renewal and maintenance programs within the City.[18]

2003 and 2006 RDA Bonds

	Principal	Interest	Total Debt Service	Last Payment
2003 RDA Bonds	$3,090,000	$1,435,738	$4,525,738	2033
2006 RDA Notes	$4,782,612	$2,063,759	$6,846,371	2026
Total	**$7,872,612**	**$3,499,496**	**$11,372,108**	N/A

The 2003 RDA bonds are a capital lease payable to the Redevelopment Authority through 2033. Proceeds of the 2003 RDA bonds were used to finance the construction of the public waste facility. The 2006 RDA note is a federally taxable guaranteed lease revenue note with a 6.1 percent interest rate payable through 2026, the proceeds from which were used to finance the City's 2006 pension costs.[19] Debt service payments for both the 2003 RDA bonds and the 2006 RDA notes are paid fully out of the City's General Fund. The City's financial advisor projected the following potential savings from refunding these bonds.

Please note that the projected financial impact for 2015 is included in the Amended Recovery Plan projections, but currently not in the City's 2015 budget. With the guidance of its financial advisor, the City shall pursue these refunding opportunities and apply any 2015 savings to reduce the use of fund balance in 2015.

[18] Please see the Economic Development chapter for more information on the RDA.

[19] The City of Reading 2013 Audit Report, p. 47

Projected Financial Impact

2015	2016	2017	2018	2019
200,000	200,000	0	0	0

DS03.	Refund 2008 GO Notes	
	Target outcome:	Savings
	Five Year Financial Impact:	$184,000
	Responsible party:	Administrative Services Director

As noted earlier, the City allocates a portion of the debt service costs associated with the 2008 GO notes to the Sewer Fund. So any savings from refunding that note would also be split proportionally between the two funds. The City's financial advisor projected the following potential savings from refunding these bonds.

Please note that the projected financial impact for 2015 is included in the Amended Recovery Plan projections, but currently not in the City's 2015 budget. With the guidance of its financial advisor, the City shall pursue these refunding opportunities and apply any 2015 savings to reduce the use of fund balance in 2015.

Projected Financial Impact

2015	2016	2017	2018	2019
175,000	9,000	0	0	0

DS04.	Avoid use of scoop refunding; require Coordinator approval of debt transactions	
	Target outcome:	Long-term debt management
	Five Year Financial Impact:	N/A
	Responsible party:	Managing Director; Administrative Services Director

Since entering Act 47, the City has had a more prudent approach to managing and using debt. After the unfunded debt borrowing in 2010, the City has not used debt to fund operations. It also terminated most of the swap terminations, as required under the original Recovery Plan. Still, Reading's debt profile remains problematic. Most cities have a debt profile with declining annual debt service payments so as to accommodate future borrowing to fund vital capital projects. In contrast, Reading will see no significant drop off in its debt service payments until 2033.

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As a City in the Act 47 program, the terms of Pennsylvania's Local Government Unit Debt act bar Reading from entering into future swap agreements, so the City will not be able to use these products in the near future.

However, the City shall also make a commitment to avoid the use of scoop refunding to reduce current year debt service and other techniques that extend existing debt, except in cases where there are clear ancillary benefits. Accordingly, the City shall not enter into any debt issue, refunding or restructurings without the approval of the Act 47 Coordinator.

Please note that there are initiatives in the Administrative Services and Elected and Executive Officials chapters that require the City to adopt a formal debt policy to guide future debt management decisions, particularly after the City exits Commonwealth oversight.

Workforce and Collective Bargaining

Non-represented and unionized City employees significantly contributed to the City's improved economic condition since it entered Act 47 in November 2009. Either through negotiated settlements or interest arbitration awards, existing employees took wage freezes (some non-represented took wage cuts), had to pay more for health benefits and saw their holidays and vacation accrual reduced. New hires have new pension structures, lower starting salaries and will not receive post-retirement heath care benefits. These changes allowed the City to stabilize its finances and maintain services without resorting to mass layoffs that other distressed cities, such as Camden, New Jersey, enacted.[1]

While developing this plan amendment, the Coordinator met with all the unions to note the contributions that their members made and to express the preference that the provisions in this Amended Recovery Plan not look like those in the original 2010 Recovery Plan. During these meetings, the public safety unions in particular requested improvements for the employees who have been hired since the expiration of the collective bargaining agreements in place when the City entered Act 47 oversight. As of the writing of this plan amendment, those new hires account for more than 20 percent of IAFF members and more than 25 percent of the FOP.

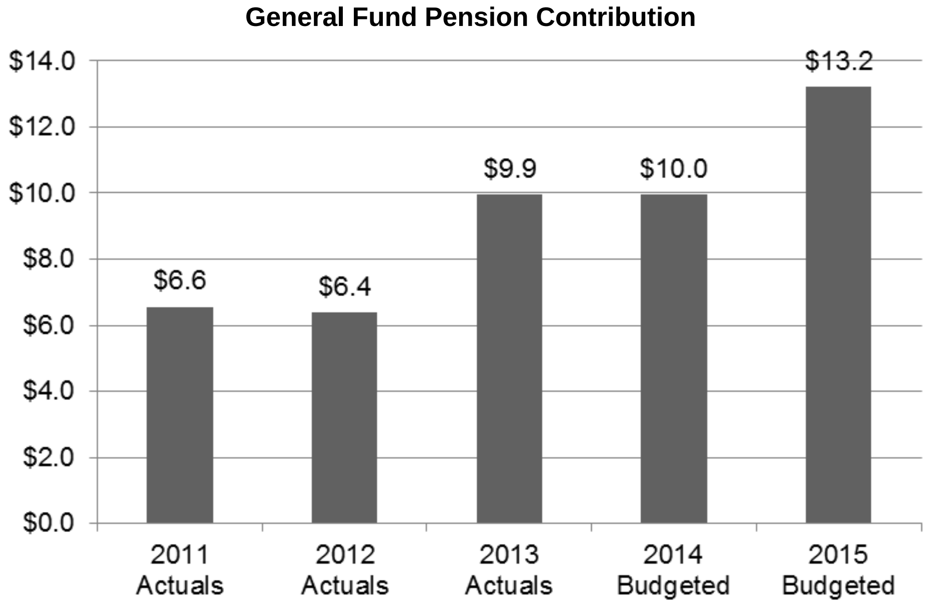
Furthermore, during our meetings with the unions, they expressed their displeasure that while Act 47 imposes restrictions on their compensation, it does not mandate enforceable spending limits across all City expenditures. In particular, they explained the difficulty of accepting the compensation caps while the Administration, City Council and Charter board spent $1 million to resolve disputes between each other. The Coordinator is sympathetic to the unions' position. Indeed, every dollar spent on this type of litigation is one less dollar that can be spent on wages or one more dollar that the City needs from taxpayers. Given the financial situation the City finds itself in, it will require all parties to work together in order to avoid receivership.

The Coordinator expects the City's employees will be disappointed to see the similarities between the Amended Recovery Plan and the original Plan passed in 2010. As explained to the union leaders and several others, the dilemma for the Coordinator, the City and the employees is how to provide wage increases to current employees while at the same time contending with the relentless and exponential growth of pension and retiree health insurance costs.[2] As shown in the chart on the next page, since 2011, City General Fund expenditures on just pensions have doubled from $6.6 million to $13.2 million in 2015. These costs do not include the $1.8 million - $3.6 million in annual debt service payment related to the pension bonds the City issued in 2006[3] or the substantial cost of retired employee health insurance that is described later.

[1] Camden, New Jersey laid off 60 firefighters and over 16 police officers in 2011. It rehired many police officers at lower pay rates when it created a County-wide police department.

[2] For a more detailed consideration of these issues, please see the Pension and OPEB Chapter.

[3] The 2015 budget includes $1.8 million for principal and interest payments on the 2006 pension bonds. Absent any future refunding, the scheduled debt service payments rise to $3.6 million from 2019 until the debt is fully repaid in 2031.



The 2007 agreement between the City and Fraternal Order of Police, Lodge No. 9 that significantly increased pension benefits in excess of what the Third Class City Code permits contributed greatly to these cost increases.[4] In the Pennsylvania Auditor General's 2010 review of the City's police pension fund for the period from January 1, 2007 through December 31, 2008, he identified the following police pension benefit provisions unauthorized by the Third Class City Code:

- Pension calculation allowing the police retiree to retire with between 60 percent and 70 percent of final average salary instead of up to 50 percent of the higher of the rate of monthly pay at the date of termination or the highest average annual salary during any 5 years of service.

- Member contribution rate of 6.5 percent of base salary plus $1 per month instead of up to 5 percent of the officer's compensation, plus service increment contributions.

- Ability of employee to buy up to five years of service credit (commonly referred to as "ghost time" since the employee did not actually work during this period) at a rate based upon his or her first year of hire any time prior to retirement. The Third Class City Code does not authorize the purchase of such "service" credit.[5]

The Auditor General noted that, "Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses."[6] Even more troubling, the Auditor General found that "[p]ension benefits for members of the City's police pension plan were increased without a complete and accurate cost estimate of the effect of the increases prior to implementation, as required by Act 205."[7] Perhaps had the parties completed the legally required cost analysis and the true costs been identified, this issue could have been avoided.

[4] This agreement was negotiated by a prior City manager under the previous mayoral administration and prior to the City entering Act 47.

[5] City of Reading Police Pension Plan Compliance Audit Report. Page 7.

[6] Ibid. Page 8.

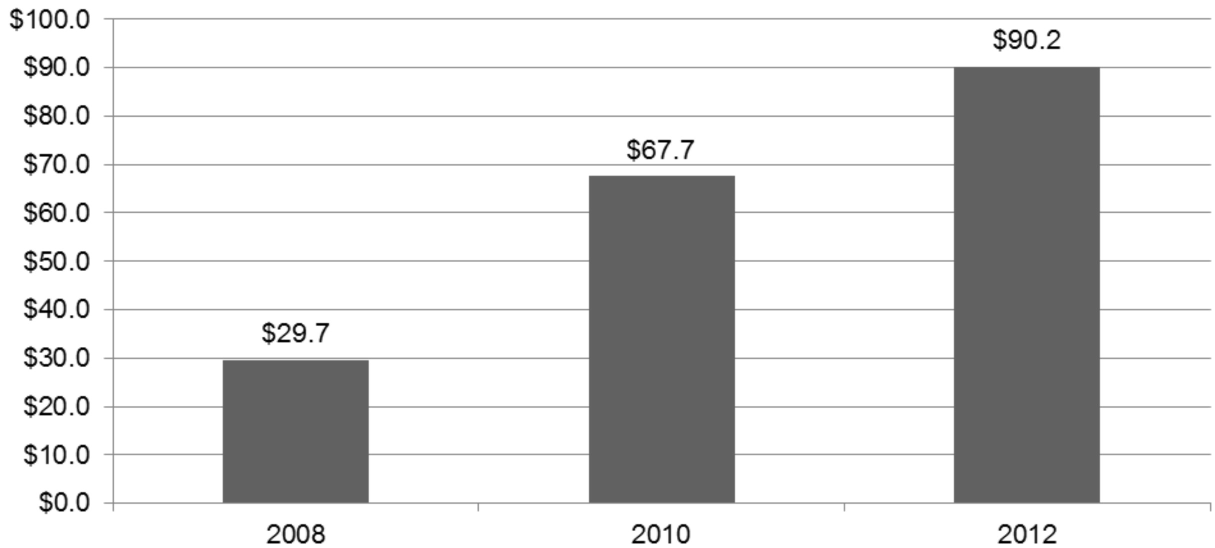
[7] Ibid. Page 15.

Since police officers do not have to reach a minimum age to receive the pension benefit, the department has had individuals retire in their late-30s with less than 15 years of actual City service and immediately start to receive an annual pension of almost $50,000. As of January 1, 2013, the police pension fund had 60 retired police officers under the age of 50 who collect a normal retirement pension that averages $48,881 per year. The total annual pension benefit for this group was approximately $2.93 million in 2013. There are not similar issues with the other employee groups that have minimum age requirements of at least 50 to collect pensions. This is also not an issue for police officers hired after December 31, 2011, who receive a pension benefit in accordance with the Third Class City Code including a minimum age requirement of 50.

The second aspect of retired employee compensation that receives much less attention, but is also a concern, is the cost of "other post-employment benefits" (OPEB). More specifically, the City provides health care to certain retired employees and their spouses until they are eligible for Medicare.[8] Many current retirees contribute little toward the cost of this coverage. For police who retired before 2007, firefighters who retired before 2002, and non-uniformed employees who retired before 2005, there is no regular monthly premium contribution to the cost of health insurance.[9]

Like the pension benefits, the retiree health insurance creates an ongoing liability for the City. The City is required to hire an actuarial firm to calculate the size of this OPEB liability relative to the assets that the City has set aside for them (if any). The most recent valuation showed that the City's actuarial accrued OPEB liability was $90.2 million as of December 31, 2012.[10] This liability more than tripled in a four year period.

Actuarial Accrued OPEB Liability



Source: OPEB Valuation for fiscal year ending December 31, 2012; page 10.

[8] The City also provides life insurance to retired firefighters. According to the most recent OPEB valuation, life insurance accounts for only $350,000 of the $90.2 million OPEB liability.

[9] This refers to the contributions that employees make even if they do not use the medical care, sometimes called "premium contributions." This does not refer to the payments that retirees make when they receive care (e.g. deductibles, co-payments). Members of the AFSCME 3799 bargaining unit and non-represented employees who retired before 2007 also do not make this regular monthly contribution.

[10] Like pension valuations, OPEB valuations are prepared every other year. The City's 2015 budget allocates money to conduct the next valuation that will cover the period ending December 31, 2014.

Unlike the pension liability which the City is required by Pennsylvania law to fund, there is no legal requirement for the City to prefund this liability. Consequently, the City only pays the annual retiree health care costs that its retirees actually incur which results in the liability growing over time with no assets set aside to counter its growth. But this does not mean that the liability or its growth has no impact on the City's annual budgets. The actuary estimates that the cost of retiree medical claims, net of the employee contribution, will reach $4.6 million by 2016 and $5.1 million by 2019.

The Coordinator does not fault the retired employees who receive these benefits. They negotiated these benefits during their employment and planned on their existence in preparing for life after City employment. However, they are extremely costly and, absent any changes, they limit the City's ability to increase compensation for current or future employees.

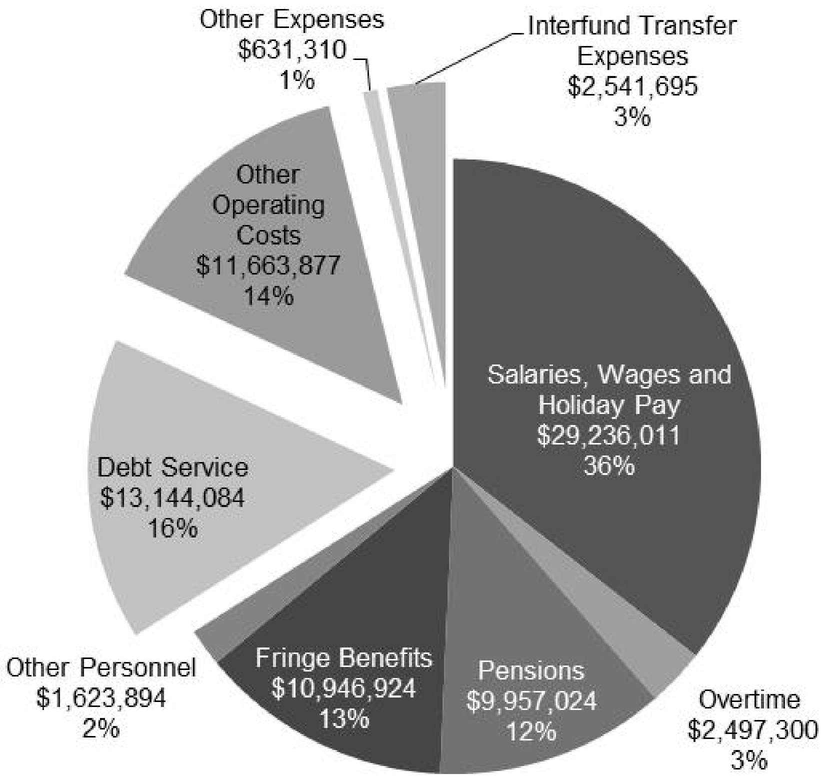
Reading must contain these retiree benefit costs to achieve true financial recovery, regardless of its Act 47 status. Therefore, this Amended Plan includes initiatives that would begin to address these liabilities, with savings estimates where possible based on available data. While the Coordinator prefers that the City and its employees agree to retiree benefit changes that allow the City to direct more money to active employee compensation, the Coordinator cannot rely on that occurring due to litigation concerns. Consequently, many of the provisions used to limit active employee compensation in the 2010 Recovery Plan are used again in this Amended Plan.

The remainder of this chapter provides an overview of City workforce costs and describes the Amended Plan initiatives.

City Workforce Overview

People who live in, work in and visit Reading depend on the City's workforce to maintain safe and clean streets, prevent and investigate crime, respond to fire and medical emergencies, and deliver the other important services of municipal government. Because workforce costs comprise such a large proportion of the City's General Fund, they also play a critical role in the City's financial stability. Compensation costs for active and retired City employees account for at least $52.6 million or 64 percent of the City's $82.2 million General Fund expenditures budgeted for 2014. If the $1.8 million in pension bond debt service expenses were shown separate from other debt, the share of City expenditures committed to employee compensation would be even higher.

2014 General Fund Budget[11]



The following table shows the total number of full-time budgeted positions for each fund as recorded in the position ordinance adopted by City Council during the annual budget process.[12] Since these are budgeted and not filled positions, the actual number of employees has varied over this period. The City did not begin listing part-time positions in the ordinance until 2013, so they are excluded from the chart. Also some non-uniformed employees have positions that are listed in one fund, but their compensation is paid by another fund (e.g. an accountant who works on sewer operations is listed in the General Fund but paid from the Sewer Fund).

Full-Time Budgeted Positions, 2010-2014

	2010	2011	2012	2013	2014
General Fund	518	495	495	488	513
Water Fund	63	64	0	0	0
Sewer Fund	67	67	67	68	63
Recycling/Trash Fund	3	1	15	17	19
Self Insurance Fund	2	2	1	1	1
Total	**653**	**629**	**578**	**574**	**596**
Total Not Including Water Fund	**590**	**565**	**578**	**574**	**596**

The biggest change since 2010 is in the Water Fund where the City shifted its employees to the Reading Area Water Authority (RAWA) in 2012. The number of full-time positions in the General Fund and across all other funds has remained relatively stable since the City entered Act 47.

[11] This chart only shows the personnel related expenditures from the City's General Fund. The City has other employee compensation expenses in its enterprise funds.

[12] The 2010 figures come from the 2011 position ordinance. The other figures come from the year shown in the column (2012 figures from the 2012 position ordinance).

Most of the City's workforce is represented by one of three public employee labor unions – Fraternal Order of Police, Lodge No. 9 (FOP); International Association of Fire Fighters, Local 1803 (IAFF); and the American Federation of State, County and Municipal Employees (AFSCME), Local 2763 – that have the right to collectively bargain with the City subject to the limitations imposed by Act 47. The City must meet and discuss with a fourth union representing first level supervisors (AFSCME, Local 3799), but is not required to collectively bargain with it. The chart below details the number of budgeted and actual employees by bargaining unit as of August 31, 2014 as well as the respective bargaining unit's contract term.

City Headcount by Bargaining Unit chart

Employee Group	Covered Positions	2014 Total Employees Budgeted	Actual	Contract Term
Fraternal Order of Police (FOP), Lodge. 9	All sworn Police Officers with the exception of the Chief of Police	167	167	1/1/2012-12/312016
International Association of Fire Fighters (IAFF), Local 1803	All Fire Fighters with the exception of the Fire Chief, First Deputy Chiefs, and the Deputy Chief/EMS	145	140	1/1/2011-12/31/2015
American Federation of State, County, and Municipal Employees (AFSCME), Local 2763	All full-time professional and nonprofessional employees, excluding confidential employees, seasonal employees, casual employees, supervisors and management level employees and school crossing guards	185	176	1/1/2012-1/1/2016
American Federation of State, County, and Municipal Employees (AFSCME), Local 3799	All full-time first level supervisory employees	23	22	1/1/2010-12/31/2014
Non-Represented Employees	Management, professional, and elected[1]	83	76	N/A
Total		**603**	**581**	

[1] This excludes part-time employees

Compensation

The following table presents the City's General Fund personnel expenditures for 2011 through 2014. This does not include pension bond debt service or expenditures for employees compensated outside the General Fund. Most expenditures in the Fringe Benefits category are for employee medical and prescription drug insurance, though the line also has expenditures for dental, vision and life insurance. The premium pay category covers longevity and holiday pay.

Personnel Expenditures in the General Fund

Category	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change
Salaries	27,421,285	26,060,627	25,874,593	27,529,911	0.4%
Fringe Benefits	8,536,177	10,076,977	10,021,828	10,946,924	28.2%
Temporary Wages	911,207	878,854	678,507	956,629	5.0%
Premium Pay	1,449,934	1,202,543	1,031,834	1,086,554	-25.1%
Overtime	3,367,402	3,652,795	2,995,212	2,497,300	-25.8%
Pension	6,634,508	6,392,011	9,947,536	9,957,024	50.1%
Social Security	994,411	961,642	909,153	1,045,650	5.2%
Unemployment Comp	227,164	133,050	37,837	100,000	-56.0%
Uniforms & Clothing Allowance	222,446	224,222	259,607	239,526	7.7%
Penny Fund	10,633	12,491	4,117	2,035	-80.9%
Total	**$49,775,168**	**$49,595,212**	**$51,760,225**	**$54,361,553**	**9.2%**

This chart puts numbers to the challenges described earlier. The combined impact of the three-year wage freezes, lower starting salaries for new employees and other provisions in the 2010 Recovery Plan has enabled the City to keep salary expenditures flat and reduce spending on other forms of cash compensation. Salary expenses were budgeted to increase by $1.6 million (6.3 percent) in 2014 and will continue to rise since the three largest bargaining units have 2.0 percent increases in 2015. The City has been able to stabilize its costs without resorting to layoffs, so spending on unemployment compensation has dropped.

However, even with all of these changes, the City's total compensation costs still rose over this period because of the two factors mentioned earlier – higher pension contributions and rising health insurance costs, especially for retired employees. Pension costs increased by 50.1 percent which was the fastest growing compensation line item. The City's fringe benefit costs (active and retired employees) increased by 28.2 percent on a gross level and 20.0 percent net of the employees' increased contributions toward those costs. Under the provisions of the 2010 Recovery Plan, the City's budgeted contribution toward the cost of active employee health insurance can increase by only five percent per year.[13] But that cap does not apply to many retired employees who left City employment before the Recovery Plan provisions took effect. Those costs will continue to grow and the City will continue to shoulder most of the increase, absent any corrective action.

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change
Fringe Benefits	8,536,177	10,076,977	10,021,828	10,946,924	28.2%
Employee contribution t	664,971	1,120,222	1,451,416	1,500,000	125.6%
Net City Contribution	**7,871,206**	**8,956,755**	**8,570,412**	**9,446,924**	**20.0%**

[13] Please see initiative WF24 in the 2010 Recovery Plan, pages 66-68.

Act 47 and collective bargaining

Since Reading City Council adopted the original Recovery Plan by ordinance in June 2010, the Pennsylvania General Assembly amended Act 47 to clarify and redefine how it and Act 111 (also known as the Policeman and Fireman Collective Bargaining Act) interrelate. Act 47 now requires the Recovery Plan Coordinator to set "limits on projected expenditures for individual collective bargaining units that may not be exceeded by the distressed municipality giving due consideration to the projection of revenues and expenses…."[14] Notably, Act 47 does not provide additional guidance as to how the Coordinator sets those limits, leaving this decision within the discretion of the Coordinator. The only limitation on the Recovery Plan Coordinator is that the expenditure limit for an individual collective bargaining unit cannot be arbitrary, capricious or established in bad faith.[15]

Though an Act 111 interest arbitration panel may deviate from the Recovery Plan or any amendment thereto, it may only do so where the award "will not cause the distressed municipality to exceed any limits on expenditures for individual collective bargaining units imposed under the plan," "will not further jeopardize the financial stability of the distressed municipality …," and "is not inconsistent with the policy objectives … to relieve the financial distress of the distressed municipality."[16] The Recovery Plan Coordinator reviews any Act 111 interest award deviating from the plan or plan amendment to determine whether the award fulfills the criteria permitting such deviation. The distressed municipality, collective bargaining organization or the Coordinator and DCED Secretary may appeal the interest arbitration award to Commonwealth Court. The Coordinator's decision on setting the expenditure limits for individual collective bargaining units will stand unless the Court finds that the limit is arbitrary, capricious or established in bad faith.[17]

An additional complexity this new framework presents in the instant matter is that this is a five-year plan amendment beginning January 1, 2015, but the IAFF collective bargaining agreement does not expire until December 31, 2015 and the FOP and AFSCME 2763 collective bargaining agreements do not expire until December 31, 2016.

The City's economic condition could change significantly for the better or worse in a relatively short time requiring more or less savings amounts from the bargaining units (as well as more or less tax revenues from taxpayers). The City will likely have a new pension valuation report before the FOP and AFSCME 2763 agreements expire, so the City's projected pension contributions could change from the amount in the baseline projection, again reducing the amount of money available for current employees. There is also uncertainty regarding how the City's taxing powers will change under a potential amendment to Act 47 itself.[18] And there is the possibility for the City and its former and current employees to agree to changes that reduce the costs of pensions and retiree health insurance so the savings can be redirected to active employee compensation. Given these factors, the Coordinator reserves the right to and expects to amend the expenditure limits for collective bargaining units before the expiration of the respective labor agreements.

Although the IAFF, FOP and AFSCME 2763 contracts expire in the future, the Coordinator is willing to discuss adjusting the collective bargaining unit expenditure limits for active employees and/or altering the wage patterns it based those limits on if the City and its employees reach agreements that produce savings prior to the respective contract expiration. Any savings must occur during the term of the

[14] Municipalities Financial Recovery Act, Section 241(11).

[15] Ibid. Section 252(b.1).

[16] Ibid. Section 252(b)(1)-(3).

[17] Ibid. Section 252(e)(4).

[18] Please see the Revenue chapter for more discussion of this amendment.

Amended Recovery Plan relative to the Plan's baseline and must be verified by the Coordinator. In the case of pension savings, the savings must be to the MMO and further verified by the City's actuary. For retiree health care savings the savings must be to the "pay as you go costs" the City is incurring and further verified by its third party health insurance administrator. The discretion to adjust the collective bargaining unit allocations and by how much (if any) remains with the Plan Coordinator.

With those factors as context, the Coordinator approached the Amended Recovery Plan initiatives contending with the following requirements and limitations.

<u>The City must balance its annual revenues against annual expenses, maintain an appropriate level of reserves and direct more resources to maintaining core assets</u>

The Amended Recovery Plan Introduction describes the baseline projection of the City's General Fund revenues and expenditures through 2019. That projection shows a deficit of $8,528,384 in 2016, rising to $14,436,601 in 2019. As serious as those financial challenges are, they do not cancel out the financial progress that the City of Reading has made. Thanks to the efforts of taxpayers and employees, the City has broken the string of consecutive years with annual operating deficits and built a modest and necessary cash reserve while also retiring the large immediate liabilities that contributed to the City's entry into Act 47, like the delinquent required contributions to the employee pension funds and the multi-million dollar debt to the Sewer Fund.

To reach the long term goal of achieving financial recovery, however, City government must continue to balance its revenues and expenditures every year. Some use of the City's reserve is appropriate, particularly where it can be used as a one-time source of funding to meet one-time needs. But the City must maintain an appropriate level of reserves to provide a buffer against unexpected revenue shortfalls or unbudgeted expenditures in order to avoid the cash crunch that led to some of the pre-2010 decisions that made the early stages of financial recovery more difficult.[19]

The City also cannot continue to neglect its infrastructure needs. It was reasonable for the City to postpone most capital improvements during the early years of its Act 47 status, so it could solidify its ability to fund day-to-day operations, but that is not a sustainable long term strategy. At a minimum, the City needs to direct some of its limited resources to resurface streets, remediate bridges, repair dams and renovate buildings, including the places where City employees work.[20]

And, while some changes to increase revenues as outlined in the Revenue Chapter are necessary to address the projected deficit, the City cannot achieve financial recovery solely by making changes on that side of the ledger. The City must also control the growth in its expenditures, most of which are related to employee compensation.

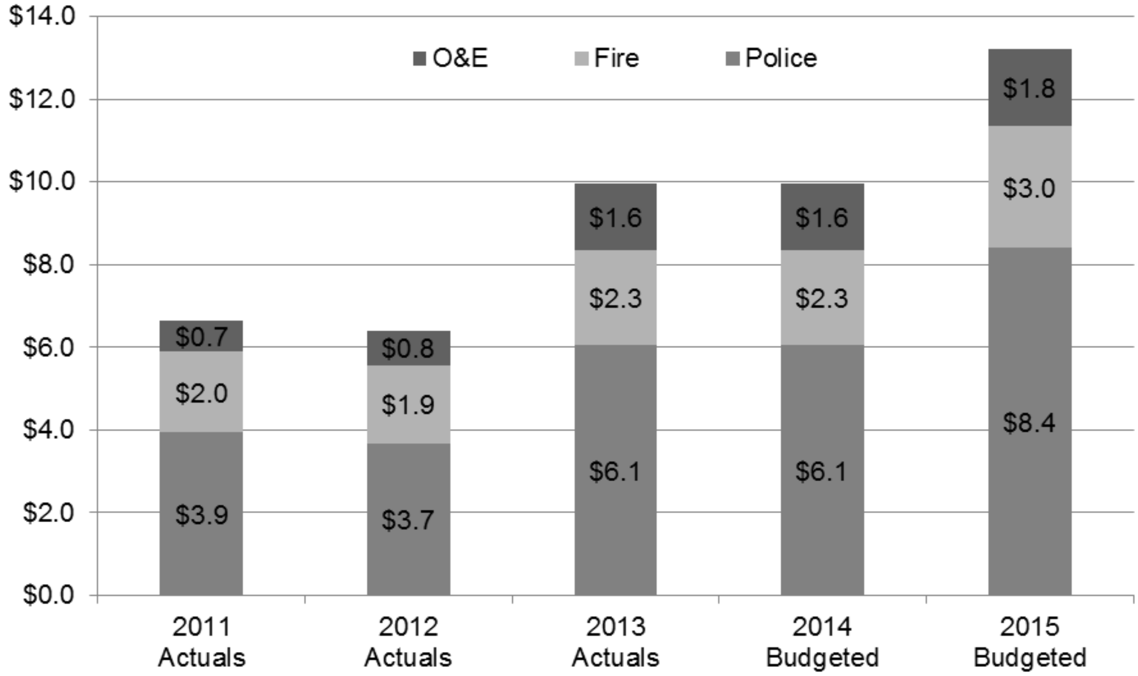
<u>Cost increases from pension and retiree health care, particularly for retired police officers, is constraining the City's ability to invest in its current and future workforce</u>

The 2015 General Fund budget that Mayor Vaughn Spencer introduced has $59.0 million in total personnel costs compared to $54.3 million in the 2014 budget. Much of that $4.7 million increase is directly attributable to a $3.24 million increase in the City's required pension contribution from $9.96 million in 2014 to $13.20 million in 2015. The City's pension contribution increases for each of the three plans (police, fire and officers and employees), but the increase is largest in the police plan (both in terms of dollars and percentages) where it grows from $6.1 million to $8.4 million – a 37.7% increase.

[19] Please see the initiative section of the Administrative Services chapter for more information on this issue.

[20] Please see the Capital Improvement chapter for more information.

City General Fund Pension Contributions ($ Millions)[21]



The 2007 FOP agreement that substantially increased pension benefits for the officers who were active at that time continues to drive a higher required City contribution to that plan. While there is little that this Amended Recovery Plan can do to reach those who already retired under this set of pension benefits, as of 2014, there were 122 active police officers (including those in the DROP) who fall under the 2007 agreement's pension terms. There is still opportunity to change the pension benefits for these employees and reduce the City's contribution costs going forward, if the City and those employees agree to do so or if an interest arbitrator or court permits.

Additionally, though to a much lower extent, the City is incurring additional pension costs from active firefighters hired before December 31, 2010, who have overtime included in their final average salary. Relative to the police, firefighter pension costs are mitigated because the provisions of the fire pension plan require the retiree to reach age 50 before collecting his or her normal retirement pension.

With respect to retiree health insurance costs, former police officers again account for a higher share than other employee groups. The most recent OPEB valuation found that, as of December 31, 2012, police officers accounted for $68.9 million of the $90.2 million accrued actuarial liability (76.3 percent), firefighters for $15.1 million (16.8 percent) and non-uniformed employees for the rest (6.9 percent).[22]

The disproportionate share of police costs is not solely a function of the police department's size. In addition to the pension provisions that allow the police officers to retire early by purchasing up to 10 years of service credit (if eligible for military service), police officers do not have an age requirement to start collecting their normal retirement pensions. Consequently, they leave City employment earlier than other employee groups, as evidenced by the 60 retired police officers under the age of 50 who were receiving

[21] This is the City's contribution, net of the amount contributed by employees. There are additional City contributions for the O&E plan outside the General Fund that are not shown here.

[22] AFSCME 2763 accounts for $5.0 million (5.6 percent), non-represented employees account for $0.6 million (0.7 percent) and AFSCME 3799 accounts for $0.5 million (0.5 percent).

normal retirement pensions as of January 1, 2013, and start receiving retiree health insurance immediately. All of these factors combine to increase the police-related liability.

The City must contain these retiree benefit costs to achieve fiscal stability, regardless of its Act 47 status, but significant litigation concerns exist. Therefore, this Amended Plan includes suggested initiatives that would begin to address these liabilities, with savings estimates where possible based on available data. For some initiatives, the City will need to seek the guidance of the external actuary that is best suited to quantify the impact and clarify the timing of that impact on the City's required contributions.

The Coordinator prefers that the City achieve savings through retiree benefit changes, but cannot rely on those savings

There are limited options for reducing the pension costs through provisions solely authorized in this Amended Recovery Plan. The Coordinator does not believe the Amended Recovery Plan can require changing the pension benefits for employees who have already retired without the City undergoing a lengthy, expensive litigation process which does nothing to address the City's immediate challenges.

Changing the benefits for future employees, who will be hired after the adoption of this Amended Recovery Plan, is an option included here however the 2010 Recovery Plan already made major changes for employees hired after that Plan's adoption. The pension benefits for police officers hired after 2012 and firefighters hired after 2011 comply with the Third Class City Code, and neither "new hire" group has access to retiree health insurance. The AFSCME employees who generally have lower pension benefits also agreed to establish a defined contribution plan for new employees, which is underway.

Changing the benefits for active employees who can still access the most costly pension and retiree health insurance provisions but have not done so yet is also an option. But that depends on the City and those employees reaching an agreement that makes enough changes to reduce the City's costs during this Amended Plan period or an interest arbitrator or a court eliminating the pension provisions not compliant with the Third Class City Code.

The Coordinator is then left in a situation where it must present an Amended Recovery Plan that balances revenues and expenditures on an annual basis but cannot rely on savings related to retiree benefit costs, although that is the Coordinator's preferred approach. So instead the Coordinator is left to control costs by limiting compensation for active employees through the maximum annual expenditure limits for collective bargaining units that are now required under Act 47. Given the differences in the kinds of pension and retiree health insurance benefits that employees can access depending on their bargaining unit membership, the Amended Recovery Plan applies different wage patterns for calculating these expenditure limits to those bargaining units. Because more City dollars are going to fund retiree benefits, there are fewer dollars to go toward active employee compensation.

It is the Coordinator's intention that the City negotiate with its employees' collective bargaining unit representatives in good faith to incorporate the following cost containment provisions and expenditure limits as well as any others throughout this Amended Recovery Plan that may require changes to the collective bargaining agreements when they expire. However, if the City is unable to reach agreement with any of its bargaining units, resulting in interest arbitration or other legal proceedings, it is the express intention of the Coordinator that the implementation of these cost containment provisions and bargaining unit expenditure limits is mandatory. All mandatory cost containment provisions must be addressed.

Whatever reference is made to parameters for all bargaining units, employee groups or collective bargaining agreements, such provision shall also apply fully to non-represented personnel unless expressly stated otherwise. Further, wherever reference is made to parameters for provisions in collective bargaining agreements, such provisions shall also fully apply to any side agreements, memoranda of understanding, interest arbitration awards, grievance arbitration awards, settlement agreements, or any other documents. Further, no past practices shall in any manner interfere with any of the initiatives in this Amended Recovery Plan.

It is the specific intent of the Coordinator that no provisions of any collective bargaining agreements, memoranda of understanding, side agreements, interest arbitration awards, grievance arbitration awards, settlement agreements, nor any other documents or past practices may be interpreted or applied, nor may any new provisions be added to any such agreements or documents which would have the effect of additional costs to the City for the implementation of any initiatives in the original or Amended Recovery Plan. To the extent any of these events occurs, the Coordinator expressly notes that such cost increases will count toward the respective collective bargaining unit's expenditure limits and will be required to be offset by equal cost reductions so as not to exceed such limit.

Bargaining Unit Expenditure Limits

As noted earlier in this Chapter, under the Act 47 revisions, the Coordinator must now set limits on projected expenditures for individual bargaining units that may not be exceeded by the City or an Act 111 interest arbitration panel. Act 47 does not provide any guidance as to the methodology for setting such projected expenditure limits except to note that they not be arbitrary, capricious or established in bad faith. As of the writing of this Amended Recovery Plan, the Coordinator is not aware of any court decision examining such a methodology, so the Coordinator is left to rely upon its judgment in setting these projected expenditure limits.

While it may have been easier to simply split the amounts needed to fill the projected City budget gap between revenues and expenses and then apply a percentage savings amount based on bargaining unit compensation cost proportionately to each of the bargaining units, the Coordinator did not do so. The Coordinator felt that such an approach was too mechanical and did not consider the contributions employees made in the original Recovery Plan or the factors driving City expenditure increases.

Furthermore, the Coordinator wished to develop a plan that puts the City on a path to exit Act 47, but still encourages collective bargaining between the City and its employee organizations. The Coordinator believes that this approach follows the spirit of the Legislature's Act 47 revisions. Given that the FOP, IAFF and AFSCME 2763 collective bargaining agreements do not expire until next year at the earliest, however, the Coordinator needs the flexibility to adjust those limits based on the City's economic condition at a point closer to the respective contract's expiration and explicitly has reserved that right.

In determining the bargaining unit limits, mindful of the significant projected budget gaps that the City faces and the requirements and limitations noted earlier in this Chapter, the Coordinator began by first reviewing the initiatives from the original Recovery Plan that impacted employees and were implemented either through negotiation or interest arbitration. We did so because these initiatives were shown to contribute greatly to the City's improved financial status as compared to when it entered Act 47 and represent the status quo for these bargaining units. The Coordinator used continued application of these initiatives through 2019 as a starting point for the purposes of determining the bargaining unit limit calculations being mindful of the new hires in the fire and police departments who have different pension and retiree health care benefits.

With respect to the IAFF and AFSCME 2763 bargaining units, the Coordinator was able to approximate the implemented initiatives from the original Recovery Plan. Although the across the board wage pattern for the IAFF bargaining unit is 1% less than in the original Recovery Plan, the Amended Recovery Plan provides for steps and places employees hired after December 31, 2011, onto the step based on their years of service in 2016 (i.e., firefighters hired in 2013 move to step 3 of the new hire wage scale, those hired in 2012 move to step 4 of the new hire wage scale).[23] The Coordinator notes that the fire

[23] The original Recovery Plan provided all bargaining units with a wage pattern of 0%, 0%, 0%, 2% and 2% over five years. Under the Amended Recovery Plan, the IAFF collective bargaining unit may not extend past 2019 and therefore must at most be a four

department was one of the few City departments to have more employees now than at the beginning of the original Recovery Plan due to a grant that is set to expire in early 2015.[24] For AFSCME 2763, the Amended Recovery Plan does not provide for any across the board wage increases but provides for steps and longevity for those employees who were eligible for the longevity benefit during the original Recovery Plan. For AFSCME 3700, the Amended Recovery Plan provides for a wage pattern of 0%, 0%, 0%, 1% and 1%. For non-represented, wages are frozen throughout the Amended Recovery Plan.

For the FOP, the Amended Recovery Plan provides for steps for eligible FOP members, but also assumes a wage cut of 3.5% to the FOP salary scales in 2017 and wage freezes for 2018 and 2019 and places all police officers under the same health care structure as all other City employees.[25] This is not because the Coordinator does not value the job that the police department is doing for City residents. As noted in the Police chapter, the police department is performing exceptionally well. Instead, the issue is one of cost. Most of the FOP bargaining unit continues to have a pension benefit in excess of the Third Class City Code with a structure that permits individuals to retire and collect a pension without regard to age. Other bargaining units do not have a similar pension benefit. Not only does this structure drive up City pension costs, but it also impacts retiree health care costs since more police retirees take the benefit at younger ages than do members of other bargaining units. Additionally, as noted in WF03, police officers hired prior to December 31, 2011, were permitted to remain in a PPO plan where the premium equivalent cost for family coverage less the police employee contribution already exceeds the City's "cap" for family coverage for all other City employees.

Throughout the Amended Recovery Plan, the Coordinator has suggested additional savings initiatives that, if enacted, could be used to improve the wage patterns on which the bargaining unit expenditure limits are based. Savings from these initiatives have not been assumed in the respective bargaining unit's expenditure limits.[26] These savings must occur during the term of the Amended Recovery Plan relative to the Plan's baseline and must be verified by the Coordinator. The discretion to adjust the collective bargaining unit allocations and by how much (if any) remains with the Plan Coordinator.

Initiatives

WF01.	**Continue to use professional assistance for labor negotiations**	
	Target outcome:	Improved management capacity
	Five-Year Financial Impact:	N/A
	Responsible party:	Managing Director, Human Resources Director
	Impacted employee group	All employee groups except non-represented employees

The City shall continue to use experienced public employment labor counsel for its labor relations activities. With the support of its labor counsel, the City shall make a good faith effort to achieve negotiated labor agreements consistent with this Amended Recovery Plan.

year agreement. Employees hired after December 31, 2011, do not receive any "back pay" from this movement. The IAFF interest arbitration award did not provide for step increases for any IAFF member including new hires.

[24] For more information on the grant, please see the Fire Chapter.

[25] Under the Amended Recovery Plan, the FOP collective bargaining unit may not extend past 2019 and therefore must at most be a three year agreement.

[26] These initiatives are FD01, PD04, PD05, PD06, PD08, and PD09.

WF02.	**Ensure future collective bargaining agreements remain compliant with the Amended Recovery Plan**	
	Target outcome:	Cost reduction and avoidance
	Five Year Financial Impact:	N/A
	Responsible party:	Managing Director, Human Resources Director
	Impacted employee group	All employee groups

No person or entity, including (without limitation) the City, a union representing City employees or any interest or grievance arbitrator appointed pursuant to Act 111 or Act 195 or otherwise, shall continue in effect past the stated expiration date of any current labor agreement the wages, benefits or other terms and conditions of the existing labor agreement if such wages, benefits or conditions are inconsistent with initiatives made herein.

Furthermore, no collective bargaining agreement, reached through negotiations or interest arbitration, shall extend past the expiration of the Amended Recovery Plan.

WF03.	**Continue health insurance cost control provisions and apply City contribution cap to police officers hired before December 31, 2011**	
	Target outcome:	Cost control and additional savings
	Five Year Financial Impact:	$877,000
	Responsible party:	Director of Administrative Services, Human Resources Director
	Impacted employee group	All employee groups

The 2010 Recovery Plan established maximum monthly contributions per eligible employee based on premium equivalents for the respective coverage levels (single, dual, family) that the City would make toward the cost of employee health care coverage (medical, prescription drug, vision and dental coverage) for active employees.[27] Employees are responsible for paying the difference between the monthly premium equivalent cost of the plan and the maximum monthly contribution or "cap" as noted in the Recovery Plan. Because of the staggered expiration dates for the collective bargaining agreements, the Recovery Plan set maximum monthly City contributions per eligible employee based on premium equivalents for the respective coverage levels through 2016, even though some collective bargaining agreements will expire earlier.

As a result of that provision, the City negotiated a three tiered plan with differing coverage options and premium equivalent costs from which employees could select. The "Premier" Plan gives employees the choice of a plan with low monthly contributions (because the premium equivalent is close to the "cap" established by the Recovery Plan) but higher deductibles, out-of-pocket maximums and co-payments. The Preferred Plus requires the employee to pay higher monthly contributions but has lower deductibles, out-of-pocket maximums and co-payments when the employee seeks medical care. The Preferred Option falls in between the Premier and Preferred Plus option. Employees can move between the different Plan options during annual open enrollment periods.

[27] The premium equivalent costs are developed by the City's health care consultant based on all City health care expenditures.

The 2012 interest arbitration award for the FOP provided that officers who were employed on or before December 31, 2011 could continue to use the Preferred Provider Option (PPO) plan in place before the City entered Act 47, in place of the Preferred Plus option. The more costly indemnity plan was eliminated. That award also gave these more senior police officers a different contribution structure with the officers paying five percent of the monthly premium for Premier coverage, 10 percent for Preferred and 15 percent for the PPO. No party objected to this provision, because at the time of the interest arbitration award, these employee premium share amounts approximated the amounts paid by other City employees as established in the original Recovery Plan.[28]

The Amended Recovery Plan continues the same "cap" structure from the original Recovery Plan and applies it to all employees, including police officers hired before December 31, 2011. The City shall make the following maximum monthly contributions per eligible employee based on coverage level (single, dual, family) for employee health care coverage for each active employee enrolled in City-provided health insurance with employees responsible for any difference between the "cap" and the premium equivalent cost of the plan as determined by the City's health care consultant. The maximum amount includes medical, prescription drug, vision and dental coverage. It includes all payments toward health insurance premiums and benefit costs, as well as any taxes, surcharges, penalties, assessments, and other charges and costs which the City may be required to pay under federal or state laws, including the Patient Protection and Affordable Care Act of 2010 ("ACA"), or any other federal or state amendments, regulations, statutes or regulations.[29]

Maximum City Monthly Contribution Per Eligible Employee Enrolled in City-Provided Health Insurance

	2014	2015	2016	2017	2018	2019
Single	521	548	575	604	634	666
Dual	1,058	1,111	1,167	1,225	1,287	1,351
Family	1,553	1,631	1,712	1,798	1,887	1,982

The City's maximum monthly contribution grows by 5 percent per year, just as it did in the 2010 Recovery Plan. The Amended Recovery Plan baseline already accounts for most of the savings associated with this initiative since it extends a provision already in place for most active employees. Because the Amended Recovery Plan baseline assumes that the "cap" structure established in the 2010 Recovery Plan remains in place for the employee groups already under it, we do not show any savings in the "financial impact" below for those employee groups.

This initiative also applies the "cap" structure to police officers hired before December 31, 2011, once the FOP collective bargaining agreement expires. We will have a much better sense of the financial impact of this change as we get closer to the expiration of the FOP collective bargaining agreement and will revise the estimate accordingly. We expect the premium equivalent cost of the police PPO plan less the police employee contribution to exceed the City's respective "cap"

[28] Police officers hired after December 31, 2011 have the same three options (Premier, Preferred, Preferred Plus) and contribution structure as other active City employees.

[29] The Coordinator explicitly notes that the premium equivalent City "cap" amounts include the ACA's "Cadillac Tax" and any employee who has selected a plan that triggers the Cadillac Tax will be responsible for the full Cadillac Tax amount. The Coordinator's preference would be for the respective parties to restructure health care plans so that they do not trigger the "Cadillac Tax." (See Initiative WF04).

by 2017. As of the writing of the Amended Recovery Plan, the premium equivalent cost for family PPO coverage less the police employee contribution already exceeds the City's "cap" for family coverage.[30]

Because we expect the premium equivalent cost of the PPO plan less the police employee contribution to exceed the City's respective "cap" by 2017 for all coverage levels, we project the following savings from placing these police employees under the City's "cap" structure beginning in 2017.

Financial Impact

2015	2016	2017	2018	2019	Total
0	0	264,000	299,000	314,000	877,000

Should any bargaining unit wish to explore health care plan changes prior to its contract expiration, the Coordinator would be willing to discuss crediting such savings to the respective bargaining unit's future allocations under the conditions discussed earlier.

WF04.	Restructure City health care plans so that they do not trigger the ACA's "Cadillac Tax."	
	Target outcome:	Cost control
	Five Year Financial Impact:	See below
	Responsible party:	Director of Administrative Services, Human Resources Director
	Impacted employee group	All employee groups

One provision in the Affordable Care Act is a 40 percent excise tax on the value of health insurance benefits exceeding a certain threshold, sometimes referred to as the "Cadillac tax." While there has been much discussion about Congress eliminating or amending the tax, as of this moment, the tax is due to go into effect January 1, 2018, and currently sets thresholds at $10,200 for individuals and $27,500 for family overage, indexed to inflation. The tax also applies to any health insurance coverage, including coverage for retired employees.

As of 2014, the annual premium equivalent cost for single coverage ranged from $5,500 to $8,500, depending on the plan and including options available to retired employees. The annual premium equivalent cost for family coverage was $16,500 to $25,500. Since the excise tax threshold could increase from the levels described above before the tax takes effect in 2018, it is unknown whether any of the City's plans will cross that threshold or by how much. But the estimated cost of family coverage under the most costly City plan is already less than 10 percent away from the $27,500 threshold.

Due to these uncertainties, the Amended Recovery Plan does not assume any additional costs to the City associated with the Cadillac Tax. Given the baseline projected deficit and other factors described in the Amended Recovery Plan, the City will not have the financial capability to cover the additional cost of the excise tax without making further reductions to other forms of compensation for current employees. Therefore this Plan Amendment Initiative requires the respective parties to restructure health care plans that would trigger the Cadillac Tax so that they

[30] The majority of police officers hired prior to December 31, 2011 are enrolled in family coverage in the PPO plan.

remain under the cap. If the employee group does not want to restructure a health care plan that triggers the Cadillac Tax, or a court or arbitrator does not permit the City to do so, the maximum amounts shown above shall still be applicable and those employees who have selected such a plan will be responsible for the full Cadillac Tax amount allocated evenly among themselves.

WF05.	**Fraternal Order of Police bargaining unit expenditure limits**	
	Target outcome:	Reduced costs
	Five Year Financial Impact:	$3,640,000
	Responsible party:	Director of Administrative Services, Human Resources Director
	Impacted employee group	Police

The Amended Recovery Plan allocates the following maximum annual amounts for employee compensation for active members of the Fraternal Order of Police, Lodge 9. This allocation does not include compensation for the Police Chief. It also does not include compensation for other police department employees who are not represented by the Fraternal Order of Police.

2017	2018	2019
$15,835,824	$16,081,265	$16,344,271

The allocation includes the maximum amounts that the City shall pay active FOP members for any of the following:

- Salaries including step or tenure-based increases and additional pay for overtime or court hearing compensation
- Holiday pay, longevity and shift differential
- Uniform or special assignment allowances and all other new or existing forms of cash compensation
- Health insurance coverage including medical, dental, vision and prescription drug coverage

The allocation does not include the City's required contributions to the police pension plan and assumes no other changes to the FOP's current collective bargaining agreement except those described herein.

The City's 2015 budget allocates approximately $15,777,184 million for active FOP members' compensation. In 2016 that allocation is assumed to grow in accordance with the provisions in the current collective bargaining agreement, including the 2.0 percent base salary increase. The Amended Recovery Plan then applies the following wage pattern to the wage scales to generate the annual allocations shown above.

- In 2017 the wage scales shall be reduced by 3.5%. Employees shall receive any applicable step increase.

- In 2018 the wage scales shall not be increased (0%). Employees shall receive any applicable step increase.

- In 2019 the wage scales shall not be increased (0%). Employees shall receive any applicable step increase.

With respect to longevity throughout the term of this Amended Recovery Plan, the allocation assumes that employees who are currently eligible and receiving longevity pay shall have their longevity payment frozen at the current rate for the duration of this Amended Recovery Plan. The allocation assumes no longevity payments for those employees not currently eligible for longevity payments including new hires.

The allocation also assumes the City will not enact any new forms of compensation. The allocation is based on the budgeted complement and mix of employees by rank (e.g. Captains, Lieutenants, Sergeants) as described in the 2015 budget.

Health Insurance

The allocation includes an amount for active employee health insurance coverage, including medical, dental, vision and prescription drug coverage, net of the projected employee contribution. The allocation is based on the application of the growth rate assumptions described in the Amended Recovery Plan Introduction and the application of initiative WF03 beginning in 2017. If the City and FOP make any changes to health insurance outside of WF03 through negotiation or an arbitration award, the City and union shall project the cost or savings of those changes.

Other Collective Bargaining Provisions

The allocation assumes no other changes to other provisions in the FOP collective bargaining agreement except those noted in this initiative.

Grants or external funding

The City may be able to secure grants or other sources of external funding to cover employee compensation costs for police officers. If the City secures such funding from a source other than those already included in the Amended Recovery Plan baseline projections, the compensation costs that are supported by that external funding source will not be counted against the allocation provided the following conditions are met:

- The funding covers the full compensation costs of the police officer(s) supported by it; and

- The City is not required to maintain a specific staffing level after the expiration of the grant or external funding source.

The City and FOP may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Amended Recovery Plan's bargaining unit expenditure limits. Should the City and FOP negotiate such as package, the City or FOP shall conduct a full cost analysis of those changes for each year through 2019 to determine and assure that the resulting compensation does not exceed the maximum allocations shown above. The City or FOP shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum annual allocations, it shall be returned to the City and FOP for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's maximum annual allocations or if the analysis is not provided in a timely manner.

	2017 Projection	2018 Projection	2019 Projection
Baseline projected FOP allocation	$16,720,036	$17,297,250	$17,884,039
Amended Recovery Plan FOP limit	$15,835,824	$16,081,265	$16,344,271
Estimated savings	**$884,212**	**$1,215,895**	**$1,539,768**

WF06.	**International Association of Fire Fighters bargaining unit expenditure limits**	
	Target outcome:	Reduced costs
	Five Year Financial Impact:	$2,561,000
	Responsible party:	Director of Administrative Services, Human Resources Director
	Impacted employee group	Fire

The Amended Recovery Plan allocates the following maximum annual amounts for employee compensation for active members of the International Association of Fire Fighters, Local 1803. This allocation does not include compensation for the Fire Chief, First Deputy Chiefs or EMS Coordinator. It also does not include compensation for other fire department employees who are not represented by the IAFF.

2016	2017	2018	2019
$11,309,546	$11,403,492	$11,490,604	$11,796,820

The allocation includes the maximum amounts that the City shall pay active IAFF members for any of the following:

- Salaries including step or tenure-based increases and additional pay for overtime or court hearing compensation
- Holiday pay, longevity and shift differential
- Uniform or special assignment allowances and all other new or existing forms of cash compensation
- Health insurance coverage including medical, dental, vision and prescription drug coverage

The allocation does not include the City's required contributions to the fire pension plan and assumes no other changes to the IAFF's current collective bargaining agreement except those described herein.

The City's 2015 budget allocates approximately $11,065,188 million for active IAFF members' compensation. The Amended Recovery Plan then applies the following wage pattern to the wage scales to generate the annual allocations shown above.

- In 2016 the wage scales shall not be increased (0%). Employees shall receive any applicable step increase
- In 2017 the wage scales shall not be increased (0%). Employees shall receive any applicable step increase
- In 2018 the wage scales shall not be increased (0%). Employees shall receive any applicable step increase
- In 2019 the wage scales shall be increased by 1%. Employees shall receive any applicable step increase

The allocation assumes placing employees hired after December 31, 2011, onto the step based on their years of service in 2016 (i.e., firefighters hired in 2013 move to step 2 of the new hire wage scale, those hired in 2012 move to step 3 of the new hire wage scale and then step again during the year).[31]

With respect to longevity throughout the term of this Amended Recovery Plan, the allocation assumes that employees who are currently eligible and receiving longevity pay shall have their longevity payment frozen at the current rate for the duration of this Amended Recovery Plan. The allocation assumes no longevity payments for those employees not currently eligible for longevity payments including new hires.

The allocation also assumes the City will not enact any new forms of compensation.

The allocation assumes a reduction in headcount from 130 in 2015 to 118 in 2019 as a result of two items more fully discussed in the Fire Chapter: 1) the elimination of SAFER Grant Funding in July 2015 and 2) discontinuance of the non-emergency transport program (Initiative FD02).

Health Insurance

The allocation includes an amount for active employee health insurance coverage, including medical, dental, vision and prescription drug coverage, net of the projected employee contribution. The allocation is based on the application of the growth rate assumptions described in the Amended Recovery Plan Introduction and the application of initiative WF03 beginning in 2016. If the City and IAFF make any changes to health insurance outside of WF03 through negotiation or an arbitration award, the City and union shall project the cost or savings of those changes.

Overtime

The allocation assumes implementation of Fire Initiative FD03, which suspends the minimum manning requirement through the remainder of the calendar year if the fire department exceeds $850,00 in overtime.

Other Collective Bargaining Provisions

[31] The allocation assumes no "backpay" for these employees.

The allocation assumes no other changes to other provisions in the IAFF collective bargaining agreement except those noted in this initiative. Notably, the allocation also does not assume any funding for other grievances filed by the IAFF.

Grants or external funding

The City may be able to secure grants or other sources of external funding to cover employee compensation costs for firefighters. If the City secures such funding from a source other than those already included in the Amended Recovery Plan baseline projections, the compensation costs that are supported by that external funding source will not be counted against the allocation provided the following conditions are met:

- The funding covers the full compensation costs of the firefighter(s) supported by it; and
- The City is not required to maintain a specific staffing level after the expiration of the grant or external funding source.

The City and IAFF may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Amended Recovery Plan's bargaining unit expenditure limits. Should the City and IAFF negotiate such as package, the City or IAFF shall conduct a full cost analysis of those changes for each year through 2019 to determine and assure that the resulting compensation does not exceed the maximum allocations shown above. The City or IAFF shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum annual allocations, it shall be returned to the City and IAFF for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's maximum annual allocations or if the analysis is not provided in a timely manner.

Financial Impact

	2016 Projection	2017 Projection	2018 Projection	2019 Projection
Baseline projected IAFF allocation	$11,564,795	$11,951,042	$12,269,753	$12,775,788
Amended Recovery Plan IAFF limit	$11,309,546	$11,403,492	$11,490,604	$11,796,820
Estimated savings	**$255,249**	**$547,550**	**$779,150**	**$978,968**

WF07.	**AFSCME 2763 bargaining unit expenditure limits**	
	Target outcome:	Reduced costs
	Five Year Financial Impact:	$1,479,000
	Responsible party:	Director of Administrative Services, Human Resources Director
	Impacted employee group	AFSCME 2763 members

The Amended Recovery Plan allocates the following maximum annual amounts for employee compensation for active members of AFSCME 2763.

2017	2018	2019
$11,534,948	$11,644,720	$11,773,085

The allocation includes the maximum amounts that the City shall pay active AFSCME 2763 members for any of the following:

- Salaries including step or tenure-based increases and additional pay for overtime or court hearing compensation
- Holiday pay, longevity and shift differential
- Uniform or special assignment allowances and all other new or existing forms of cash compensation
- Health insurance coverage including medical, dental, vision and prescription drug coverage

The allocation does not include the City's required contributions to the O & E pension plan and assumes no other changes to AFSCME 2763's current collective bargaining agreement except those described herein.

The City's 2015 budget allocates approximately $11,219,079 for active AFSMCE 2763 members' compensation. In 2016 that allocation is assumed to grow in accordance with the provisions in the current collective bargaining agreement, including the 2.0 percent base salary increase. The Amended Recovery Plan then applies the following wage pattern to the wage scales to generate the annual allocations shown above.

- In 2017 the wage scales shall not be increased (0%). Employees shall receive any applicable step increase and longevity payment if eligible
- In 2018 the wage scales shall not be increased (0%). Employees shall receive any applicable step increase and longevity payment if eligible
- In 2019 the wage scales shall not be increased (0%). Employees shall receive any applicable step increase and longevity payment if eligible

With respect to longevity throughout the term of this Amended Recovery Plan, the allocation assumes that employees who are currently eligible and receiving longevity pay shall receive longevity payments per the collective bargaining agreement from the level they are currently receiving (not from the level they would have received if longevity payments had not been frozen). The allocation assumes no longevity payments for those employees not currently eligible for longevity payments including new hires.

The allocation also assumes the City will not enact any new forms of compensation. The allocation is based on the budgeted complement and positions as described in the 2015 budget with the elimination of one zoning technician position in 2017 per Initiative CD01 and the elimination of one municipal professional in 2015 per Initiative AS09.

Health Insurance

The allocation includes an amount for active employee health insurance coverage, including medical, dental, vision and prescription drug coverage, net of the projected employee contribution. The allocation is based on the application of the growth rate assumptions described in the Amended Recovery Plan Introduction and the application of initiative WF03 beginning in 2016. If the City and AFSCME 2763 make any changes to health insurance outside of WF03 through negotiation, the City and union shall project the cost or savings of those changes.

Other Collective Bargaining Provisions

The allocation assumes no changes to other provisions in the AFSCME 2763 collective bargaining agreement except those noted in this initiative.

Grants or external funding

The City may be able to secure grants or other sources of external funding to cover employee compensation costs for AFSCME 2763 members. If the City secures such funding from a source other than those already included in the Amended Recovery Plan baseline projections, the compensation costs that are supported by that external funding source will not be counted against the allocation provided the following conditions are met:

- The funding covers the full compensation costs of the AFSCME 2763 member(s) supported by it; and
- The City is not required to maintain a specific staffing level after the expiration of the grant or external funding source.

The City and AFSCME 2763 may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Amended Recovery Plan's bargaining unit expenditure limits. Should the City and AFSCME 2763 negotiate such as package, the City or AFSCME 2763 shall conduct a full cost analysis of those changes for each year through 2019 to determine and assure that the resulting compensation does not exceed the maximum allocations shown above. The City or AFSCME 2763 shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum annual allocations, it shall be returned to the City and AFSCME 2763 for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's maximum annual allocations or if the analysis is not provided in a timely manner.

Financial Impact

	2017 Projection	2018 Projection	2019 Projection
Baseline projected AFSCME 2763 allocation	$11,827,893	$12,140,044	$12,463,775
Amended Recovery Plan AFSCME 2763 limit	$11,534,948	$11,644,720	$11,773,085
Estimated savings	**$292,945**	**$495,324**	**$690,690**

WF08.	AFSCME 3799 bargaining unit expenditure limits	
	Target outcome:	Reduced costs
	Five Year Financial Impact:	$231,000
	Responsible party:	Director of Administrative Services, Human Resources Director
	Impacted employee group	AFSCME 3799 members

As noted earlier, AFSCME 3799 is a first-level supervisory unit that does not have the same bargaining rights as the other bargaining units. The Coordinator reads Act 47 to nonetheless require it to provide a bargaining unit expenditure limit for AFSCME 3799.

The Amended Recovery Plan allocates the following maximum annual amounts for employee compensation for active members of AFSCME 3799.

2015	2016	2017	2018	2019
$1,566,930	$1,580,324	$1,594,299	$1,621,416	$1,650,580

The allocation includes the maximum amounts that the City shall pay active AFSCME 3799 members for any of the following:

- Salaries including step or tenure-based increases and additional pay for overtime
- Holiday pay and shift differential
- Uniform or special assignment allowances and all other new or existing forms of cash compensation
- Health insurance coverage including medical, dental, vision and prescription drug coverage

The allocation does not include the City's required contributions to the O & E pension plan and assumes no other changes to AFSCME 3799's current memorandum of understanding except those described herein.

The Amended Recovery Plan applies the following wage pattern to generate the annual allocations shown above.

- In 2015 employees shall not receive a wage increase (0%)
- In 2016 employees shall not receive a wage increase (0%)
- In 2017 employees shall not receive a wage increase (0%)
- In 2018 employees shall receive a one percent wage increase (1%)
- In 2019 employees shall receive a one percent wage increase (1%)

The allocation also assumes the City will not enact any new forms of compensation. The allocation is based on the budgeted complement and positions as described in the 2015 budget.

Health Insurance

The allocation includes an amount for active employee health insurance coverage, including medical, dental, vision and prescription drug coverage, net of the projected employee contribution. The allocation is based on the application of the growth rate assumptions described in the Amended Recovery Plan Introduction and the application of initiative WF03 beginning in 2015. If the City and AFSCME 3799 make any changes to health insurance outside of WF03, the City and union shall project the cost or savings of those changes.

Other Collective Bargaining Provisions

The allocation assumes no other changes to other provisions in the AFSCME 3799 memorandum of understanding except those noted in this initiative.

Grants or external funding

The City may be able to secure grants or other sources of external funding to cover employee compensation costs for AFSCME 3799 members. If the City secures such funding from a source other than those already included in the Amended Recovery Plan baseline projections, the compensation costs that are supported by that external funding source will not be counted against the allocation provided the following conditions are met:

- The funding covers the full compensation costs of the AFSCME 3799 member(s) supported by it; and
- The City is not required to maintain a specific staffing level after the expiration of the grant or external funding source.

The City and AFSCME 3799 may discuss a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Amended Recovery Plan's bargaining unit expenditure limits. Should the City and AFSCME 3799 discuss such as package, the City or AFSCME 3799 shall conduct a full cost analysis of those changes for each year through 2019 to determine and assure that the resulting compensation does not exceed the maximum allocations shown above. The City or AFSCME 3799 shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum annual allocations, it shall be returned to the City and AFSCME 3799 for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's maximum annual allocations or if the analysis is not provided in a timely manner.

Financial Impact

	2015 Projection	2016 Projection	2017 Projection	2018 Projection	2019 Projection
Baseline projected AFSCME 3799 allocation	$1,566,930	$1,606,819	$1,647,844	$1,689,305	$1,733,238
Amended Recovery Plan AFSCME 3799 limit	$1,566,930	$1,580,324	$1,594,299	$1,621,416	$1,650,580
Estimated savings	**$0**	**$26,495**	**$53,545**	**$67,889**	**$82,658**

WF09.	Non-represented employees	
	Target outcome:	Reduced costs
	Five Year Financial Impact:	$1,580,000
	Responsible party:	Director of Administrative Services, Human Resources Director
	Impacted employee group	Non-represented employees

In the first draft of the Recovery Plan Amendment, the Coordinator applied a wage pattern of 0%, 0%, 0%, 1% and 1% for 2015-2019 respectively to the salaries of non-represented employees. While the changes to Act 47 require the Coordinator to set a "cap" amount for bargaining unit employees, there is not a similar requirement for non-represented employees. We received several requests to provide the City with flexibility regarding non-represented employee salaries. Therefore, we decided to create a salary "cap" for the non-represented employees that allows the flexibility to reallocate salaries for non-represented employees but does not exceed the "cap" amount that the Plan Amendment sets. This is the same concept that Act 47 requires for unionized employees.

The amount allocated for non-represented salaries is in the table below. This is the salary cap regardless of the fund from which the employee is being paid. The Coordinator developed this by applying a 0% for 2015, 0% in 2016, 0% in 2017, 1% in 2018 and 1% in 2019 to the non-represented budgeted positions for 2015. (Note: this assumes no funding for one of the Mayor's special assistant positions).

2015	2016	2017	2018	2019
$5,610,169	$5,628,031	$5,661,526	$5,746,306	$5,833,226

Under the Recovery Plan Amendment, the City may reallocate non-represented employee salaries by either reducing current salaries or eliminating budgeted positions so long as the total salaries remain under the cap. This includes eliminating vacant, budgeted positions and reallocating the salary to existing employees.

If any positions are either transferred out of or into the non-represented group, their salaries will transfer with them and will impact the cap accordingly.[32] For example, if a non-represented position paying $40,000 becomes an AFSCME position, the non-represented cap will decrease by $40,000 while the AFSCME cap will increase by $40,000. If new non-represented positions are created (not transferred from another unit), their salaries will need to be paid for under the current cap. For example, if the City created a new $40,000 non-represented position, it would need to find that $40,000 either through reducing salaries or eliminating positions. Again, this is the same concept that Act 47 requires for unionized employees.

In addition to the above, the Plan Amendment also requires the following:

- The City shall not increase other forms of compensation for non-represented employees

[32] As the Coordinator was finalizing the Recovery Plan Amendment, we were informed that five budgeted positions in the City's IT Department that were categorized as non-represented, would become AFSCME Local 2763 members. The compensation caps in the Recovery Plan Amendment do not reflect these changes, but they are to be handled as described above.

- Non-represented employees are subject to the terms of WF03 (health benefits)
- The City shall not enact any new forms of compensation for non-represented employees

Financial Impact

	2015 Projection	2016 Projection	2017 Projection	2018 Projection	2019 Projection
Baseline projected Non-Rep allocation	$5,736,176	$5,870,269	$6,008,028	$6,149,565	$6,294,883
Amended Recovery Plan Non-Rep limit	$5,610,169	$5,628,031	$5,661,526	$5,746,306	$5,833,226
Estimated savings	**-$126,007**	**-$242,238**	**-$346,502**	**-$403,259**	**-$461,657**

Pensions and OPEB[1]

As discussed throughout the Amended Recovery Plan, pension and retiree health care costs have grown exponentially in recent years. Because every additional dollar the City puts toward pension or retiree health care costs is one less dollar it can invest elsewhere, addressing these retiree benefit liabilities is critical if the City is to gain true financial recovery, regardless of its Act 47 status. These are cost categories with opportunities for substantial savings. However, changing retiree benefits for certain employee groups will likely result in expensive legal challenges with no certain outcome, making it impossible for the Coordinator to rely upon such savings to balance the City's finances.

Still, the Coordinator does not want to foreclose the possibility that the City and its retirees and employees may reach agreements on some points. Therefore, while the collective bargaining expenditure limits in the Workforce Chapter do not assume any retiree benefit savings, the Coordinator is willing to discuss adjusting the collective bargaining unit expenditure limits for active employees if the City and its employees reach agreements that produce retiree benefit savings. Any savings must occur during the term of the Amended Recovery Plan relative to the Plan's baseline and must be verified by the Coordinator. In the case of pension savings, the savings must be to the minimum municipal obligation (MMO) and further verified by the City's actuary. For retiree health care savings, the savings must be to the City's annual "pay as you go costs" and further verified by its third party health insurance administrator. The discretion to adjust the collective bargaining unit expenditure limits and by how much (if any) remains with the Plan Coordinator.

Where possible, the Amended Recovery Plan provides savings estimates for these retiree benefit initiatives based on current conditions and assumptions. These estimates may change as new pension valuations are completed and new health care utilization patterns emerge. The remainder of this chapter provides an overview of these retiree benefits and their costs and then outlines mandatory and suggested initiatives to address their costs.

Pensions

The City of Reading currently provides defined benefit pensions to all employees. The specific level of benefits varies depending on an employee's bargaining unit but all employees receive a defined benefit pension based on average salary calculations and years of service. The current defined benefit structure of Reading's pension benefits places the funding risk on the City, rather than the employee.

This risk burden is especially apparent when the value of assets in the pension funds drops because of stock market volatility, as was the case in 2008 – 2009. That stock market crash lowered the value of the assets in the pension funds, leaving fewer resources that the respective fund could draw upon to pay current and future pension benefits. Meanwhile the pension plan liabilities are not impacted by the drop in assets. Employees continue to receive the level of benefits defined in their "defined benefit" plan, regardless of the level of assets available to fund them. The City then has to increase its annual contribution to close the gap between the fund's assets and these liabilities.

[1] OPEB refers to "other post-employment benefits." This chapter will focus specifically on the retiree health insurance OPEB benefit.

City of Reading Pension Benefits Summary

	Police Officers hired before 1/1/2012	Police Officers hired after 1/1/2012 and Fire Fighters hired after 1/1/2011	Fire Fighters hired before 1/1/2011	Non-uniformed employees hired after 1988 [2]
Retirement Eligibility	Completion of 20 Years of Service (YOS)	Age 50 and completion of 20 Years of Service	Age 50 and completion of 20 Years of Service	Age 65 and completion of 10 YOS
Benefit Formula	60% of average monthly, increasing to 70% with 25 YOS plus any service increment, if any	A monthly benefit equal to 50% of Average Monthly Pay plus Service Increment, if any	A monthly benefit equal to 50% of Average Monthly Pay plus Service Increment, if any	2% of average monthly compensation times YOS (capped at 25 YOS)
Service Increases	An additional monthly benefit of 1/40 of the monthly retirement benefit for each completed Year of Service in excess of 20 years, up to a maximum increment of $500	An additional monthly benefit of 1/40 of the monthly retirement benefit for each completed Year of Service in excess of 20 years, up to a maximum increment of $100	An additional monthly benefit of 1/40 of the monthly retirement benefit for each completed Year of Service in excess of 20 years, but excluding service after age 65, up to a maximum increment of $500	An additional monthly benefit of 1.25% of Average monthly compensation multiplied by Years of Service in excess of 25 years
Components of Final Average Salary	Base + Longevity + Holiday Pay	Base + Longevity + Holiday Pay	Base + Longevity + Holiday + OT	Base + Longevity
Full Vesting	12 YOS	12 YOS	12 YOS	10 YOS
Employee Contributions	6.5% of Compensation plus $1 per month	5.0% of Compensation plus $1 per month	5.0% of Compensation plus $5 per month	3.0% of gross monthly compensation
Non-military service purchase	5 Years	None	None	None
Deferred Retirement Option Program (DROP)	Eligible after 20 YOS and can participate up to 5 Years. New DROP participants as of 1/1/2012 must contribute 5% pension contribution during DROP	Not available	Eligible after 20 YOS and can participate up to 5 Years. New DROP participants as of 1/1/2011 must contribute 5% pension contribution during DROP	Not available

[2] This plan is referred to as the Officers and Employees pension plan, abbreviated O&E throughout this chapter. In the last round of bargaining, the City reached agreement with its AFSCME union to implement a defined contribution pension plan for new hires. It is our understanding that the City is moving forward with implementation for AFSCME and non-represented new hires.

The 2007 collective bargaining agreement between the City and FOP significantly increased pension benefits in excess of what the Third Class City Code permits.[3] In the Auditor General's 2010 audit of the City's police pension fund for the period from January 1, 2007 through December 31, 2008, he identified the following police pension benefit provisions unauthorized by the Third Class City Code:

- Pension calculation allowing the police retiree to retire with between 60 percent and 70 percent of final average salary instead of up to 50 percent of the higher of the rate of monthly pay at the date of termination or the highest average annual salary during any five years of service.

- Member contribution rate of 6.5 percent of base salary plus $1 per month instead of up to 5 percent of the officer's compensation, plus service increment contributions.

- Ability of employee to buy up to five years of service credit (commonly referred to as "ghost time" since the employee did not actually work during this period) at a rate based upon his or her first year of hire any time prior to retirement. The Third Class City Code does not authorize the purchase of such "service" credit.[4]

Unlike pensions for other City employees (including firefighters), the police officer pension benefit for those hired before 2012 does not require a minimum age to start collecting the benefit. As a result, under the current structure, a police officer who purchases five years credit from military service and five years of "ghost time" only needs to actually work for the City for ten years in order to receive a pension of 60 percent of his or her final average salary. Consequently, the police department has had several individuals retire in their late-30s. As of January 1, 2013, the police pension fund had 60 individuals collecting a normal retirement pension under age 50 with an average annual pension of $48,881. Collectively, the total annual pension for this group was approximately $2.93 million in 2013. In addition to collecting their annual pension, this group also is eligible to receive City retiree health care benefits.

As shown in the following table, the 2007 agreement (first reflected in the 2009 valuation), significantly contributed to the police pension fund's actuarial accrued liability increasing from $88.3 million in 2007 to $116.2 million – an increase of 31.6 percent over just one valuation period. While all City pension funds have seen their actuarial accrued liabilities increase from 2007 to 2013, the police fund's 66 percent growth over this period is the highest among the three funds.

City of Reading Pension Funds Actuarial Accrued Liabilities 2007-2013

Plan	2007	2009	2011	2013	$ Growth	% Growth
Fire	$48.3	$56.3	$64.8	$68.6	$20.3	42.0%
O&E	$57.1	$60.8	$67.8	$68.0	$10.9	19.2%
Police	$88.3	$116.2	$130.7	$146.6	$58.3	66.0%
Aggregate	**$193.7**	**$233.3**	**$263.3**	**$283.2**	**$89.5**	**46.2%**

While these pension benefits in excess of the Third Class City Code have been addressed for police officers hired after January 1, 2012, in accordance with initiative PN03 of the original Recovery Plan, they remain for police officers hired prior to that date. Additionally, overtime is no longer included in the firefighter pension benefit calculation for firefighters hired after January 1, 2011, in accordance with initiative PN05 of the initial Recovery Plan, but remains for firefighters hired prior to that date.

[3] This agreement was negotiated by a prior City manager under the previous mayoral administration.

[4] City of Reading Police Pension Plan Compliance Audit Report. Page 7.

Finances

In the original Recovery Plan, the Coordinator noted several areas where the Commonwealth of Pennsylvania found in 2008 that the City had either not fully contributed the proper minimum municipal obligation (MMO) or had received excess state aid due to the City misreporting the number of eligible employees. The City deserves credit for addressing these prior deficient payments in 2010 and 2011 and has made its legally required minimum contributions to the pension fund in full each year since entering Act 47 oversight. The Plan Amendment continues to require the City to do so going forward as does Commonwealth law, which imposes considerable penalties if the City does not make its required contribution by December 31st of each year.

As of their January 1, 2013 valuations, the pension plans have various states of health. Using the Commonwealth of Pennsylvania's distress level designations, the fire pension plan at 81.7 percent and the officers and employees pension plan at 71.4 percent funded would be considered minimally distressed and the police pension plan at 63.7 percent would be moderately distressed. The Commonwealth uses the aggregate funding level across all three plans to determine the City's overall distress level.

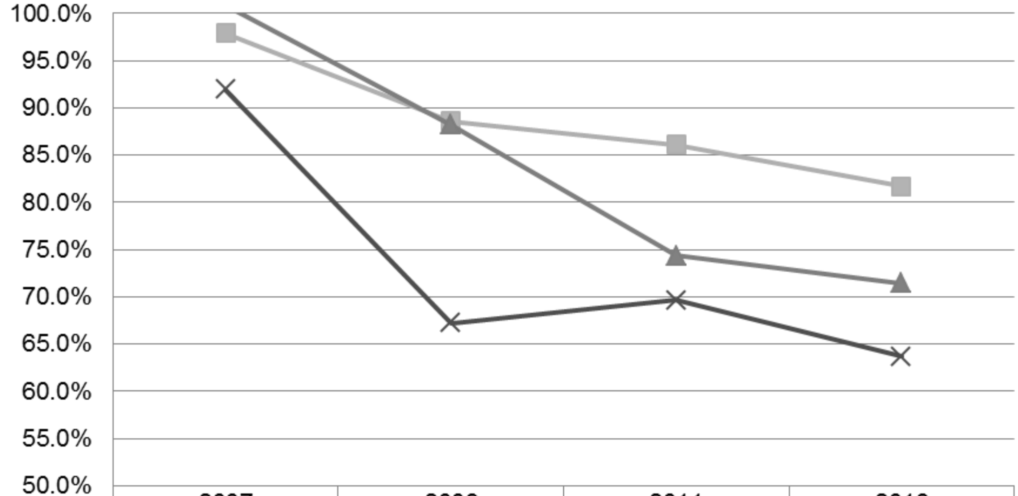
Status of Reading Pension Plans, as of January 1, 2013

Plan - 2013	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	% Funded
Fire	$68.6	$56.1	$12.6	81.7%
O&E	$68.0	$48.6	$19.4	71.4%
Police	$146.6	$93.3	$53.2	63.7%
Aggregate	**$283.2**	**$198.0**	**$85.2**	**69.9%**

While all three plans' funded ratios have declined since the 2007 valuation, the police pension plan has deteriorated the most. The steep declines in the police and the officers and employees pension funds are even more concerning given that the City issued $48.7 million in pension bonds in 2006 and deposited the proceeds into all three pension funds resulting in an aggregate funding ratio of over 90 percent.

Because these pension plans are defined benefit plans, as the funded ratios decline, the City's annual required contributions necessarily increase. To fund pension benefits, Pennsylvania municipalities are required to make annual contributions to pension funds to ensure that sufficient money will be available when current and future pension recipients retire. The annual contribution required under Commonwealth law is referred to as the minimum municipal obligation (MMO). The MMO is determined based on actuarial calculations performed every other year and results in an annual contribution by the City after state pension aid, investment earnings, and employee contributions have been taken into account.

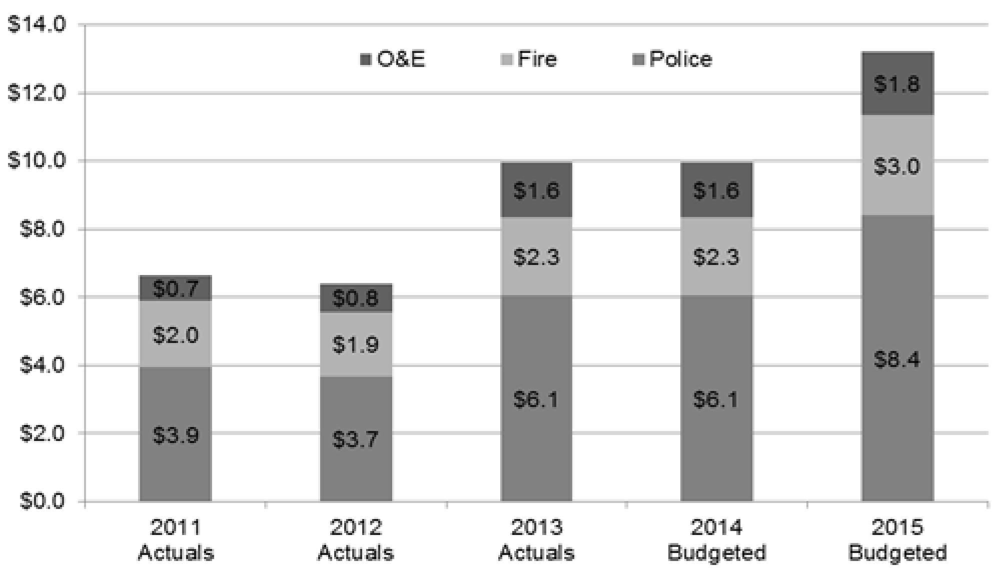
Pension Funding Ratio, 2007 – 2013 Valuations



	2007	2009	2011	2013
Fire	97.9%	88.6%	86.1%	81.7%
O&E	100.9%	88.2%	74.4%	71.4%
Police	92.0%	67.2%	69.7%	63.7%

The City's required pension contributions from its General Fund have doubled from $6.6 million in 2011 to $13.2 million in 2015. These costs do not include the $1.8 million - $3.6 million in annual debt service payment for the pension bonds the City issued in 2006 or additional contributions for employees whose positions are budgeted outside the General Fund. The jump of approximately $3.2 million or 32 percent from 2014 to 2015 is attributable to increases of $2.3 million or 37.7 percent for police, $0.7 million or 30.4 percent for fire and $0.2 million or 12.5 percent from officers and employees as reflected in the following chart.

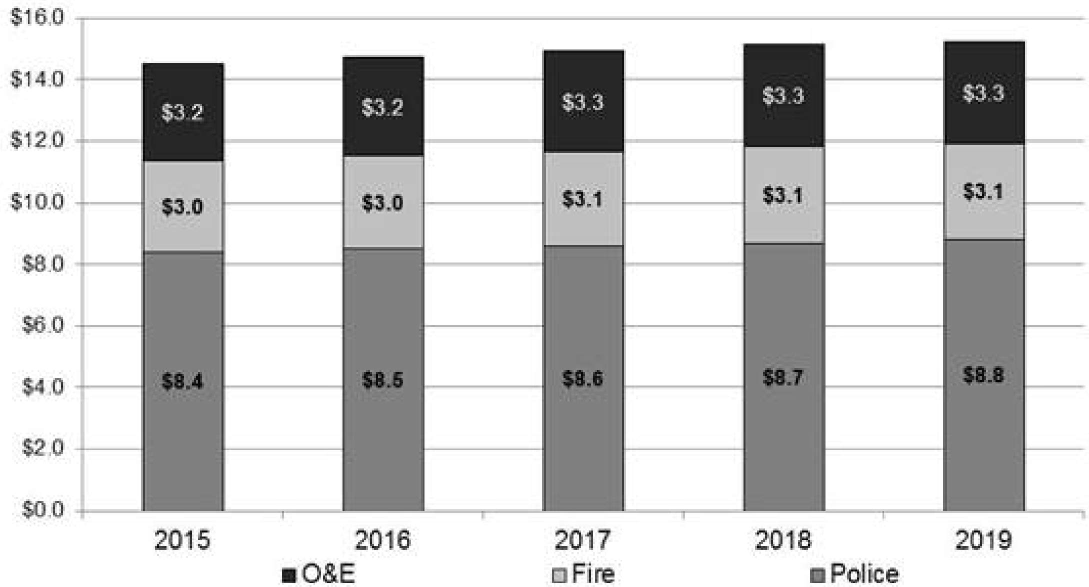
City General Fund Pension Contributions ($ Millions)[5]



[5] This is the City's contribution, net of the amount contributed by employees. There are additional City contributions for the O&E plan outside the General Fund that are not shown here.

To develop the baseline financial projections of this Recovery Plan, the Coordinator requested that the City's actuary project the City's MMO through 2019. The actuary provided the following projection based on the most recent pension valuation report (January 1, 2013). Please note that these estimates show the City's entire MMO, including the portion of the O&E contribution that covers employees outside the General Fund. The Recovery Plan baseline, which shows only the General Fund contribution, will have lesser amounts.

Projected City MMOs, All Funds ($ Millions)



The actuary's projections are based in part on the assumption that there will be no "experience gains or losses" in each year, meaning the actuary is assuming reality will mirror the underlying actuarial assumptions about when employees retire, what their pensionable income will be, how much the fund will gain in investment earnings, etc. If the fund has experience loss, then there will be less money in the pension funds and the City's required contributions will increase. If the fund has experience gain, the opposite is true.

The assumption in the actuary's projection that there will be no experience loss or gain is reasonable since it sets aside the volatility related to events that are impossible to predict. But historical results show that there is considerable risk that the City will have experience loss during this period and that the City's MMOs will continue to grow every other year. The police plan alone had $15.8 million in experience loss between the 2011 and 2013 valuation.[6]

Furthermore, the police and fire pension boards are using an element of Commonwealth law that allows the City to assume the level of assets in those plans is higher than they may actually be. Using a provision in Act 44 of 2009, the actuary calculates the actuarial value of assets at 120 percent of their actual market value. The actuarially recommended (though not required) calculation would use a four-year smoothing approach, which would show the pension plans have a lower funding level than reported. For 2015 and 2016, this gives the City some relief from the already escalating annual required

[6] City of Reading Police Pension Plan Actuarial Valuation as of 01/01/2013, page 1. The experience losses in the fire plan ($1.5 million) and O&E plan ($3.3 million) were more modest, though still not zero.

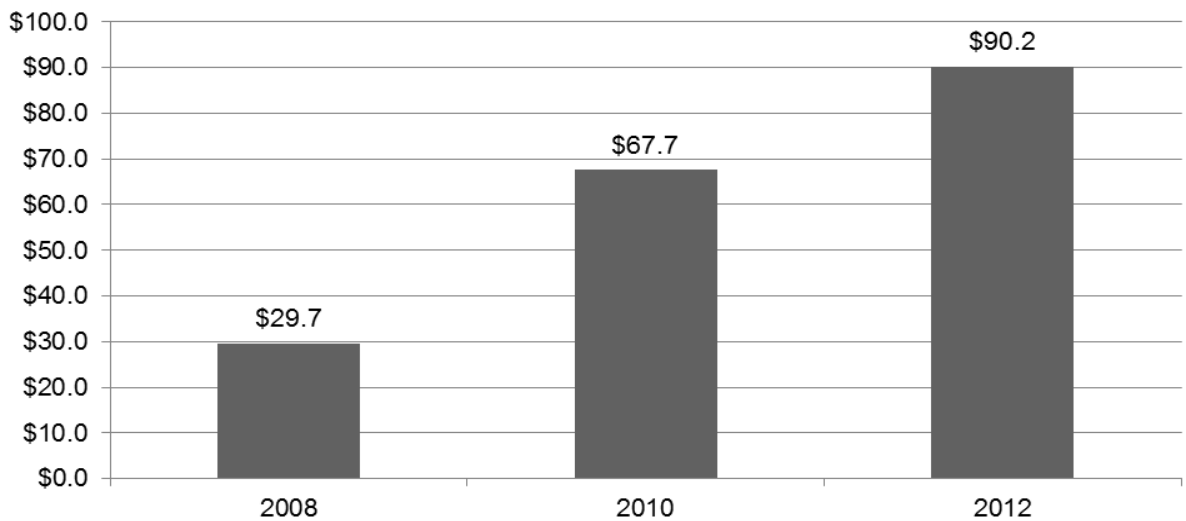
contributions, keeping them at the levels shown above. In the long term, though, it increases the likelihood that the City will have "experience loss" and higher MMO contributions after 2016 than projected earlier.

Retiree Health Care

In addition to pension liabilities, the City also has substantial liabilities for retiree health care benefits. The most recent valuation of these liabilities showed that the City faced an actuarial accrued liability for retiree health care and life insurance of $90.2 million as of December 31, 2012. Because the City does not prefund these benefits, but instead "pays as it goes," the entire $90.2 million liability is unfunded.

According to the City's actuary, the unfunded actuarial accrued liability increased from $67.7 million in the last valuation to the current $90.2 million -- an increase of $22.6 million or 33.3 percent in just two years. The actuary attributed $7.5 million of that increase to actual claims experience (meaning that claims came in higher than previously expected) and $5.4 million to the increased number of police DROPs and retirees as well as other demographic changes.[7] The current unfunded liability is 3.4 times greater than it was as of December 31, 2008. Given the City's inability to prefund these benefits, we expect the liability to continue to grow.

Actuarial Accrued OPEB Liability

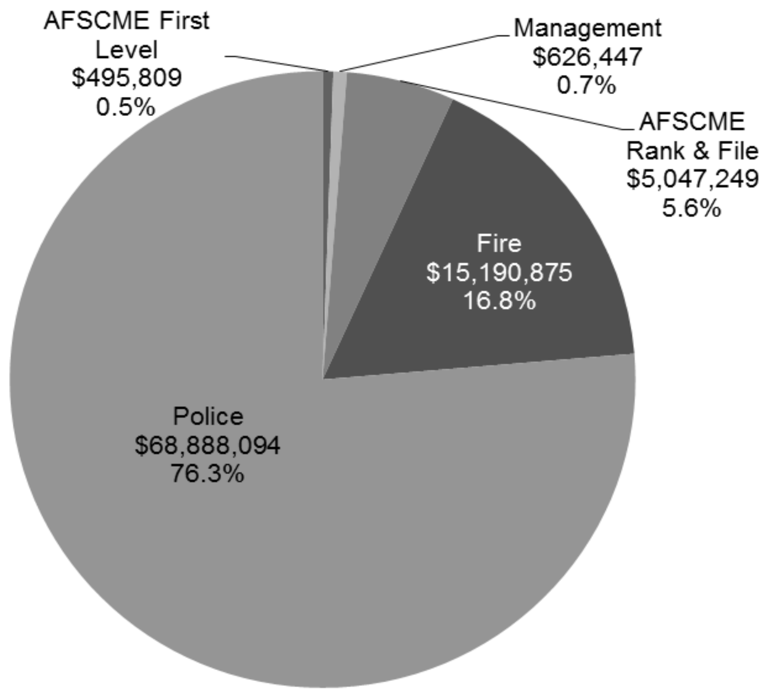


Source: OPEB Valuation for fiscal year ending December 31, 2012; page 10.

The most recent OPEB valuation found that, as of December 31, 2012, police officers accounted for $68.9 million of the $90.2 million accrued actuarial liability (76.3 percent), firefighters for $15.1 million (16.8 percent), AFSCME rank and file for $5.0 million (5.6 percent), management and non-represented employees for $0.6 million (0.7 percent) and AFSCME first level supervisors for $0.5 million (0.5 percent). The actuarial valuation accounted for the changes to the post-retirement benefits included in the last round of collective bargaining.

[7] OPEB Valuation for fiscal year ending December 31, 2012, page 1.

City OPEB Liabilities by Bargaining Unit as of December 31, 2012



Some argue that using the unfunded actuarial accrued liability of $90.2 million is misleading because it is the net present value of all the OPEB benefits accrued up until the date of the valuation and the City does not need to actually pay all of that liability now. While it is true that the City does not need to pay that entire liability immediately, it will need to over time. For this valuation, the actuary calculated the 2012 annual required contribution to be $6.86 million which is an increase of $1.32 million or 23.8% over the 2010 annual required contribution.[8] The chart below shows the actuary's projected OPEB claim payments (the "pay as you go amounts").

The City provides health care to certain retired employees and their spouses until they are eligible for Medicare.[9] Many current retirees contribute little toward the cost of this coverage. For police who retired before 2007, firefighters who retired before 2002, and non-uniformed employees who retired before 2005, there is no monthly premium contribution to the cost of health insurance.[10]

[8] The Annual Required Contribution or ARC is the amount of money that the City should be putting aside each year to prefund the OPEB benefits. It is similar in concept to the MMO.

[9] The City also provides life insurance to retired firefighters. According to the most recent OPEB valuation, life insurance accounts for only $350,000 of the $90.2 million OPEB liability.

[10] This refers to the contributions that employees make even if they do not use the medical care, sometimes called "premium contributions." This does not refer to the payments that retirees make when they receive care (e.g. deductibles, co-payments). Members of the AFSCME 3799 bargaining unit and non-represented employees who retired before 2007 also do not make this regular monthly contribution.

Expected City OPEB Claim Payments 2015 – 2022 (in thousands)

Given the complexity and the variation in the retiree health care benefits offered by the City and the various contribution structures dependent on retiree dates and bargaining unit affiliation, it is not possible to neatly display all the possible retiree healthcare scenarios in one or two charts. Instead, a detailed narrative in the Appendix explains the City's retiree healthcare structure.

However, as an example of the complexity of eligibility requirements and benefit levels, the following chart shows eligibility and co-payments for retiree prescription benefits only.[11]

It has been the Coordinator's experience that when a government administers such a complex retiree benefit program with varying eligibility requirements, there is a high likelihood that the City is providing these benefits to individuals who may not be eligible such as those who have access to appropriate coverage from other employers, those who are no longer spouses or dependents of retirees and those who have reached age 65. Because the City simply cannot afford to pay for retiree health care benefits for ineligible individuals, the Amended Recovery Plan requires the City to conduct an eligibility audit of the retiree health care benefits provided to retirees and beneficiaries' to ensure that they are indeed eligible for benefits. Furthermore, as part of this process, the Amended Recovery Plan requires the City to pursue determinations of retiree eligibility for City paid retiree benefits based on his or her access to other health care coverage.

[11] Note that for some of these groups, the co-payments may change as the active employee co-payments change.

Group	Retail (30 day supply)	Mail Order (90 day supply)
- Non-represented who retired before 1/1/2011 - AFSCME Rank and File who retired on/after 1/1/2008 and before 1/1/2012	$10/$20/$35	$20/$30/$60
- Non-represented who retire on/after 1/1/2011 - Fire who retire/DROP on/after 6/1/2011 - AFSCME Rank and File who retire on/after 1/1/2012 - Police who retire/DROP on/after 1/1/13	$10/$25/$40	$20/$50/$80
- Police who retired/DROP on/after 1/1/2007 and before 1/1/2013	$5	$0
- Police who retired/DROP on/after 1/1/2002 and before 1/1/2007 - Fire who retired/DROP on/after 1/1/2002 and before 6/1/2011	$1	$0
- Police who retired before 1/1/2002 - Fire who retired before 1/1/2002	20%	20%

Initiatives

As discussed at length in this Amended Plan, substantial increases in pension and retiree health care costs continue to impact the City's budget, making it difficult for the City to keep tax rates stable, make necessary investments in the City's infrastructure, and provide annual wage increases to active employees. At a minimum, the City must continue to protect itself from further increases in these liabilities. To achieve fiscal recovery, the City will have to do more than that, and reduce the liabilities already incurred.

To those ends, the following initiatives are separated into mandatory Plan requirements and non-mandatory, but suggested recommendations. The City and any negotiated settlement, grievance or interest arbitration award must conform to the mandatory provisions.

The Coordinator recommends changes to the pension and retiree health care benefits provided to current employees and retirees, but does not require them because of the legal challenges that would likely ensue. As noted earlier, the Coordinator is willing to discuss adjusting the collective bargaining unit expenditure limits for active employees if the City and its employees reach agreements that produce retiree benefit savings. Any savings must occur during the term of the Amended Recovery Plan relative to the Plan's baseline and must be verified by the Coordinator. In the case of pension savings, the savings must be to the MMO and further verified by the City's actuary. For retiree health care savings, the savings must be to the City's annual "pay as you go costs" and further verified by its third party health insurance administrator. The discretion to adjust the collective bargaining unit allocations and by how much (if any) remains with the Plan Coordinator.

To consider the true financial impact of pension and retiree health care benefits, it is necessary to consider both the immediate fiscal impact in terms of dollars required to be spent now as well as the future obligations of the City and its employees. For example, although the City would not incur an immediate pay-as-you-go cost from granting new hires retiree health care benefits (since they are not yet eligible to retire), this action creates a future liability that the City will need to fund (and should actually prefund). New hires soon become incumbent employees and these liabilities continue to grow. It is the Coordinator's specific position that any enhancements to pension or retiree health care benefits (if any) for existing employees or new hires is inconsistent with Act 47's policy objective of relieving the financial distress of the City and would further jeopardize the financial stability of the City.

Mandatory

RB01.	**No COLAs for pension plans during the term of the Amended Recovery Plan**	
	Target outcome:	Cost avoidance
	Five Year Financial Impact:	Dependent upon avoided COLAs
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	All employees and retirees

No pension cost-of-living adjustments (COLAs) shall be provided during the term of the Amended Recovery Plan. Currently, no employee pension plan assumes a cost-of-living adjustment (COLA) in its valuation, so this initiative does not have an additional impact on the City's pension costs beyond the level already reflected in the baseline projection. Any pension cost-of-living adjustments (COLAs) granted would cause further deterioration of the financial status of these pension funds and a corresponding increased cost to the City in the form of higher MMO costs.

RB02.	**No pension enhancements during the Amended Recovery Plan term**	
	Target outcome:	Cost avoidance
	Five Year Financial Impact:	Dependent upon avoided enhancements
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	All employees

The City shall not enhance any pension benefit for active employees or new hires during the Amended Recovery Plan term.

For the same reasons as RB01, any pension enhancement will cause further deterioration of the financial status of these pension funds and a corresponding increased cost to the City in the form of higher MMO costs and future liabilities.

With respect to the Deferred Retirement Option Program (DROP), the City does not receive Commonwealth pension aid for those individuals in the DROP and loses the ability for investment return on those DROP dollars. It is the Coordinator's specific position that providing DROPs to employees who are not eligible for the DROP would be inconsistent with Act 47's policy objectives of relieving the financial distress of the City and would further jeopardize the financial stability of the City. Firefighters hired prior to January 1, 2011, and police officers hired prior to January 1, 2012, may keep the DROP benefit under the current terms of their collective bargaining agreements.

RB03.	**Defined Contribution retirement Plan for new hire AFSCME and non-represented employees**	
	Target outcome:	Cost avoidance
	Five Year Financial Impact:	TBD
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	AFSCME and non-represented

The City shall implement the Defined Contribution Retirement Plan as soon as possible for new hire AFSCME and non-represented employees. During the last round of collective bargaining, the City bargained the ability to implement a defined contribution retirement plan for new hire AFSCME employees. The City is in the process of implementing this plan for new hire AFSCME employees and non-represented employees.

RB04.	**Raise the retirement age for normal retirement for police and fire employees hired after the expiration of the current collective bargaining agreements**	
	Target outcome:	Cost avoidance
	Five Year Financial Impact:	Dependent upon number of new hires
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	Police Officers and Firefighters

In the last rounds of police and fire interest arbitration, minimum age requirements of age 50 were implemented for firefighters hired after December 31, 2010 and police officers hired after December 31, 2011. Given the continued increase in City pension and retiree benefit costs, the City shall amend the pension plans for police officers and firefighters so that there is a minimum normal retirement age of 55 for employees hired after the expiration of the current collective bargaining agreements.

RB05.	**Retiree health care eligibility audit**	
	Target outcome:	Cost savings
	Five Year Financial Impact:	Dependent upon ineligible retirees found
	Responsible party:	Human Resources Director
	Impacted employee group:	All employees and retirees

The City cannot afford to pay for retiree health care benefits for individuals who are not eligible for them. Given the complexity in the plans and eligibility requirements, it may be the case that some individuals are receiving benefits for which they are ineligible or are not paying the appropriate premium. As soon as possible, the City shall conduct an eligibility audit to ensure that only eligible individuals are receiving retiree health care benefits and, of those that are, to ensure that they are enrolled under the correct plan and making any required premium contribution.

As part of the eligibility audits, the City shall also require the retirees or beneficiaries to provide information as to whether they have access to health care plans offered by their employers or otherwise and shall collect those plan summaries and information on employee premium contributions. Future eligibility audits shall be conducted on a regular basis, but no less than every two years.

The City shall also pursue determining whether the retiree is still eligible for City paid retiree benefits based on his or her access to other health care plans.

RB06.	**No retiree health care enhancements during the Amended Recovery Plan term**	
	Target outcome:	Cost avoidance
	Five Year Financial Impact:	Dependent upon avoided enhancements
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	All employees

As noted earlier, the City's liability for retiree health insurance was $90.2 million as of December 31, 2012 and the City does not have any money set aside to offset this future liability. The 2010 Recovery Plan eliminated post-retirement health insurance for employees hired after the adoption of that Plan or the expiration of the collective bargaining agreements in place when the City entered Act 47 oversight. Settlements and interest arbitration awards implemented changes to retiree health care benefits for then active employees. Retiree health care benefits (if any) shall not be enhanced during the Amended Recovery Plan term. It is the Coordinator's specific position that enhancing such benefits (if any) would be inconsistent with Act 47's policy objectives of relieving the financial distress of the City and would further jeopardize the financial stability of the distressed municipality.

Suggested

The Coordinator recommends the following changes to the pension and retiree health care benefits provided to current employees and retirees but does not require them because of the legal challenges that would likely ensue. As noted earlier, the Coordinator is willing to discuss adjusting the collective bargaining unit expenditure limits for active employees if the City and its employees reach agreements that produce retiree benefit savings. Any savings must occur during the term of the Amended Recovery Plan relative to the Plan's baseline and must be verified by the Coordinator. In the case of pension savings, the savings must be to the MMO and further verified by the City's actuary. For retiree health care savings the savings must be to the "pay as you go costs" the City is incurring and further verified by its third party health insurance administrator. The discretion to adjust the collective bargaining unit allocations and by how much (if any) remains with the Plan Coordinator.

RB07.	**Restructure police pension benefit for police officers hired before January 1, 2012, to comply with the Third Class City Code**	
	Target outcome:	Cost reduction
	Five Year Financial Impact:	TBD
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	Police Officers

The City shall restructure the police pension benefit for police officers hired before January 1, 2012, to comply with the Third Class City Code including a minimum age requirement of 50 for normal retirement.[12]

As discussed earlier in this chapter, the City has been cited by the Auditor General for providing benefits in excess of those allowed by the Third Class City Code. While some police officers have already retired under these provisions, there were still 122 officers (including those in DROP) as of 2014 who were eligible for the benefits, but have not separated yet. If these pension benefits in excess of what the Third Class City Code provides are eliminated, then the City's annual contribution will be reduced and it will have more money to pay officers while they are active.

RB08.	**Eliminate overtime from the firefighter pension benefit calculation**	
	Target outcome:	Cost Avoidance
	Five Year Financial Impact:	To be determined
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	Firefighters

[12] Police officers hired after January 1, 2012, have a pension benefit compliant with the Third Class City Code.

Of the three pension plans available to City employees, only the Firefighters plan (for those firefighters hired before January 1, 2011) includes overtime in final salary for the purposes of pension benefit calculations. The City shall restructure the firefighter pension benefit to exclude overtime from the firefighter pension benefit calculation.[13]

RB09.	**For current and future normal retirement police and fire retirees eligible for retiree health care benefits, require the retiree to reach age 53 to begin receiving City retiree health care benefits**	
	Target outcome:	Cost savings
	Five Year Financial Impact:	$6,712,000
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	All current and future police and fire retirees

The City shall not provide retiree health care benefits to current and future normal retirement police and fire retirees who are eligible for retiree health care benefits until the retiree reaches age 53.

For those employees still eligible to receive post-retirement health care, only police officers do not need to meet a minimum age requirement to begin receiving this benefit. Retiree health care benefit eligibility by bargaining unit is as follows:

- IAFF: Age 50 and 20 years of service
- AFSCME: Age 65 and 10 years of service
- Non-represented: Age 65 and 10 years of service
- FOP: 20 years of service (may purchase up to five years of "ghost time" and five years of military service). No minimum age requirement.

If the City ceased paying for retiree health care for current and future police and fire retirees who retired under a normal retirement and are eligible for retiree health care coverage but have not reached the age of 53, the Coordinator estimates the City would achieve savings as shown below.

Financial Impact

2015	2016	2017	2018	2019	Total
$1,452,000	$1,482,000	$1,452,000	$1,226,000	$1,099,000	$6,712,000

The above savings estimate is based on a scenario in which the City stopped paying for health insurance for police officers and firefighters who have already retired under a normal retirement but have not reached age 53. If the City changed this provision only for active employees who haven't retired yet, the savings would be less.

[13] Firefighters hired after January 1, 2011, have a pension benefit that excludes overtime from the pension calculation.

This initiative's age requirement would not apply to spouses or dependents if eligible. Further, this initiative would not change the expiration of retiree health care benefits at age 65, nor does it grant any retiree health care benefits to those who are not eligible to receive such benefits.

RB10.	**Do not provide City-paid retiree health care for City retirees employed by Berks County during their County employment**	
	Target outcome:	Cost Savings
	Five Year Financial Impact:	$1,409,000
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	Police Officers

The City shall not provide retiree health care for City retirees employed by Berks County during their County employment. Based on a survey the City conducted in July 2013, there were 17 former City police officers who were employed by Berks County and who were under the age of 65. It is not uncommon for City police officers to retire from the City and continue to work in law enforcement for the County or other governmental entities.

Like many other Pennsylvania counties, Berks County offers its employees a competitive health care benefit package. It also incentivizes its employees to obtain their healthcare elsewhere by offering an annual payment if an employee who is eligible for County health care benefits does not take the County plan.

Based on the number of self-identified Berks County employees from the survey and assumptions about their tenure, it is estimated that requiring City retirees eligible for City-paid retiree health care who work for Berks County to take the County health care plan would save $307,000 in 2015 and over $1.4 million over 5 years.

Financial Impact

2015	2016	2017	2018	2019	Total
$307,000	$252,000	$268,000	$284,000	$298,000	$1,409,000

This initiative is listed as suggested instead of mandatory because the Coordinator did not assume savings from it as part of any bargaining unit allocation. The Coordinator believes however that the City should pursue this issue in arbitration if it cannot reach agreement with the FOP.

RB11.	All current and future retirees eligible for and enrolling in City retiree health care shall be required to enroll in the City's least expensive health care plan	
	Target outcome:	Cost savings
	Five Year Financial Impact:	$3,861,000
	Responsible party:	Managing Director; Director of Administrative Services; Human Resources Director
	Impacted employee group:	All employee groups

The City shall require all current and future retirees eligible for and enrolling in City retiree health care to enroll in the least expensive health care plan offered by the City, as may change from time to time. The retiree premium formula (if any) shall be applied to this health care plan.

As noted earlier in the Chapter and in the Appendix, the City offers a variety of retiree health care plans based on bargaining unit and retirement date. If all current and future retirees were moved to the least expensive plan (currently the PPOS7 "Premier Plan") under the same employee premium structure they have now (or will have, for future retirees), the Coordinator estimates savings as shown below.

Financial Impact

2015	2016	2017	2018	2019	Total
$663,000	$723,000	$780,000	$827,000	$867,000	$3,861,000

Alternatives to this approach, such as moving all retirees to the Preferred or Preferred Plus plan, would result in alternative savings amounts.

Department of Administrative Services

In the 2010 City residents voted by referendum to merge the Departments of Human Resource and Finance into one unit, the Department of Administrative Services. The Department Director reports to the Managing Director and oversees five units or divisions.

- **Accounting** records the City's financial activity and maintains the centralized accounting system that is the source of information for required financial statements, periodic reports and the budget. The Division is currently responsible for payroll, which is partially handled by an external vendor, and pension administration. Department leaders are considering moving those functions to Human Resources. This is discussed more in the Initiatives section.

- The **Human Resources** Division provides administrative support to all City departments and individual employees for personnel matters. It maintains employment records and administers the hiring process. It manages the City's employee benefits programs, including medical, vision, dental and life insurance; worker's compensation; and deferred compensation. Additionally, it oversees the City's labor relation's efforts including labor negotiations, labor contract administration and grievance resolution.

- **Information technology** maintains and manages the City's technology including software, computers, internet connectivity, and most mobile and telecommunications systems. The division maintains the City's email and intranet systems and updates the website. It responds to service requests from other City departments, the Reading Redevelopment Authority and the Recreation Commission. IT staff also work with other departments on strategic projects where technology can be part of the solution for improving City government's efficiency or quality of service.

- The **Citizens Service Center (CSC)** was formed in 2011 when the City consolidated the former call center, treasury and tax collection responsibilities into one unit. Mail room functions were added in 2013. The CSC receives service requests by phone through its Call Center, online through its website and by walk-ins through its location on the first floor of City Hall.

- The **Purchasing** Division has one full-time employee, the Purchasing Coordinator, and two part-time clerks. One part-time clerk handles printing and document duplication for several departments, and the other is a vacant part-time position intended to support the Purchasing Coordinator. The Purchasing Coordinator is authorized to secure quotes for purchases up to $10,000. Purchases over that amount are done through a competitive bidding process.[1]

The Director also oversees an administrative unit that includes the Controller position required under the 2010 Recovery Plan, the Grant Writer and a confidential secretary.

The City Auditor is another important financial manager for the City. That position is independent of the Department of Administration and filled through a separate Citywide election. The City Auditor's position is addressed in more detail in the Elected and Appointed Officials chapter.

Staffing

Accounting for the organizational changes described above, the City has reduced the number of full-time staff assigned to these functions from 47 in 2010 to 38 in 2014. In 2014, the Wastewater Treatment Fund supports an accounting position focused on that enterprise fund's activities. The Self-Insurance Fund supports the Risk and Safety Coordinator.

[1] The competitive bidding threshold for professional services is $34,999.99 instead of $9,999.99.

Full-Time Budgeted Positions, 2010-2014[2]

	2010	2011	2012	2013	2014
Director's Office	3	4	4	4	4
Accounting & Treasury	9	5	7	7	8
Purchasing	1	1	1	1	1
Tax Administration (Eliminated in 2011)	13	0	0	0	0
Information Technology	9	9	9	9	9
Human Resources	6	5	3	4	4
Self-Insurance	2	2	1	1	1
Call Center/Citizens Service Center	3	12	13	10	11
Mailroom (Merged into CSC in 2013)	1	1	1	0	0
Total full-time	**47**	**39**	**39**	**36**	**38**

The biggest change occurred in 2011 after the City adopted the 2010 Recovery Plan that required the City to eliminate 10 positions.[3] The City achieved that target reduction by eliminating the Tax Administration Division and moving some of its responsibilities and staff from the Accounting and Treasury Division to the Citizens Service Center.

At that time the City also started contracting with other entities for tax collection instead of using its own staff for collections. When the City entered Act 47 oversight in 2010, the Coordinator found that the City struggled to accurately record, report and disburse earned income tax revenues. The City also had problems using the County's assessment data to generate real estate tax bills. At that point the City was also on a path to transfer earned income tax collection responsibilities to an external collector that would work with other municipalities and school districts in Berks County according to the requirements of Pennsylvania Act 32 of 2008.

Given this opportunity, the City's struggles and the need to improve revenue collections, the 2010 Recovery Plan encouraged the City to move EIT collections to the external collector ahead of the schedule in Act 32 and supported the City's discussions to shift current and delinquent real estate taxes to Berks County, both of which happened in 2011. The City has subsequently contracted with the third party EIT collector for local services tax and per capita tax collections. The table below describes which entity collects City taxes and major fees.

[2] The City's budget did not distinguish full-time from part-time positions until 2013, so part-time positions are not included.

[3] Initiative FI08 required the elimination of seven positions and Initiative FI09 required the elimination of another three.

Tax and Fee Collection Responsibilities[4]

	Current Year	Delinquent
Real estate tax	Berks County Government	Berks County Government
Earned income tax (Governed by PA Act 32 of 2008)	External collector (Berks EIT, Incorporated)	External collector (Berks EIT, Incorporated)
Real estate transfer tax	Berks County Government	N/A
Business privilege tax	City	City
Local services tax	External collector (Berks EIT, Incorporated)	External collector (Berks EIT, Incorporated)
Admissions tax	City	N/A
Per capita tax	External collector (Berks EIT, Incorporated)	External collector (National Recovery Agency)
Business privilege license	External collector (Berks EIT, Incorporated)	External collector (Berks EIT, Incorporated)
EMS fees	External collector (First States)	External collector (First States)
Water fees	RAWA	RAWA
Wastewater fees	RAWA	RAWA
Trash fees	RAWA	RAWA
Housing fees (Rental inspections, zoning, etc.)	City	External collector (National Recovery Agency)

Finances

The table below shows the Department's actual expenditures from the General Fund for 2011 through 2013 and the budgeted expenditures for 2014. Overall the Department's expenditures grew by 13.1 percent over this period, though there was a 31.8 percent increase from 2013 actual to 2014 budget.

[4] In some cases the City has more than one entity handling delinquent collections. For example, the Reading Area Water Authority (RAWA) collects revenue on accounts that became delinquent after May 2012 and a private collector collects on accounts that became delinquent before that date.

That increase is largely the result of the City replacing a significant part of its information technology hardware in 2014. That IT "refresh" added $900,000 to the non-personnel expenditures in that unit for 2014. The City will make annual payments estimated at $900,000 per year through 2018 to fully fund that work.

Department of Administrative Services/HR Expenditures, 2011 - 2014[5]

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-14
Personnel subtotal	356,452	310,455	391,639	382,728	7.4%
Non-personnel subtotal	11,797	7,704	2,405	5,050	-57.2%
Director's Office subtotal	**368,249**	**318,159**	**394,045**	**387,778**	**5.3%**
Personnel subtotal	419,613	448,668	466,501	551,018	31.3%
Non-personnel subtotal	2,902	141,876	147,886	190,650	6469.1%
Accounting subtotal	**422,515**	**590,544**	**614,386**	**741,668**	**75.5%**
Personnel subtotal	72,892	87,091	77,201	109,397	50.1%
Non-personnel subtotal	362,489	395,045	358,576	355,950	-1.8%
Purchasing subtotal	**435,382**	**482,137**	**435,777**	**465,347**	**6.9%**
Personnel subtotal	687,256	632,606	591,854	796,291	15.9%
Non-personnel subtotal	1,113,778	944,884	989,397	1,769,050	58.8%
Information technology subtotal	**1,801,034**	**1,577,489**	**1,581,251**	**2,565,341**	**42.4%**
Personnel subtotal	823,099	707,534	700,398	774,560	-5.9%
Non-personnel subtotal	454,288	96,122	46,575	54,800	-87.9%
Citizens Service Center subtotal	**1,277,387**	**803,656**	**746,972**	**829,360**	**-35.1%**
Personnel subtotal	329,239	247,763	294,595	351,258	6.7%
Non-personnel subtotal	62,419	89,053	34,505	86,850	39.1%
Human Resources subtotal	**391,657**	**336,816**	**329,100**	**438,108**	**11.9%**
Personnel subtotal	31,440	24,059	15,474	0	-100.0%
Non-personnel subtotal	71,156	5,667	285	0	-100.0%
Mailroom subtotal (merged w/ CSC in 2013)	**102,596**	**29,726**	**15,759**	**0**	**-100.0%**
Department total	**4,798,819**	**4,138,527**	**4,117,290**	**5,427,602**	**13.1%**

[5] These expenditures are only from the General Fund. Expenditures for activities related to self-insurance are recorded in a separate fund.

Other changes of note during this period include:

- The City budgeted $701,000 for personnel in IT in 2013, but spent $592,000 because of position vacancies. Similarly the Division has had vacancies for parts of 2014 that could bring 2014 actual spending closer to 2013 levels.

- In 2011 the City recorded expenditures related to external tax collection services in the Citizens Service Center ($449,000 in 2011). Those expenditures were shifted to a non-departmental section of the budget in 2012, accounting for the large drop in non-personnel expenditures in that unit.

Assessment

When the City entered Act 47 oversight in 2009, its financial problems extended beyond the annual recurring deficits and low cash levels described in the City's independent audits. The City's financial reporting was weak and inadequate, which made it difficult for City officials or community members to discern the City's actual financial condition and take corrective action. Weaknesses noted in the 2010 Recovery Plan include:

- Financial records primarily produced on a modified accrual basis with insufficient information to determine the City's cash position;

- Lack of a cash flow report;

- A practice of removing some liabilities from the list of interfund payables (i.e. obligations that the General Fund owes to other funds) for part of the year in the hope that they would be paid later;

- Budget document that lacks narrative context or strategic explanations; and

- Weak periodic reporting on the City's financial progress relative to budget during the year.

After the City approved the Recovery Plan, the Coordinator and City staff directed their attention first to determining the City's cash position and creating a cash flow report. During that process, the Coordinator discovered that the City was reporting its monthly earned income tax revenues on a budgeted or projected basis, instead of reporting the actual amount collected and available for City spending.[6] The City was also further behind on its required contributions to the employee pension plans than originally reported. The Coordinator later determined that the City was not correctly completing the transfers from enterprise funds to the General Fund, resulting in differences between reported funding levels and the actual amount of money in the affected funds.

In August 2010 the Coordinator discovered that the City would exhaust its General Fund cash before the end of the year and faced a projected $8 million year-end cash deficit. Those discoveries led City officials to make the difficult decision to borrow $17.2 million in December 2010 to maintain operations for the rest of the year, repay the loan from the Wastewater Treatment Plant Fund and help retire the prior year obligations to the employee pension plans.

Those discoveries further underscored the need to improve the City's financial reporting. Through the 2010 Recovery Plan, the Commonwealth funded a new "Controller" position on a declining three-year

[6] The City's past problems with EIT collections are discussed further in the Revenue chapter.

basis.[7] The Controller and other Finance/Administrative Services staff in the McMahon and Spencer Administration have worked hard with City Council, the City Auditor, Coordinator, the external auditor and other finance professionals to improve the processes for recording revenues and expenditures and reporting them in a timely, meaningful way.

Currently the Department of Administrative Services produces a monthly cash flow report that shows the City's current and projected year-end position at an aggregate level and according to major categories. The Department provides detailed monthly updates on actual revenue collections, overtime spending in the Reading Police and Fire Departments, and a brief narrative report on the City's spending relative to the budget. With the Department's support, the Coordinator provides longer quarterly reports on the City's performance relative to budget that highlight important revenue and expenditure trends.

Better interim cash flow and actual-to-budget financial reports have also given City decision makers more confidence in the numbers they use during the annual budget process and guided discussions with department managers on their spending decisions during the year. And working through the City's problems with interfund transfers provided a critical, one-time influx of cash to the General Fund so that the City could fund every day operations without relying on loans from other funds or external creditors.

Other divisions within this Department are also focused on strengthening fundamental functions. The Human Resources Division has reduced the backlog in pending responses to grievances filed by the collective bargaining units and become compliant on mandatory Equal Employment Opportunity (EEO) reporting. The Division notes its success in filing timely worker's compensation claims, the success it has had in using pre-employment physicals to reduce worker's compensation claims among recycling employees and more vigilant review of unemployment compensation claims to avoid unnecessary expenses.

The divisions have also made progress on more strategic initiatives intended to improve services, and not just meet baseline professional and legal standards. The Human Resources Division is working with the AFSCME 2763 bargaining unit to update position descriptions, as required in the 2010 Recovery Plan. Human Resources has increased the frequency of its labor-management committee meetings, which should help reduce the number of grievances filed and the amount of resources the City has spend resolving conflict with its employees. The Division also completed an update to the employee handbook under review by senior management and established a performance evaluation process that was being used for non-represented employees as of August 2014.

Information Technology has worked with several departments to launch technology-supported programs, like predictive policing in the Reading Police Department and the regular cycle of rental housing inspections in Community Development. The reported problems in using the Hansen software, which were a frequent source of complaints in 2010, have largely been resolved.

More generally, the Department has also streamlined its operations. As described earlier, the City now uses other entities to collect most major taxes and fees, reducing the need to build or maintain databases that other entities already have. In some cases, like earned income tax collection, the City has reduced its staffing levels and receives better service in terms of increased revenue collections and reduced liabilities. In other cases, like the Citizens Service Center, the City has cross trained staff so that there is more flexibility to assign them as needed.

As the next section discusses, there are still areas that need improvement, opportunities to advance the City's progress-to-date and new priorities that should get more attention now that some of the fundamental improvements are in place. But City government leaders, employees and taxpayers should

[7] In Reading the Controller position is similar to a Deputy Finance Director position and part of the Department of Administrative Services. It is different from the City Auditor position, which is filled by an elected official who works with the Administration on financial matters, but is independent from it.

take satisfaction in knowing that the Department has made progress since Reading entered Act 47 oversight in 2009.

Initiatives

Financial management

AS01.	Fund balance use and reserve levels	
	Target outcome:	Financial stability
	Five Year Financial Impact:	$11.5 million
	Responsible party:	Mayor; Council; Managing Director; Director of Administrative Services

The 2010 Recovery Plan required the City to "seek to build and maintain an undesignated fund balance equal to 5.0 to 15.0 percent of annual recurring General Fund revenues."[8] The Government Finance Officers Association (GFOA) now recommends a higher minimum level of fund balance:

> *GFOA recommends, at a minimum, that general purpose governments, regardless of size maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.*

The chart below compares the City's unassigned fund balance to its General Fund revenues, including recurring transfers into the fund, since the City entered Act 47 oversight. The City has met the GFOA's 16.7 percent threshold (i.e. two months) each year since 2011, though the 2011 results were inflated by the City recording a $4.5 million refund of prior year expenditures in its revenues. Removing that reimbursement brings the 2011 fund balance closer to the 2012 result.

General Fund Balance compared to Revenues[9]

	2009	2010	2011	2012	2013
Unreserved/unassigned fund balance	-6,531,153	11,155,472	19,221,943	14,904,491	20,175,069
General Fund revenues	59,026,847	73,105,104	79,690,439	73,303,502	81,296,647
Fund balance as % of revenues	-11%	15%	24%	20%	25%

This is only one measure of a City's financial stability and it should be considered along with other measures, like the level of cash reserves, the difference between operating revenues and expenditures (i.e. annual operating results) and budget-to-actual performance.

The unassigned fund balance at the end of 2013 ($20.2 million) is also not the same as the amount of cash or cash equivalents that the City had at the end of 2013 ($14.9 million). The fund balance includes

[8] Initiative FI07, pages 101-102.

[9] The revenues shown here come from the City's external audits and will differ from unaudited results used in other parts of the Recovery Plan. Please see the Revenue Chapter for more discussion on the difference between these two sets of figures. The City's unassigned fund balance is the same as its unrestricted fund balance in each year shown. Non recurring revenues related to bond transactions are excluded.

"receivables," which are outstanding payments due to the City that the external auditor determined the City is likely to receive.

But the City needs to maintain an unassigned General Fund balance for several reasons. The balance helps the City pay its obligations early in the year before tax revenues arrive, without having to issue Tax Revenue Anticipation Notes and paying interest for the borrowed money. It provides a buffer against unexpected revenue shortfalls or unbudgeted expenditures. It is also one of the criteria that creditors and rating agencies use to determine the City's creditworthiness, which directly impacts the interest rates the City pays when it issues debt. City finance officials note that the current fund balance has helped the City improve its credit rating despite Reading's significant structural challenges.

In 2011 City Council adopted an ordinance that sets goals for how the fund balance should be used:

"*The City's objective is to achieve and maintain a structurally-balanced budget in all funds such that recurring revenues fund recurring expenditures. Non-recurring revenues and budget surpluses should replenish reserve levels, support outstanding liabilities and pay for non-recurring expenditures, including capital projects, in that order.* "

The objective described in this policy and the recommended uses for non-recurring revenues, including drawing down the City's fund balance, are sound. Ideally the City would take the fund balance that it has built and use it to retire debt ahead of schedule to lower its recurring expenditures and fund capital projects. Unfortunately, because of the factors that drive the City's projected deficit as described in the Plan Introduction, the City is likely to need to use its fund balance to meet its recurring expenditures through 2019. The Coordinator's current projections show the following use of fund balance, though fluctuations in the City's actual revenues and expenditures will determine the exact amount that the City uses each year.

Projected Use of Fund Balance[10]

2015	2016	2017	2018	2019
$0	$1,031,00 0	$3,145,00 0	$2,806,00 0	$4,528,000

Compared to the Amended Recovery Plan's revenue projections, the Fund Balance would fall below the GFOA recommended 16.7 percent threshold by 2018. The projected reliance on Fund Balance in 2019 is problematic because it indicates the City would not be able to balance its recurring revenues against recurring expenditures as is necessary for the City to successfully exit Commonwealth oversight.

If the City's unassigned General Fund balance falls below 15 percent of annual General Fund revenues,[11] then the City shall use any unexpected, short-term or one-time increases in revenues or reductions in expenditures of at least $500,000 beyond the levels projected in this Plan to restore the Fund Balance to that level. The City shall also direct any positive difference between annual revenues and annual expenditures to restore the unassigned General Fund balance to 15 percent if it has fallen below that level.

[10] The introduced version of the 2015 budget included $3.5 million in fund balance, but it had an additional $2.3 million in expenditures for a contingency (buffer against unanticipated shortfalls). The Recovery Plan projections do not include the contingency and implementing the other Amended Recovery Plan initiatives would mitigate the projected need for fund balance in 2015.

[11] The GFOA applies the two-month minimum fund balance threshold to revenues or expenditures, including transfers, depending on which is more predictable. Since the City's expenditures are subject to non-recurring events, like the emergency facility repairs in 2014, and monthly variations in employee health insurance claim costs, this initiative indexes the City's fund balance to revenues, including the recurring operating transfers into the General Fund.

The next initiative provides more direction on how the City shall use any windfall benefits during the Plan period.

AS02.	**Direct windfall proceeds to Recovery Plan priorities**	
	Target outcome:	Financial stability; preserve City infrastructure
	Five Year Financial Impact:	See below
	Responsible party:	Mayor; Council; Managing Director; Director of Administrative Services

During the period covered by this Amended Recovery Plan, the City may benefit from financial windfalls – unexpected, significant, short-term increases in revenues or reductions in expenditures above budgeted or projected levels. By their nature, these windfalls cannot be predicted but the City should have a plan for their use in case they arrive.

With the Coordinator's guidance, the City shall use any financial windfalls of at least $500,000[12] for the following priorities, if not needed to address an unexpected significant short-term decrease in revenues or increase in expenditures within the same year.

- Restoring the unassigned General Fund balance to 15 percent of General Fund revenues if it falls below that level (see prior initiative)
- Funding capital projects identified through the asset condition assessment described in the Capital Improvement Program chapter
- Making an additional debt service payment beyond the amount of principal and interest due in a particular year

AS03.	**Asset monetization**	
	Target outcome:	Direct proceeds to Recovery Plan priorities to achieve long-term structural balance
	Five Year Financial Impact:	N/A
	Responsible party:	Mayor; Managing Director; City Council; Director of Administrative Services; Public Works Director

The concept of leasing the City's water system to an external operator for a large, upfront payment was discussed at length in the months leading up to the Amended Recovery Plan's release. The City currently leases the system to the Reading Area Water Authority, which makes an $8 million annual lease payment to the City.[13] One of the key differences between the current arrangement and asset monetization is that the latter could generate a large payment (or payments) in the early years of the lease in exchange for lower or no payment in subsequent years. The City's sanitary sewer system (operated by the City as an enterprise fund) and parking system (operated by the Reading Parking Authority) may also be candidates for asset monetization.

[12] This equates to a non-recurring increase in revenues that is at least $500,000 above the levels projected in the Amended Recovery Plan or a non-recurring decrease in expenditures that is at least $500,000 below the levels projected in the Amended Recovery Plan.

[13] An initiative in the Revenue chapter would this number to $9.28 million

The Coordinator recommended that the City consider monetizing the water system with the goal of using the large upfront payment (or payments) to help the City achieve the goals that are now pursued more incrementally in the Amended Recovery Plan – paying down debt, maintaining reserves at an adequate level, investing in the City's core infrastructure – all with the ultimate objective of helping the City achieve long-term financial balance and exit Commonwealth oversight. For example, the City could use the lease proceeds to repay some of its debt ahead of schedule so that the City can direct less money to that purpose in its annual budgets.

The timing and amounts of the asset monetization payments would have to be structured very carefully to ensure the City uses the proceeds for purposes that have a long-term, recurring benefit and help the City achieve long term structural balance. The City shall not use the sale or lease of its water, parking or sanitary sewer assets to generate a large upfront payment that only supports the City's expenditures for the term of the Amended Recovery Plan or a portion of that term, and any such transaction shall be approved by the Coordinator.

For City government to get the maximum value out of the lease arrangement, the Administration and Council need to agree to a collaborative process that starts with a clear description of the City's financial and non-financial objectives for any lease arrangement. One of the primary points of discussion on whether the City should pursue asset monetization focused on whether the water system employees would retain their jobs and under what conditions they would do so. If the Administration and Council agree this is a priority, they could make it part of the terms of any lease arrangement to ensure it is achieved, whoever operates the system. The same approach would apply to other potential points of conflict, including the frequency or size of rate increases.

In November 2014 the City electorate approved an amendment to the City Charter that requires the City to get voter approval before selling, or leasing for longer than 10 years, any city asset worth $10 million or more, unless it is sold or leased to a city-created municipal authority. This amendment could limit the City's options for pursuing asset monetization with parties other than the existing authorities since those parties would likely want some assurance that the City government has the authorization to pursue that kind of arrangement before investing the substantial time and resources needed to generate a proposal to City government.

If the two parties reach an agreement on a collaborative process for pursuing asset monetization, the Coordinator can guide the City through that process, including providing guidance on the appropriate uses for the monetization proceeds. If the process is concluded successfully and the proceeds are to be directed as described above, the Coordinator is willing to amend the Recovery Plan to account for that windfall.

AS04.	**Resolve high priority recurring audit findings**	
	Target outcome:	Improved financial management
	Five Year Financial Impact:	N/A
	Responsible party:	Director of Administrative Services; City Auditor; City Audit Committee

Each year the City's financial records are audited by an external accounting firm and then released as the Comprehensive Annual Financial Report (CAFR). During that process, the external auditors cite the weaknesses and deficiencies in the City's financial reporting and related processes, which are known as "findings." As the auditor explains, "A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis."[14]

The City had 17 findings in its 2010 audit, 14 in 2011, 13 in 2012 and 12 in 2013.[15] While the number of findings is declining, seven of the 12 findings in the 2013 audit have recurred for at least four years and three have recurred for seven years. Plus nine of the findings were material weaknesses. There were another 13 findings related to the City's compliance with federal funding programs, seven of which were material weaknesses.

As required in the 2010 Recovery Plan, the City has improved its responses to the audit findings by establishing an Audit Committee convened by the City Auditor[16] with representatives from the Department of Administrative Services and City Council to discuss the audit findings and the City's corrective action plan. The City Auditor and Department of Administrative Services also work together to prepare a written response to the external auditor's findings.

The City needs to make more progress in reducing the number of findings, particularly the following priorities:

- **Reconciling bank accounts:** The 2013 audit found, "The City has been unable to reconcile the main operating accounting through which most receipts and disbursements flow throughout 2013. The turnover [in] accounting personnel, a lack of understanding of all the transactions that are accounted for through the account, and a lack of standard operating procedures has not allowed the City [to] accurately reconcile the account."[17] Department staff notes that the City historically has not regularly reconciled the General Disbursement Account (GDA) referenced in this finding. As of August 2014, the City completed monthly GDA reconciliations through May 2014. Given the volume of activity in this account, the City must bring its reconciliations current and complete them in a timely manner to more closely monitor the activity in the City's largest bank account.

- **Grant management:** Several of the findings relate to how the City manages the state and passes it through to other "subrecipients." The audit found that the City did not accurately record grant awards or expenditures in the general ledger and did not always request proper documentation from sub-recipients for reimbursements. Potential consequences for poor grants management include loss of eligibility for future funding or the requirement that the City return funding already received.

- **Year-end material adjustments:** The 2013 audit found that the City needed to make "significant adjustments" to its year-end financial statements during the audit process to bring the funds and accounts into compliance with generally accepted accounting standards. One reason is that the City only recorded accounts receivable (amounts that are due to the City, but have not been paid yet) for governmental funds on a year-end basis. The external auditor concluded, "As a result of the reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year-end."[18]

Referring back to the external auditor's definition of a material weakness, the City needs to prevent the "possibility that a material misstatement of the entity's financial statements will not be detected and corrected on a timely basis." The City has made good progress in improving the timeliness and accuracy of its cash-based and mid-year budget-to-actual records and now must do the same here.

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[14] 2012 CAFR, first page of Independent Audit Report

[15] This excludes the separate findings related to the City's compliance with federal award guidelines.

[16] The Committee is convened by the City's elected auditor, not the external auditing firm that prepares the CAFR.

[17] 2013 CAFR, page 100. Finding 2013-007.

[18] 2013 CAFR, page 94, Finding 2013-001.

For the three priority areas noted above, the fixes are not likely to be quick or simple. But the City should have a clear, credible plan for making progress toward resolving them, even if that is only possible in stages (reconciling accounts on a quarterly instead of monthly basis, focusing on particular grants for improved management).

Working with the external auditor and the elected City Auditor, the Department shall prepare a corrective action plan for addressing the three priority areas listed above. The Plan shall include a timeline for implementation with milestones to be achieved after three months, six months and 12-months. It shall also include a statement of which employees, by position, are responsible for taking action. The Department Director or his designee and the City Auditor shall present the Plan to the Audit Committee by February 28, 2015 and meet with the external auditor to get their input on the plan. Working with the City Auditor, the Director of Administrative Services or the Director's designee shall issue quarterly progress reports to City Council and the Act 47 Coordinator on the City's progress in implementing its plan.

There is a parallel initiative in the Elected and Executive Officials chapter to emphasize joint responsibility for this initiative.

AS05.	**Develop annual budget document**	
	Target outcome:	Improved financial management
	Five Year Financial Impact:	N/A
	Responsible party:	Director of Administrative Services

The City has made some improvements to its annual budget document since entering Act 47 oversight in 2009. As described earlier, the City has better financial record keeping and reporting, which improves the accuracy of the numbers used in the budgeting process and gives decision makers clearer understanding of City government's financial performance.

The City has also expanded its use of "charge backs." Charge backs are a budgetary technique where the City allocates expenditures for supplies or services to the operating departments based on how much they use them, instead of budgeting all the expenditures centrally in one line. For example, the City now allocates the cost of vehicle fuel to the departments that use it (e.g. police patrol, fire suppression), instead of budgeting all fuel costs centrally within public works. Some governments use charge backs to distribute the cost that one unit of government incurs in delivering service to another unit of the same government. For example, some City governments charge operating departments (e.g. police, fire, public works) for the cost of maintaining an Information Technology or Human Resources division. In general, charge backs create more accountability and encourage more responsible use of the associated supplies and services.

Even with these improvements, the City's budget document itself remains a simple listing of revenues and expenditures with little or no narrative context or strategic explanations. It is not possible for the reader to grasp the context for proposed spending, challenges and opportunities in the coming year or trends in revenue and expenditures. Reading's budget is unusually sparse, even for Pennsylvania cities of the third class that often have limited ability to commit staff to budget production.

While the Mayor's address is a helpful supplement, and improving the accuracy of the budget numbers was a necessary first step, much more can be done. A more complete budget document would help taxpayers better understand how their money is being used. It would show the City's creditors and local business owners that City officials are committed to strong financial management. And it would be part of the City's effort to retain and improve its credit rating, which directly impacts the City's borrowing costs.

To encourage local governments to improve their budget documents and meet best practice standards, the Government Finance Officers Association (GFOA) issues a Distinguished Budget Presentation Award based on how well a local government meets specific criteria. The list of criteria[19] includes:

- A budget message that articulates priorities and issues for the upcoming year, explains significant changes in priorities from the current year and explains the factors that led to those changes.
- Overview of significant budgetary items and trends, including underlying assumptions for revenue estimates.
- Description of services provided by each department.
- Description of the process for preparing, reviewing, and adopting the budget.
- Summary of major revenues and expenditures to provide an overview of the total resources budgeted by the organization.

Receiving the Distinguished Budget Presentation Award should be a long term goal, but the City shall make incremental progress by adopting some of the elements described in the GFOA Award criteria each year.

AS06.	**Priority financial policy adoption**	
	Target outcome:	Improved financial management
	Five Year Financial Impact:	N/A
	Responsible party:	Mayor; City Council; Managing Director; Director of Administrative Services; City Auditor

One of the ways that City Council can support the City's financial recovery is to adopt policies that codify improvements that the City has already made or provide guidance for important future decisions. For example, in 2011 City Council adopted an ordinance that governs how the City makes interfund transfers and interfund loans. Working with the McMahon Administration and the Act 47 Coordinator, Council passed an ordinance that limits how the City does these transactions, mostly in response to the City having to repay a multi-million dollar loan from the Sewer Fund to the General Fund in late 2010. More than responding to a particular incident, the policy demonstrates City government's commitment to avoid similar borrowings in the future and provides clearer guidance for future officials who will manage the City's finances long after that incident occurred. Adopted financial policies are also one of the criteria that rating agencies use to determine the City's creditworthiness, which directly impacts the City's borrowing costs.

Working with the Administration, which has responsibility for executing the policies, and the City Auditor, who has responsibility for monitoring the Administration's compliance with the policies, City Council shall enact policies addressing the following priority issues:

- **Debt management:** Even though the City is not currently projected to issue new debt during the term of the Amended Recovery Plan, it eventually will need to do so to fund capital improvements. There will also continue to be opportunities to refinance debt and lower the City's

[19] The full list is available here: http://www.gfoa.org/sites/default/files/u63/2014BudgetCriteriaExplanations.pdf

scheduled principal and interest payments.[20] So the City should adopt a debt policy to guide future decisions on the timing, amount and amortization schedule for future debt and to help evaluate refinancing opportunities. Typical standards that municipal finance officials use elsewhere to evaluate the efficacy of potential debt transactions include targets for debt service expenditures as a percentage of operating revenues; debt per capita; average maturity of debt; total debt as a percentage of assessed value; and the present value savings of proposed refinancings.

- **Fund balance:** Once this Amended Recovery Plan is approved, initiative AS01 governs the City's practices for maintaining an adequate fund balance as a reserve while City is in Act 47 oversight. But the City should more fully consider the issue of what is the appropriate level of fund balance to maintain after it leaves Act 47 oversight and whether other provisions related to fund balance should be adopted now. For example, the City should consider whether there is a *maximum* level of fund balance that the City will maintain and how the City will use assets above that maximum.

There is a parallel initiative in Elected and Executive Officials chapter to emphasize joint responsibility for this initiative.

AS07.	**Restructure HR Division to provide more resources for strategic priorities**	
	Target outcome:	Free resources for strategic priorities
	Five Year Financial Impact:	N/A
	Responsible party:	Director of Administrative Services; Human Resources manager

When the City entered Act 47 oversight in 2009, the Human Resources Department was responsible for payroll. This included tracking the salary and wages due to the City's employees and processing payments to them; making the required deductions such as tax withholdings and pension contributions; and producing mandatory reports, such as W-2s. After Human Resources and Finance merged into one unit in 2011, payroll was moved to the Accounting Division.

Along with the organizational changes, the City changed how it handles payroll. In 2010 the City used its own staff and the PDS software package for most payroll functions. The City was using an older version of PDS that was no longer supported by the vendor, so the City needed to upgrade the PDS software, purchase new software or contract with an outside provider.

Given the availability of external options for processing payroll and the need to focus the City's limited resources on other areas, the 2010 Recovery Plan recommended the City consider outsourcing payroll functions. After reviewing different options and going through a competitive bidding process, the City selected ADP for payroll processing and reporting.

The City is still responsible for gathering the data that populates the payroll system, including the number and types of hours worked by employees (e.g. straight time, overtime, compensatory time). The City has two payroll clerk positions in its Accounting Division who receive spreadsheets that other departments use to track time sheet data and re-enter the data into the ADP payroll system.

As of August 2014, Department leadership was considering moving the remaining payroll functions from Accounting back to Human Resources. Similarly the City could move pension administration from

[20] Please see the Debt Service chapter for more information on this topic.

Accounting to Human Resources and put pension and payroll under the oversight of the same manager. The City would convert the two payroll clerk positions in Accounting to Human Resource Assistant positions in Human Resources that would be used more flexibly for non-payroll activities. The chart below shows the structural changes.

	Current		Proposed	
	#	Dept	#	Dept
Pension Administrator	1	Acct.	1	HR
Pension Assistant (part-time)	1	Acct.	1	HR
Payroll Clerks	2	Acct.	None	None
HR Generalist	1 (Vacant)	HR	1	HR
Benefits Coordinator	1	HR	1	HR
Human Resource Assistants	1	HR	2	HR
Compensation Coordinator (Oversight of Pension & Payroll)	None	None	1	HR
Total positions	7		7	

Human Resources already administers the employee health insurance and worker's compensation benefits, so this change would give one division responsibility for managing all major forms of employee compensation. Human Resources staff also have more regular interaction with the collective bargaining units whose members have expressed frustration with payroll related errors. So the restructuring would give City employees one unit to address their compensation questions and concerns instead of two.

By working cooperatively with the affected employees, particularly the two payroll clerks and the AFSCME 2763 collective bargaining unit that represents them, the City shall continue to pursue this re-organization.

Making these moves and changing staff responsibilities would also create additional capacity for more strategic objectives. Following the reorganization, the Human Resource Division shall lead a cooperative effort to improve the City's timesheet data collection process. Priority improvements include setting up a more efficient, accurate system for tracking overtime usage than the current process that uses separate spreadsheets from the Fire Department and paper cards from the Police Department.[21]

The City needs to reduce manual data entry to improve accuracy, increase efficiency and make it easier for managers to discern trends in overtime usage. Given employee concerns about payroll accuracy, the Human Resource division shall consult with the bargaining units during this process as part of the regular labor-management meetings.

The re-organization will also free staff to improve employee training. As a priority, the City needs to provide certain kinds of mandatory training, such as sexual harassment awareness and prevention. Other training, like conflict resolution, is not mandatory but may improve the work environment, employee

[21] Improving this system will also help the City respond to the 2012 audit finding of instances where time cards were not properly approved. Please see the Police and Fire chapters for more information.

morale or productivity. Within one year of completing the reorganization, the Director of Administrative Services and the Human Resources Manager shall produce a list of the City's most critical employee training needs and propose a plan for meeting them.

AS08.	**Improve business privilege tax collection**	
	Target outcome:	Increased revenues
	Five Year Financial Impact:	$482,000
	Responsible party:	Director of Administrative Services; CSC Director

As described above, the City has changed its role in the tax collection process. For most taxes, the Department of Administration now manages contracts with external collection agencies or works with Berks County instead. The only two exceptions where the City still collects major taxes on its own are the admissions tax, which is currently collected at only three venues and remitted to the City[22], and the business privilege tax (BPT).

The BPT is levied on the gross receipts of all entities engaged in commercial activities for gain or profit within the City's borders. The tax is 0.5 mills on wholesale businesses, 0.75 mills on retail businesses and 1.5 on other businesses. The graph below shows the City's current year and prior year BPT revenues since 2011. The City usually receives the majority of its current year BPT revenue in the first half of the year, and through the first half of 2014, the City received $1.3 million. Prior year receipts were $25,000 through June 2014.

BPT Revenues

	2011	2012	2013
Current year	$1,326,539	$1,598,766	$1,380,434
Prior year	$81,906	$449,616	$102,804
Total	**$1,408,444**	**$2,048,382**	**$1,483,238**

The City offered a tax amnesty program in 2012 through which business owners with delinquent taxes could have the penalties and interest on their accounts waived if they paid the principal amount by a certain date. That program increased prior year revenues to $450,000 and may have also boosted current year collections to the level shown above, as businesses paid the delinquent and current amounts due simultaneously. The City reasonably hoped that the 2012 amnesty would have a recurring benefit as the taxpayers who participated in the program became part of the City's regular cycle of current year collections. But revenues have since dropped back to the levels before the tax amnesty program, including for current year taxes.

Department management notes that the Citizen Service Center, which has responsibility for collecting BPT, lost three positions in the 2013 budget and, as of August 2014, has the Treasury Manager position vacant. With the lower staffing levels, CSC staff may be spending more time on activities other than tax collection.

[22] As of August 2014, the admissions tax was only levied on events at FirstEnergy Stadium, Santander Arena and the Santander Performing Arts Center. Please see the Revenue chapter for more information.

Nevertheless, the City needs to refocus its efforts on collecting the BPT in the year that it is due. The City cannot afford to forgo the tax revenues that it should collect now with the hope of improving future collections, especially when there are other options available and the City is generally moving toward outsourcing tax and fee collection responsibilities.

Therefore, the City shall pursue options to contract with another entity for BPT collection starting in 2016. The City is already using one external collector for earned income taxes, local service taxes and business privilege licenses. That organization may be able to use the information it has gathered from collecting those other business-based taxes and fees to identify businesses that are not paying their BPT on schedule.

Assuming the City's figures are accurate, current year revenues should return close to the $1.6 million collected in 2012 and grow over time as business activity increases. The initiative target is for the City to reach the $1.6 million by 2017, the second year of the change, and then grow by the 2.0 percent baseline projection.

Financial Impact

2015	2016	2017	2018	2019
$0	$68,000	$135,000	$138,000	$141,000

AS09.	**Integrate the Citizens Service Center with performance management**	
	Target outcome:	$318,000
	Five Year Financial Impact:	N/A
	Responsible party:	Director of Administrative Services; CSC Director; Public Works Director; Community Development Director

One reason for forming the Citizen Service Center (CSC) in 2011 was to improve customer service by giving residents a single point of contact for their questions and concerns, as opposed to having each department handle these interactions separately according to their own procedures.[23] The CSC currently receives service requests by phone through its Call Center, online through its website and by walk-ins through its location on the first floor of City Hall.

Not all interactions generate a service request as some can be handled quickly by the CSC staff (e.g. phone number requests, referrals to organizations outside City government). For those that cannot be resolved quickly, the City records a service request in its Hansen computer system and routes it to the relevant operating department. The chart below shows the service requests by department for 2012 and 2013. RAWA assumed responsibility for water-related requests in May 2012 and some requests were tracked in different categories across the two years.

[23] This discussion excludes most calls for police and fire service which are handled through the 911 emergency dispatch systems.

The CSC's service request reports should be a useful tool that provides quantified insight into the following types of questions:

- What are the most common specific service requests within each of the categories? Are there trends in when or how those requests are submitted that would help the City provide information to citizens more proactively or efficiently?

- How long does it take for the responsible department to take action on the service request logged by the CSC?

- How long does it take the CSC to field questions submitted online, in person or over the phone? How does that response time vary during the year?

CSC Service Requests

	2012	2013
Codes	5,430	4,732
Solid waste	1,646	2,359
Public works	1,358	1,425
Sanitary Sewer	711	623
Graffiti	N/A	224
Zoning	178	186
Trades	N/A	178
Traffic Engineering	N/A	47
Other	17	10
Historical Preservation	8	6
RAWA	1,901	0
Total	**11,249**	**9,790**

The CSC may have the capacity to generate reports with this information, but the reports were not readily available to the Coordinator, suggesting they are also not shared regularly with department managers, the Administration or City Council.

The CSC should be an integral part of the City's performance management system. It should collect, organize and share data that helps City managers understand how workload is changing, how well the City is responding to those changes and whether resources need to be allocated differently. The Public Works and Community Development departments, which account for the majority of the service requests, especially need this information to improve their performance management. Given the City's limited resources, the CSC also needs to show, in a quantifiable way, how well it provides customer service, versus how many requests it receives.

The Director of Administrative Services and CSC Manager shall meet with staff in Community Development and Public Works to discuss how the CSC can support those departments in implementing their performance management initiatives.[24]

Outsourcing business privilege tax collection, as discussed in the prior initiative, will also free more of the CSC's resources to focus on this type of customer service/performance measurement work. Since the City is already moving away from in house tax and fee collection, there is an opportunity to reduce the CSC staffing levels. The Coordinator originally targeted the Assistant CSC Manager position for elimination (estimated savings: $63,000), but Department management has recommended a combination of another position reduction in the CSC and reductions to contracted service costs elsewhere in the Department that achieve the same level of savings. Whatever the combination or specific positions that are eliminated the City shall achieve the financial savings shown below beginning in 2015.

Financial Impact

2015	2016	2017	2018	2019
$63,000	$61,000	$63,000	$65,000	$66,000

[24] Please see the Public Works and Community Development chapters for these initiatives.

Reading Public Library

The Reading Public Library has a longstanding history dating back to 1763. RPL is governed by a Board of Directors. The City of Reading, Berks County, and the Reading Public Library Corporation each appoint five members to the Board. The RPL has three divisions -- Administration, Branch Libraries, and Reference. RPLS offers books, music and videos for lending to library card holders. These items may be reviewed through an online card catalog platform for all library locations within Berks County. RPL also offers computers and wireless internet access to visitors, along with access to electronic books. The RPL has four locations at the addresses shown below.

Reading Public Library Locations

Branch Name	Street
Main Library	100 S. Fifth Street
Northeast Branch Library	1348 North 11th Street
Southeast Branch Library	1426 Perkiomen Avenue
Northwest Branch Library	901 Schuylkill Avenue

The RPLS functions as part of the larger Berks County Public Library System which helps to coordinate services offered by the independent RPL and other libraries in the County. This includes the sharing of collections, consolidation of purchasing, cataloging and processing of all materials. While RPL oversees the day-to-day operations and administration of the City libraries, City government owns the four facilities. Since 2012 the RPL has 10 full-time positions.

Full-time Budgeted Headcount

	2010	2011	2012	2013	2014
Administration	3	3	3	3	3
Branch	3	3	2	2	2
Reference	5	5	5	5	5
Total	**11**	**11**	**10**	**10**	**10**

RPL is funded from a variety of local, state and federal sources. The largest piece of funding comes from Berks County passed through the City to RPL. Budgeted at $768,000 in 2014, that funding helps offset the salary costs of the 10 positions shown above. RPL's expenditures have remained stable since 2012.

RPL Expenditures, 2011 – 2014

Expenditure	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change
Salaries	460,929	477,167	478,847	479,314	4.0%
Fringe Benefits	185,799	187,983	144,908	183,468	-1.3%
Pension	42,756	47,397	92,686	91,720	114.5%
Social Security	35,634	36,830	37,007	37,026	3.9%
Premium Pay	4,900	4,270	4,900	4,970	1.4%
Penny Fund	258	274	296	180	-30.2%
Total	**730,278**	**753,922**	**758,644**	**796,678**	**9.1%**

During the 2015 budget discussions, the City decided to increase the annual contribution to the library by $250,000, which is approximately the amount that would be generated by a 0.2 percent tax increase. The

City did not increase the real estate tax to cover this additional contribution, so it comes out of the City's existing resources. The additional contribution is incorporated in the Amended Recovery Plan baseline.

Elected and Executive Officials

The City of Reading has nine elected officials. Three are selected through a citywide election – the Mayor, the City Auditor and the City Council President. The other six are part-time Council members elected to represent geographically determined districts. The Mayor appoints the Managing Director who is the City's Chief Administrative Officer and the Law Department, led by the Solicitor, acts as the attorney for the City rendering legal opinions and advice for the Mayor, City Council, and City departments. The chart below shows the full time budgeted headcount for these offices.

	2010	2011	2012	2013	2014
Mayor's Office	4	4	4	4	4
City Council (w/out part-time members)	3	3	3	3	3
City Auditor	2	2	2	2	2
Managing Director	3	3	3	3	3
Solicitor	5	6	6	6	6
Elected/Appointed Official subtotal	**17**	**18**	**18**	**18**	**18**

While these elected and appointed officials have a wide range of responsibilities that touch on most areas in the Recovery Plan, this chapter provides a brief overview of their individual offices. It also covers the Human Relations Commission.

Mayor's Office

The Mayor is the Chief Executive Officer of the City. The executive, administrative, and law enforcement powers of the City are vested in the Mayor pursuant to the City's Home Rule Charter. Elected every four years, the Mayor is responsible for enforcing the laws of the Commonwealth of Pennsylvania and the ordinances of the City of Reading. The Mayor has the power to appoint all department directors, with the confirmation of City Council. The Mayor's Office works in conjunction with the Office of the Managing Director in the administration of government affairs and operations. The Mayor's Office also coordinates with other departments as needed.

The Mayor is aided in carrying out his responsibilities by two Special Assistants (one for Policy and Outreach, the other for Government Services), one Executive Assistant, and one part-time Administrative Assistant. The Office's budget was $345,000 in 2014, or less than one percent of General Fund expenses. The Mayor's Office used external consultants for special projects in the first year of the new Administration (2012), but has since reduced those expenditures. The 3.9 percent growth from 2013 actual to 2014 budget is related to salary growth.

Office of the Mayor Expenditures, 2011 - 2014

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-2014
Salaries	147,914	194,270	224,690	229,800	55.4%
Fringe Benefits	45,981	22,770	21,428	15,289	-66.7%
Temporary Wages	6,166	46,779	3,377	16,016	159.7%
Pension	8,551	19,428	37,078	36,688	329.0%
Social Security	11,787	18,438	17,447	18,805	59.5%
Training & Education	125	1,031	3,622	4,000	3100.0%

	2011	2012	2013	2014	% Change
Supplies & Postage	1,136	4,924	11,793	5,000	340.1%
Contract & Consulting Services	5,846	113,411	3,297	3,000	-48.7%
Programs & Events	5,602	8,262	3,150	2,500	-55.4%
Miscellaneous	8,827	3,231	5,735	13,520	53.2%
Total Mayor's Office	**241,935**	**432,546**	**331,617**	**344,618**	**42.4%**

City Council and City Clerk

Under the Home Rule Charter, the City of Reading is divided into six districts, with each district electing one Council member. The President of Council is elected at-large as the presiding officer of Council with the same voting powers as the other six District Council members. All seven City Council seats are considered part-time positions.

City Council is empowered by the Home Rule Charter to legislate through the passage of City ordinances and resolutions. Council may also review all aspects of City government and call for investigations or independent audits of City operations or finances. As part of its government review process, City Council has four oversight committees: Finance, Audit and Budget Committee; Nominations and Appointments Committee; Strategic Planning Committee; and Standards of Living Committee. The committee structure allows Council members to more closely explore City issues and successfully work towards mutual goals. The President of Council is an ad hoc member of all Committees.

The Home Rule Charter requires City Council to hire a City Clerk, who provides support to the seven members of Council. The City Clerk oversees and assists Council with policy, program, project management, procedural and operational work. The City Clerk is also charged with maintaining the City's records, maintaining the City's Codified Ordinances, and managing the City's boards, authorities and commissions. In addition to the City Clerk, the Council Office is staffed with a Deputy City Clerk and a Legislative Aide.

City Council's budget was $319,000 in 2014, or less than one percent of General Fund expenses.

City Council Expenditures, 2011 - 2014

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-2014
Salaries	129,347	133,942	142,626	142,290	10.0%
Fringe Benefits	40,822	27,551	31,750	45,867	12.4%
Temporary Wages	41,030	30,063	30,501	35,500	-13.5%
Pension	8,551	14,219	37,075	27,516	221.8%
Social Security	13,034	12,558	13,253	13,601	4.4%
Training & Education	1,490	935	3,563	1,200	-19.4%
Maintenance	8,834	6,539	7,134	9,000	1.9%
Supplies & Postage	1,257	1,744	3,480	8,200	552.5%
Contract & Consulting Services	12,783	8,590	11,275	16,500	29.1%
Programs & Events	6,403	5,222	5,397	500	-92.2%
Miscellaneous	15,570	46,120	8,814	18,500	18.8%
Total City Council	**279,120**	**287,482**	**294,867**	**318,674**	**14.2%**

City Auditor

The Home Rule Charter establishes a City Auditor position, elected every four years, to provide financial oversight of City finances, independent of the Executive and Legislative branches. The City Auditor conducts performance and financial audits or studies that provide insight into City departments and programs. The City Auditor is responsible for providing objective analyses that help to ensure City programs operate as efficiently and effectively as possible.

The City Auditor is responsible for reviewing all expenditures of the Mayor, City Council, City boards, commissions and agencies as well as performing the following tasks:

- Reviewing the Annual City Budget prior to City Council approval and making recommendations for consideration by City Council;

- Performing audits of City finances as required or determined by the City Auditor or City Council;

- Reporting to City Council on the progress of the implementation of any recommendations as found in the Annual Audit and Management Letter;

- Assisting in all audits conducted by independent auditors;

- Directing internal financial security and loss investigation activities.

The City Auditor is supported by an Auditing Coordinator. The City Auditor's 2014 budget was $164,000. The apparent increase in fringe benefit and pension costs is likely the result of a change in the City's process for allocating total fringe benefit and pension costs between departments in the annual budgets.

Office of the City Auditor, 2011 - 2014

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-2014
Salaries	101,512	90,507	93,207	105,680	4.1%
Fringe Benefits	27,215	18,550	16,013	30,578	12.4%
Pension	8,551	9,479	18,537	18,344	114.5%
Social Security	7,766	6,924	7,130	8,085	4.1%
Other Expenses	0	467	0	1,000	N/A
Total City Auditor	**145,043**	**125,926**	**134,887**	**163,687**	**12.9%**

Managing Director

The Office of the Managing Director is responsible for the administration of all City affairs. The Managing Director, appointed by the Mayor with the approval of City Council, serves as the Chief Administrative Officer of the City and enforces the provisions of the City Charter and all ordinances, resolutions and motions of City Council. The Managing Director, in coordination with City departments, establishes specific administrative objectives that both address community needs and are responsive to City Council's recommendations.

The Office of the Managing Director is responsible for the management of the City's ReadiStat program – a performance management program applied to City's operations, progress on implementation of the City's current Recovery and Comprehensive plans, as well as the Mayor's designated goals and objectives. The Office also provides project support to various City departments and public relations assistance to the Office of the Mayor.

The Office of the Managing Director has been consistently staffed with three full time employees. – the Managing Director herself, the Business Analyst and an Executive Secretary. In 2014 the City added a part-time Business Analyst position which has not been filled to date.

The Office of the Managing Director's budget is approximately $447,000 in 2014, an increase of 45.2 percent over 2011 actual spending. The 2014 budget includes $80,000 for the City's Comprehensive Plan listed under Contract and Consulting Services, which is offset by a grant requested by the Coordinator from the Pennsylvania Department of Community and Economic Development (DCED). The City also moved the membership fees for the Pennsylvania Municipal League under the Managing Director's Office, listed as Other Expenses. The City has maintained this membership for several years but previously budgeted the fees outside the Managing Director's Office.

Managing Director's Office, 2011 - 2014

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-2014
Salaries	187,297	196,046	224,313	219,750	17.3%
Temporary Wages	33,208	28,814	1,573	30,000	-9.7%
Fringe Benefits	43,343	27,477	29,496	30,578	-29.5%
Pension	12,827	14,219	37,075	27,516	114.5%
Social Security	16,869	17,202	17,280	19,106	13.3%
Contract & Consulting Service	12,940	68,294	1,075	80,000	518.2%
Other Expenses	1,474	2,064	31,607	40,075	2618.8%
Total Managing Director's Office	**307,957**	**354,115**	**342,418**	**447,025**	**45.2%**

Law

The Law Department acts as the attorney for the City by rendering legal opinions and advice for the Mayor, City Council, and City departments. The Department provides guidance on federal, state, and municipal laws, including the City Charter and Administrative Code. It is responsible for and handles litigation, prepares and reviews contracts, right to know requests, and other legal instruments, including liens, and prepares and reviews legislation. City attorneys attend all City Council public meetings as well as many board and commission meetings (e.g. Reading Planning Commission, Board of Health, Blighted Property Review Committee).

The Law Department currently consists of six employees: four licensed attorneys - a City Solicitor and three Legal Specialists, and two administrative support assistants - an Executive Secretary/Administrative Aide/Paralegal and a Confidential Secretary. In 2012, the Department added the third Legal Specialist. One of those positions will be supported by the enterprise funds in 2015 since the Legal Specialist focuses on the sewer, recycling, solid waste and water issues.

The Law Department's budget is $957,000 in 2014, a decline of 16.7 percent under 2012 spending levels. The most volatile line in the Department's budget is special counsel contracting, which is primarily made up of legal fees from the litigation between the Mayor, City Council and the Charter Board and the ongoing litigation on the City's recycling fees.[1]

Law Department, 2011 - 2014

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-2014
Salaries	299,504	300,808	315,321	315,647	5.4%
Fringe Benefits	59,853	66,317	70,811	91,734	53.3%
Pension	21,378	28,438	55,612	55,032	157.4%
Social Security	22,912	23,012	24,122	24,147	5.4%
Training & Education	2,874	3,172	4,568	4,800	67.0%

[1] Please see the Public Works chapter for more information on this subject.

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-2014
Contract & Consulting Services	330,824	706,366	502,500	450,000	36.0%
Miscellaneous	29,761	20,613	12,412	16,000	-46.2%
Total Law Department	**767,106**	**1,148,726**	**985,346**	**957,360**	**24.8%**

Human Relations Commission

The Human Relations Commission (HRC) enforces the Commonwealth of Pennsylvania and Reading's anti-discrimination laws and promotes equal opportunity for all citizens and visitors of the City. There are eight uncompensated Human Relations Commissioners that are appointed by the Mayor, serving four-year terms under the supervision of the Managing Director. The Commission’s full-time staff dropped from four to three in 2012 and then to two in 2014.

In the course of its duties, the HRC may initiate, receive, investigate and issue orders regarding complaints charging unlawful practices in accordance with §9.1 of the Pennsylvania Human Relations Act. The HRC may also certify cases to the City Solicitor when relevant parties are not in compliance with an HRC-issued order.

As noted above, all HRC members are uncompensated; however, the Commission is provided with two full-time staff members to manage the daily responsibilities of the office - an Executive Director and a Clerk position. In previous years, the HRC was provided an additional full-time Clerk (a part-time position in 2013) and an Investigator. The HRC’s spending has been stable since the 2012 position changes.

Human Relations Commission, 2011 - 2014

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-2014
Salaries	126,558	77,765	68,201	68,722	-45.7%
Fringe Benefits	54,429	33,221	16,055	30,578	-43.8%
Pension	17,101	18,958	27,806	18,344	7.3%
Other Personnel Expenses	9,682	6,332	9,965	5,257	-45.7%
Other Expenses	0	0	2,540	15,000	N/A
Total Human Relations Commission	**207,769**	**136,276**	**124,567**	**137,901**	**-33.6%**

Initiatives

EL01.	**Modify and revise City ordinances as necessary to implement Recovery Plan**	
	Target outcome:	Plan implementation
	Five year financial impact:	N/A
	Responsible party:	Mayor, City Council, City Clerk, Managing Director

The Amended Recovery Plan contains initiatives that require new ordinances, resolutions and regulations as well as other official actions. The Mayor and City Council shall enact such legislation and regulations and shall take all other required actions to accomplish the initiatives set forth in this Plan.

EL02.	Eliminate one of the Special Assistant positions in the Mayor's Office or achieve equal savings	
	Target outcome:	Cost reduction
	Five year financial impact:	$344,000
	Responsible party:	Mayor

The City has had to reduce headcount in several areas since entering Act 47 oversight in 2009. The Police Department has nine fewer positions in the 2014 budget than it did in 2010. The units that comprise Administrative Services have nine fewer full-time positions. Public Works has four fewer full-time positions. Even smaller units like the Library and the Human Relations Commission have reduced staff.

Other units that added full-time employees over this period, like the Fire or Community Development Departments, did so because there was additional offsetting revenue or the expectation of collecting additional offsetting revenue. The Fire Department increased its staffing levels with the temporary support of the SAFER grant, but the 2015 budget reduces the headcount back to 2010 levels, and the Department is expected to reduce positions further as senior employees enrolled in the DROP program retire. The 2015 budget reduces the Community Development Department headcount by three positions and there is an additional cut in the Amended Recovery Plan.

In the Coordinator's meetings with stakeholders before the Amended Recovery Plan was released, some questioned why the Administration added senior positions, particularly in the Mayor's Office, while reducing departmental staff. The Mayor's Office actually has the same number of full-time positions now as it did when the City entered Act 47, though one of the four positions was supposed to be grant funded when it was created in 2010.[2]

Non-represented employees are generally subject to the same wage freeze provisions and higher employee health insurance contributions as union employees. Some non-represented employees had wage reductions in 2010 or 2011 and others reportedly took additional pay freezes before the City entered Act 47. Plus the Plan requires the development and implementation of a variety of policy and operational initiatives that may be led from a senior level. However, from the perspective of both fairness and leadership, the Mayor's Office needs to share in cost control efforts.

The City shall eliminate one position from the Mayor's Office effective in 2015 or reduce total expenditures between the Mayor's Office and Managing Director's Office by an equal amount.

The Administration had the opportunity to make this reduction when one of the Special Assistants retired midway through 2014. The Administration initially discussed shifting another senior employee with valuable expertise in these enterprise fund areas into the vacant Special Assistant position. One option for complying with this initiative is to keep that employee in his former position and eliminate the Special Assistant position.

Financial Impact

2015	2016	2017	2018	2019
$54,000	$70,000	$72,000	$73,000	$75,000

[2] The City established a Mayors Against Illegal Guns (MAIG) Coordinator position in 2010.

EL03.	Priority financial policy adoption	
	Target outcome:	Improved financial management
	Five Year Financial Impact:	N/A
	Responsible party:	Mayor; City Council; Managing Director; Director of Administrative Services; City Auditor

One of the ways that City Council can support the City's financial recovery is to adopt policies that codify improvements that the City has already made or provide guidance for important future decisions. For example, in 2011 City Council adopted an ordinance that governs how the City makes interfund transfers and interfund loans. Working with the McMahon Administration and the Act 47 Coordinator, Council passed an ordinance that limits how the City does these transactions, mostly in response to the City having to repay a multi-million dollar loan from the Sewer Fund to the General Fund in late 2010. More than responding to a particular incident, the policy demonstrates City government's commitment to avoid similar borrowings in the future and provides clearer guidance for future officials who will manage the City's finances long after that incident occurred. Adopted financial policies are also one of the criteria that rating agencies use to determine the City's creditworthiness, which directly impacts the City's borrowing costs.

Working with the Administration, which has responsibility for executing the policies, and the City Auditor, who has responsibility for monitoring the Administration's compliance with the policies, City Council shall enact policies addressing the following priority issues:

- **Debt management:** Even though the City is not currently projected to issue new debt during the term of the Amended Recovery Plan, it eventually will need to do so to fund capital improvements. There will also continue to be opportunities to refinance debt and lower the City's scheduled principal and interest payments.[3] The City should adopt a debt policy to guide future decisions on the timing, amount and amortization schedule for future debt and to help evaluate refinancing opportunities. Typical standards that municipal finance officials use elsewhere to evaluate the efficacy of potential debt transactions include targets for debt service expenditures as a percentage of operating revenues; debt per capita; average maturity of debt; total debt as a percentage of assessed value; and the present value savings of proposed refinancing.

- **Fund balance:** Once this Amended Recovery Plan is approved, initiative AS01 governs the City's practices for maintaining an adequate fund balance as a reserve while City is in Act 47 oversight. But the City should more fully consider the appropriate level of fund balance to maintain after it leaves Act 47 oversight and whether other provisions related to fund balance should be adopted now. For example, the City should consider whether there is a *maximum* level of fund balance that the City will maintain and how the City will use assets above that maximum.

There is a parallel initiative in the Administrative Services chapter to emphasize joint responsibility for this initiative.

[3] Please see the Debt Service chapter for more information on this topic.

EL04.	Resolve high priority recurring audit findings	
	Target outcome:	Improved financial management
	Five Year Financial Impact:	N/A
	Responsible party:	Director of Administrative Services; City Auditor; City Audit Committee

Each year the City's financial records are audited by an external accounting firm and then released as the Comprehensive Annual Financial Report (CAFR). During that process, the external auditors cite the weaknesses and deficiencies in the City's financial reporting and related processes, which are known as "findings." As the auditor explains, "A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis."[4]

The City had 17 findings in its 2010 audit, 14 in 2011, 13 in 2012 and 12 in 2013.[5] While the number of findings is declining, seven of the 12 findings in the 2013 audit have recurred for at least four years and three have recurred for seven years. Nine of the findings were material weaknesses. There were another 13 findings related to the City's compliance with federal funding programs, seven of which were material weaknesses.

As required in the 2010 Recovery Plan, the City has improved its responses to the audit findings by establishing an Audit Committee convened by the City Auditor[6] with representatives from the Department of Administrative Services and City Council to discuss the audit findings and the City's corrective action plan. The City Auditor and the Department of Administrative Services also work together to prepare a written response to the external auditor's findings.

The City needs to make more progress in reducing the number of findings, particularly the following priorities:

- **Reconciling bank accounts:** The 2013 audit found, "The City has been unable to reconcile the main operating accounting through which most receipts and disbursements flow throughout 2013. The turnover [in] accounting personnel, a lack of understanding of all the transactions that are accounted for through the account, and a lack of standard operating procedures has not allowed the City [to] accurately reconcile the account."[7] Department staff notes that the City historically has not regularly reconciled the General Disbursement Account (GDA) referenced in this finding. As of August 2014, the City completed monthly GDA reconciliations through May 2014. Given the volume of activity in this account, the City must bring its reconciliations current and complete them in a timely manner to more closely monitor the activity in the City's largest bank account.

- **Grant management:** Several of the findings relate to how the City manages the state and passes it through to other "subrecipients." The audit found that the City did not accurately record grant awards or expenditures in the general ledger and did not always request proper documentation from sub-recipients for reimbursements. Potential consequences for poor grants management include loss of eligibility for future funding or the requirement that the City return funding already received.

- **Year-end material adjustments:** The 2013 audit found that the City needed to make "significant adjustments" to its year-end financial statements during the audit process to bring the funds and

[4] 2012 CAFR, first page of Independent Audit Report

[5] This excludes the separate findings related to the City's compliance with federal award guidelines.

[6] The Committee is convened by the City's elected auditor, not the external auditing firm that prepares the CAFR.

[7] 2013 CAFR, page 100. Finding 2013-007.

accounts into compliance with generally accepted accounting standards. One reason is that the City only recorded accounts receivable (amounts that are due to the City, but have not been paid yet) for governmental funds on a year-end basis. The external auditor concluded, "As a result of the reconciliations and other monitoring activities not being performed, the financial statements were materially misstated at year-end."[8]

Referring back to the external auditor's definition of a material weakness, the City needs to prevent the "possibility that a material misstatement of the entity's financial statements will not be detected and corrected on a timely basis." The City has made good progress in improving the timeliness and accuracy of its cash-based and mid-year budget-to-actual records and now must do the same to address these material weaknesses.

For the three priority areas noted above, the fixes are not likely to be quick or simple. But the City should have a clear, credible plan for making progress toward resolving them, even if that is only possible in stages (e.g. reconciling accounts on a quarterly instead of monthly basis, focusing on particular grants for improved management).

Working with the external auditor and the elected City Auditor, the Department shall prepare a corrective action plan for addressing the three priority areas listed above. The Plan shall include a timeline for implementation with milestones to be achieved after three months, six months and 12-months. It shall also include a statement of which employees, by position, are responsible for taking action. The Department Director or his designee and the City Auditor shall present the Plan to the Audit Committee by February 28, 2015 and meet with the external auditor to get their input on the plan. Working with the City Auditor, the Director of Administrative Services or the Director's designee shall issue quarterly progress reports to City Council and the Act 47 Coordinator on the City's progress in implementing its plan.

There is a parallel initiative in the Administrative Services chapter to emphasize joint responsibility for this initiative.

EL05.	**Improve performance management systems**	
	Target outcome:	Improved service and fiscal stability
	Five year financial impact:	N/A
	Responsible party:	Managing Director; Public Works; Community Development; Citizens Service Center

The Office of the Managing Director is responsible for monitoring the performance of the City's operations. ReadiStat is the primary tool for monitoring various aspects of department and division operations and finances. The Managing Director also oversees the production of quarterly performance reports that are required under the original Recovery Plan, though the City's senior leaders do not use that reporting process to drive discussion about performance, productivity or cost effectiveness, as was intended.

While the Managing Director's Office shall continue to produce these quarterly reports and provide them to the Mayor, City Council, Act 47 Coordinator, and public via its website as directed in the original Recovery Plan,[9] the Amended Recovery Plan has additional initiatives that focus on improving performance management in the Community Development Department, Fire and Rescue Services Department, Public Works Department and the Citizens Service Center.

[8] 2013 CAFR, page 94, Finding 2013-001.

[9] Please see initiative PI05, page 21.

Police Department

Overview

The Police Department is a critically important part of the City of Reading because of its role in maintaining public safety and creating an environment where people are comfortable working and living. It is also critically important in terms of the level of public resources that support it. The Police Department budget represents about one-third of the total City budget each year. This chapter begins with an introduction to the Department and an outline of its functions. Then it discusses the Department's approach to policing and recent crime rate trends; the Department budget and headcount; and highlights of its recent accomplishments and challenges going forward.

The Department is separated into four divisions.

- **Administration** includes the Police Chief and the Office of Professional Standards (responsible for internal investigations). This group manages administrative duties such as budget development and management and recruitment and enlistment, and is responsible for "planning, assessing and staffing to most effectively reduce criminal activity and improve safety" and "ensuring that proper leadership, management, supervision, and training is provided to all members of the department."[1]

- The **Patrol Division** comprises four platoons of officers who respond to calls and enforce laws throughout Reading 24/7. "Problem Solving, Crime Reduction, and Crime prevention" are the stated responsibilities for patrol officers. In addition, the Patrol division handles contracted police services provided to the Reading Housing Authority and the Borough of Kenhorst. Patrol includes the Traffic Unit, which is focused on moving violations, parking, and traffic accidents. Traffic also handles special event planning and abandoned vehicle calls.

- The **Investigations Division** includes Criminal Investigations, Vice, and the Identification Unit, which is responsible for investigating crime scenes and collecting evidence. This division also oversees the Bomb Squad and task forces such as the Auto Theft Task Force.

- **Special Services** includes the Department's communications function (including dispatch and Commonwealth Law Enforcement Assistance Network or CLEAN system operation); the records office; Police Academy; K-9 program; and video safety unit (programming video cameras located around the City and facilitating their use for investigations and evidence collection). This division also includes administrative and business management functions such as processing officers' time records for payroll.

The Police Department had responsibility for property maintenance inspections in 2009 and 2010 before the functions were moved back within the Department of Community Development. The responsibilities of the Police Department also do not include the investigation of child abuse cases. The Berks County District Attorney assumed responsibility for these investigations before 2010.

Crime trends in Reading

Since the beginning of his tenure as RPD police chief in 2006, William Heim has implemented a new crime reduction plan. He describes the previous approach to policing as reactive, characterized by driving around in patrol cars without a stated mission, lacking accountability for taking actions that would reduce crime. Productivity measures included statistics like the numbers of tickets and numbers of

[1] Reading Police Department 2015 Strategic Operating Plan.

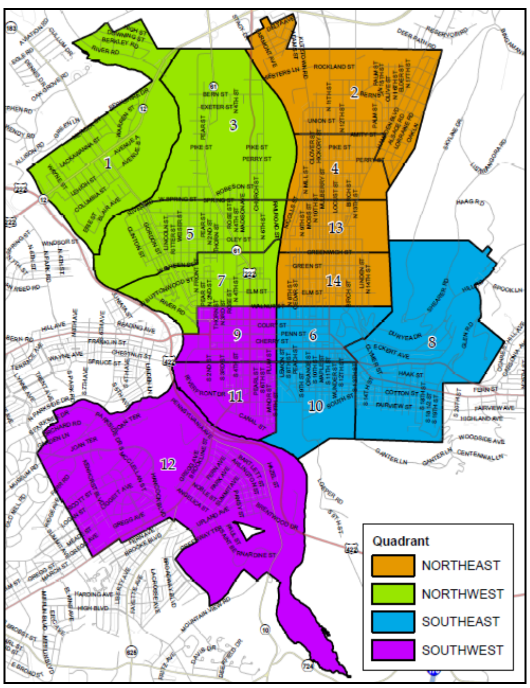
arrests that were not necessarily linked to reducing crime. Officers were not strategically deployed based on targeted crime reduction tactics. .

The current RPD crime reduction plan that began in 2006 can be generally characterized as a "Problem-Oriented Policing" approach. Aspects of the RPD approach include the following:

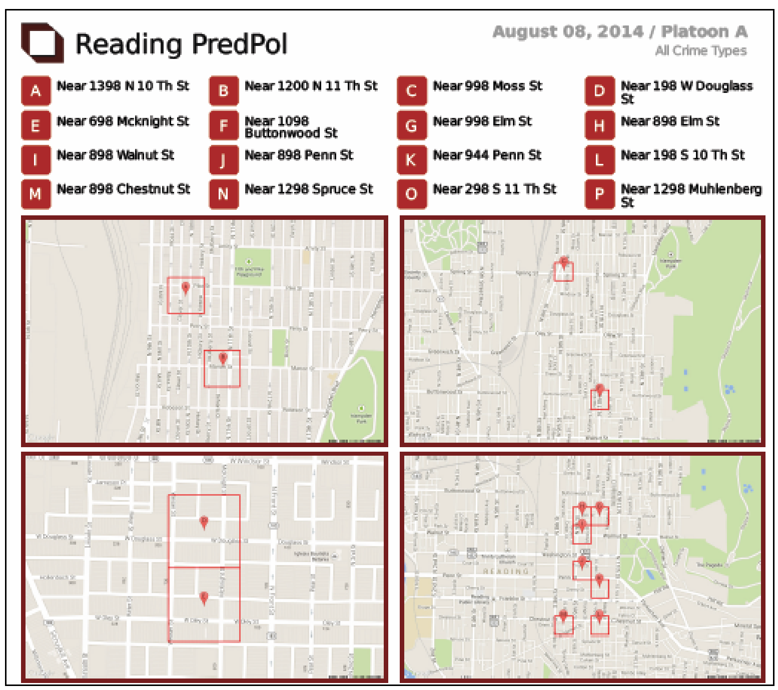
- Officers are expected to be proactive
- Each officer is accountable for preventing, stopping, and solving crime
- Officers are empowered to do more, such as collect evidence from the crime scene and assist with preliminary investigations
- Officers are given the data, training and tools they need to do their jobs properly and are encouraged to share information, particularly between the Patrol and Criminal Investigation divisions, including vice.

For example, if officers respond multiple times to domestic disturbances at the same address, they are expected take responsibility for a proactive solution that prevents future disturbances. Possible solutions include obtaining a Protection from Abuse order, getting support from a social services agency, or making an arrest. Officers are empowered to implement many solutions on their own or, when the officer needs permission or assistance, propose the solution to the commanding officer.

Commanding officers hold monthly meetings so different platoons and divisions can share information, better coordinate efforts, and monitor performance. The Department shifted from a district- to a quadrant-based deployment model, which was more effective for its staffing levels. The map below shows the four quadrants used to deploy RPD officers.



Map of RPD Quadrants



Sample PredPol Report

Technology-based tools that are now available to RPD officers include a crime mapping system accessible from patrol vehicles, video cameras located in key areas of the City, and video/audio recording capability in interview rooms. Officers are trained to use the recording equipment themselves so they can assist with investigations.

A newer tool is PredPol, a customized predictive analysis tool that uses algorithms to predict potential criminal "hotspot" locations based on historical trends.. The system was initially populated with three years of crime data from the Police Department. Now PredPol updates Reading crime data daily, and provides maps of 300 square foot potential hotspots where crimes are expected to occur for the following shift (see sample map above). When officers are not responding to calls, one of their activities is to monitor these hotspots.

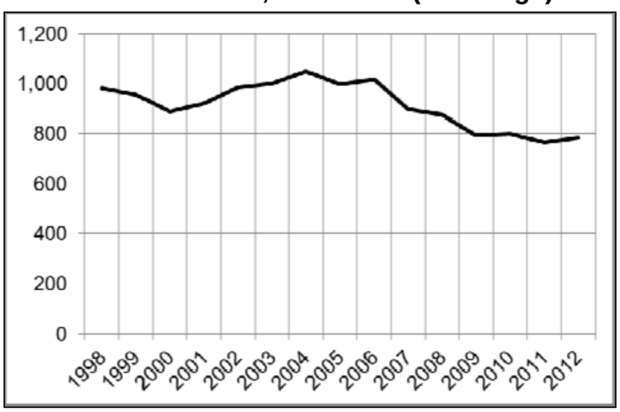
In 2014, the City also budgeted funds to replace the Department's Mobile Data Terminals and upgrade the Records Management system. These upgrades mean increased functionality for officers and greater data reliability in coming years.

Crime Rates

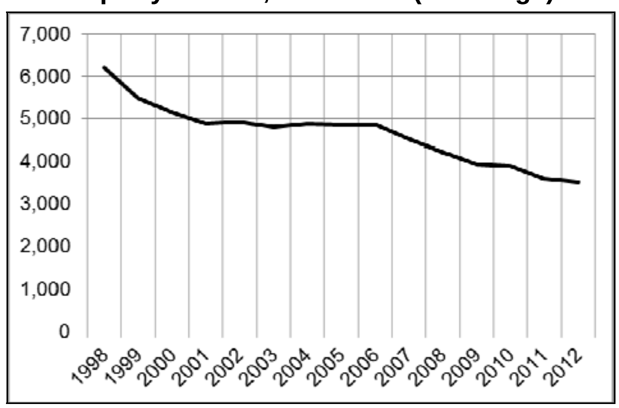
Looking back over a fifteen year period, the City of Reading has achieved a sustained and substantial reduction in Part I crimes, driven by a reduction in Property Crimes.

The charts below show the two categories for Part I crimes, Violent Crimes and Property Crimes, from 1998 to 2012[2]. Violent crimes are murder, rape, robbery, and aggravated assault; property crimes are burglary; larceny-theft; motor vehicle theft and arson. The charts use three-year averages to reduce the "noise" created by year-to-year volatility and make overall trends more visible.

Violent Crimes, 1998-2012 (3-Yr Avgs)



Property Crimes, 1998-2012 (3-Yr Avgs)



The numbers shown are trailing three-year averages; e.g., the figure shown for 1998 is the average for 1996-1998.

The data shows that violent crimes increased from 2000 to 2004, but have been on a downward trend since then. Overall, the number of violent crimes per year fell from 984 in 1998 to 784 in 2012 (three-year averages), a decline of 20 percent. Property crime rates have changed much more dramatically. Property crime rates were flat from 2001 to 2006, but decreased significantly before and since then. Overall, the number of property crimes decreased from 6,207 in 1998 to 3,525 in 2012 (again, using three-year averages), a reduction of 43 percent.

To see how the broader Violent Crime and Property Crime categories break down, averages for ten-year periods were used. The table below shows average numbers of annual Part I crimes for two periods, 1996-2004 and 2005-2012. Averages per year over multi-year periods help to identify overall trends, particularly for crime categories in which annual incidence is relatively small. Violent Crime from 2005 to

[2] Unless otherwise noted, all crime statistics in this chapter are from Federal Bureau of Investigation Uniform Crime Reports. At the time of publication, the most recent data available was for 2012. The oldest data available for Reading was from 1996.

2012 is down by 15 percent, with lower rates in every Violent Crime category. The two most common Violent Crime types, Robbery and Aggravated Assault, were 14 percent and 16 percent lower respectively on average each year from 2005 to 2012. For Property Crimes, the overall decrease is driven by a 38 percent decline in Theft and, to a lesser extent, a 14 percent reduction in Burglary. The only Part I Crime that is not lower on average in 2005-2012 when compared with 1996-2004, is Auto Theft, which is up by 11 percent.

Part I Crimes by Type: Average per Year 1993-2003 and 2004-2012

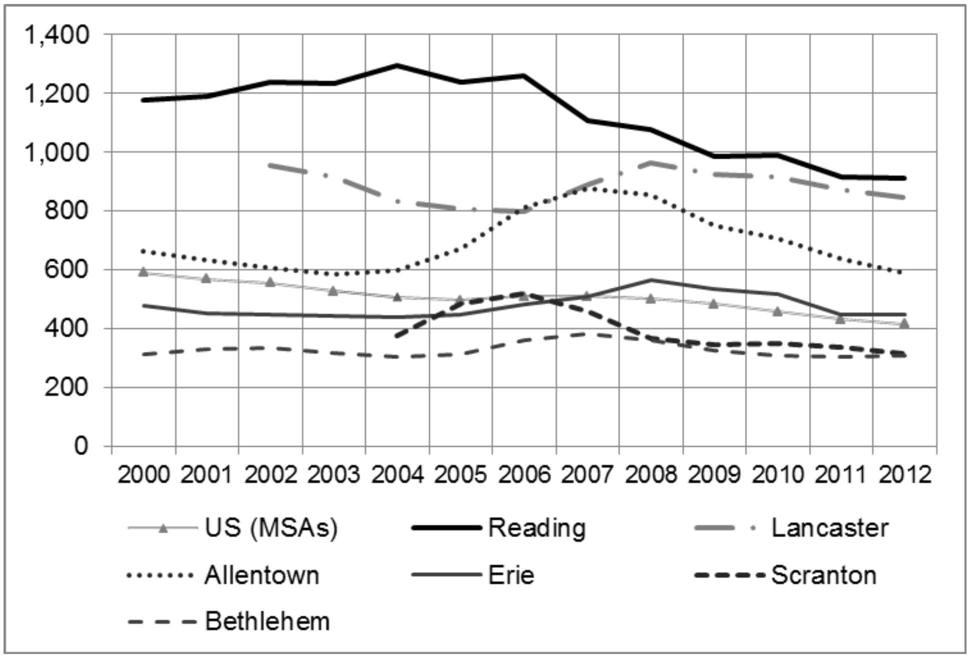
	1996-2004 Avg/Yr	2005-2012 Avg/Yr	Difference
Murder	16	12	-22%
Rape	43	35	-18%
Robbery	465	398	-14%
Agg Assault	462	389	-16%
Total Violent Crimes	985	835	-15%
Burglary	1,548	1,333	-14%
Theft	3,077	1,915	-38%
Auto Theft	689	767	11%
Arson	51	36	-29%
Total Property Crimes	5,365	4,051	-24%
Total Part I Crimes	6,350	4,886	-23%

Total crime rates in Reading have decreased significantly since 1996. A logical next question is whether the decrease in crime in Reading is similar to decreases experienced in other Pennsylvania cities and nationally. The chart below shows the violent crime rates for Reading, Allentown, Bethlehem, Erie, Lancaster, and Scranton, all of which have populations between about 60,000 and 120,000[3]. Crime rates are expressed as incidents per 100,000 residents to adjust for population differences. Numbers are trailing three-year averages, and go back only to 2000 because of limited data availability.

The chart below shows that Reading has seen a more pronounced and more sustained decrease in its violent crime rate than similarly-sized Pennsylvania cities. However, the chart also shows that, in every year from 2000 to 2012, Reading had higher violent crime rates than these peer cities. The rate of violent crime in Reading more closely approaches the rate in Lancaster from 2007 to 2012, but violent crime in Reading is consistently higher than in Allentown and much higher than in Scranton, Bethlehem, or Erie. Finally, the chart shows that violent crime rates in Reading are consistently 2.0 to 2.5 times higher in Reading than in Metropolitan Statistical Areas (MSAs) nationwide, on average; the rate for all MSAs declines from 592 to 416.

[3] These cities were selected for comparison based on their similar size. There are important demographic differences among these cities, which are not addressed in this analysis.

Violent Crimes per 100,000 Residents in Select PA Cities, 2000-2012 (3-Year Averages)



The table below shows the violent crime rate in Reading from 2005 to 2012 compared to the average for the above mentioned Pennsylvania cities and the average for all Metropolitan Statistical Areas (MSAs) in the United States (i.e., urban areas). As in the chart above, numbers are per 100,000 residents and are trailing three-year averages. The numbers in the table show that Reading reduced violent crime by 26.5 percent over the ten-year period – a reduction that is similar to but even greater than the reduction achieved by MSAs nationwide. Reading's violent reduction was significantly greater than what was experienced in similarly-sized Pennsylvania cities.

Violent Crimes per 100,000 Residents (3-Year Averages)

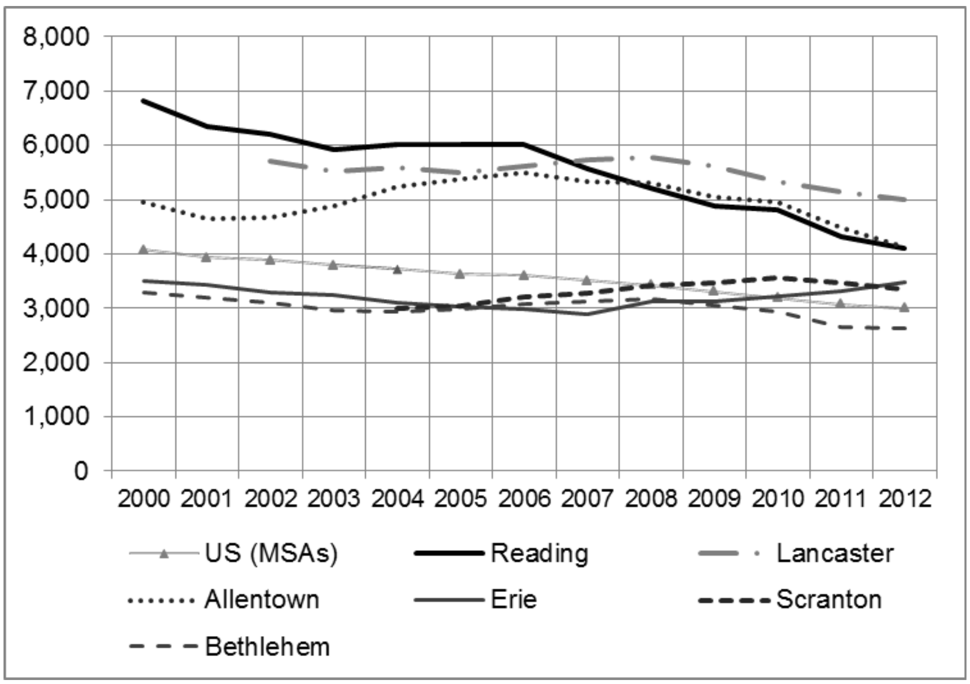
Year	Reading	PA Cities Avg	US MSAs
2000	1,180	N/A	592
2001	1,191	N/A	568
2002	1,240	587	556
2003	1,235	566	527
2004	1,297	511	509
2005	1,238	545	497
2006	1,260	594	510
2007	1,107	624	509
2008	1,079	623	503
2009	984	577	484
2010	990	560	459
2011	918	521	432
2012	912	502	416
2002-2012	**-26.5%**	**-14.6%**	**-25.1%**

Source: US Department of Justice, FBI Criminal Justice Information Services Division, Crime in the United States
"N/A" indicates years that data are unavailable for Lancaster and Scranton

It is good news that violent crime in Reading has decreased in recent years. But the table also shows that crime in Reading remains much higher than not only similarly sized Pennsylvania cities, but much higher than metropolitan areas across the United States. In 2012, the most recent year for which Uniform Crime Reports are available, there were 935 violent crimes per 100,000 residents in Reading – 2.3 times higher than the 409 violent crimes per 100,000 MSA residents nationwide[4]. If Reading could reduce violent crime rates to levels that more closely approached those in other Pennsylvania cities, residents and businesses may feel more confident that the City is a safe place to live, work, and raise a family.

Property crime data tells a different story, however. Not only have property crimes per 1,000 residents declined at a rate far greater than what was experienced by all other cities in the peer group, but Reading's property crime rate went from the highest of all these cities in 2000 to being similar to Scranton, Allentown and Erie in 2012. Reading's property crime rate was also lower than that of Lancaster in each year from 2007 to 2012. This is illustrated in the chart below.

Property Crimes per 100,000 Residents in Select PA Cities, 2000-2012



The following table compares the property crime rate in Reading to the average of those peer cities and shows that the property crime rate in Reading has grown much closer to the average of these peer cities. In 2002, the number of Property Crimes in Reading was 1.6 times higher than the average of the peer Pennsylvania cities; in 2012, Reading's Property Crimes are only 1.1 times higher[5]. While the property crime rate in Reading still far exceeds the national average, the decline in property crime rates from 2002 to 2012 was significantly greater in Reading (34 percent) than experienced nationwide (23 percent).

[4] These figures are different from those in the table because they are the annual numbers, not three-year averages.

[5] Based on annual numbers, not three-year averages.

Property Crimes per 100,000 Residents (3-Year Averages)

Year	Reading	PA Cities Avg	US MSAs
2000	6,812	N/A	4,076
2001	6,336	N/A	3,933
2002	6,196	4,190	3,882
2003	5,909	4,147	3,789
2004	6,024	3,971	3,716
2005	6,026	3,986	3,628
2006	6,018	4,073	3,599
2007	5,577	4,071	3,505
2008	5,213	4,158	3,423
2009	4,873	4,059	3,310
2010	4,805	4,003	3,186
2011	4,316	3,811	3,071
2012	4,105	3,722	3,000
2002-2012	**-33.7%**	**-11.2%**	**-22.7%**

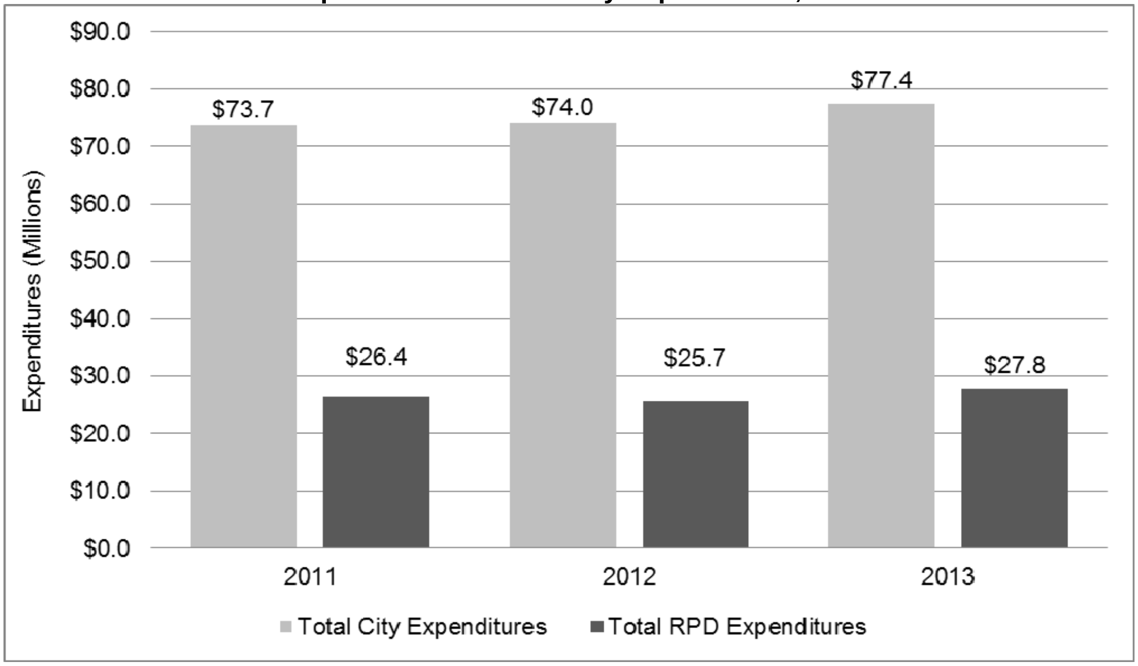
Source: US Department of Justice, FBI Criminal Justice Information Services Division, Crime in the United States
"N/A" indicates years that data are unavailable for Lancaster and Scranton

The Reading Police Department's current crime-related goals are more modest than those that were articulated in the 2010 Recovery Plan. The Department's 2010 Annual Work Plan included goals of reducing Part I crimes by seven percent and reducing the crimes of aggravated assault/shootings, robbery, and auto theft by seven percent. The Department's 2015 Strategic Operating Plan states that officers are to keep "crime near or below current levels." This shift is an acknowledgement that crime reductions have been significant and sustained, and that although Department resources are not projected to decrease, they are not projected to increase either. Further incremental reductions in crime rates may be achievable through continued training, improving tools, and operational efficiencies, but further major reductions are not projected.

Police Department finances

The City spends about 35 percent of its total General Fund budget on the Police Department. Most of that spending goes toward compensation for current and retired police department employees, including health insurance and pension benefits. In 2013 the City spent $27.8 million on the Police Department, including $26.5 million on employee compensation. Put differently, one in every three dollars that the City spent in its General Fund in 2013 went toward active or retired Police Department employee compensation. Since 2011, the City's total expenditures on the RPD have grown at a little lower rate (8.0 percent) than total expenditures for all departments (11.6 percent). The reasons for this difference are described below.

Police Department and Total City Expenditures, 2011-2013



Source: City of Reading quarterly financial reports

The table below summarizes the Department's actual General Fund expenditures for the last three years and the 2014 budgeted expenditures. The table does not include the Department's expenditures on property maintenance inspection functions, which were moved out of the Department in 2011.

Police Department Expenditures, 2011 Actual – 2014 Budget

	2011 Actual	2012 Actual	2013 Actual	2014 Budgeted	% Change 2011-2014
Salaries and wages	$14,219,874	$12,844,472	$12,053,049	$12,534,248	-11.9%
Pension	$4,054,950	$3,786,661	$6,298,175	$6,289,708	55.1%
Fringe benefits	$4,246,346	$5,208,425	$5,584,356	$5,427,595	27.8%
Overtime	$1,745,569	$1,899,901	$1,873,721	$1,814,500	3.9%
Other personnel	$1,430,185	$1,215,257	$986,653	$1,043,840	-27.0%
Gasoline[6]	$0	$0	$0	$292,000	N/A
General plant supplies	$104,646	$138,289	$102,508	$194,574	85.9%
Vehicles	$157,511	$325,059	$225,893	$171,000	8.6%
Police Academy	$92,676	$128,473	$138,119	$114,950	24.0%
Other non-personnel	$330,498	$196,317	$555,861	$623,492	88.7%
Total	**$26,382,255**	**$25,742,855**	**$27,818,334**	**$28,505,907**	**8.0%**

[6] In 2014 the City began recording vehicle fuel expenditures within the departments that use the fuel. Previously the City recorded all fuel costs centrally in the Department of Public Works.

Salary spending declined in 2012 and 2013, largely due to two factors: retirement-driven turnover with entry level police officers replacing more senior police officers; and a three-year base wage freeze from 2012 through 2014 under the provisions of the 2010 Recovery Plan. Recovery Plan provisions that reduced the number of paid holidays and eliminated longevity for police officers hired after 2011 reduced the City's spending on other personnel costs.

The cost of fringe benefits (medical, dental, vision and life insurance) increased by 28 percent over this period, though some of that growth was offset by higher employee contributions to the cost of health insurance, which is not shown in the chart above.[7] Meanwhile the City's annual employee pension plan grew by 54 percent in just three years and will grow again in 2015. See the Workforce Chapter for more discussion of these trends.

Revenues

The Department generates some operating revenues, mostly through fines issued by police officers or service charges. The 2014 budget includes $850,000 for District Court summary offenses; $431,000 for the Kenhorst policing contract; $334,000 in police-related service charges; $325,000 for traffic tickets; $200,000 from the Reading Housing Authority; and $200,000 from the Reading School District for school crossing guards. Some of these revenues help offset the Department's cost for providing the services associated with the fees, but most of the Department's expenditures are covered by undesignated General Fund revenues.

The Department has also historically received federal and state grant support.

- The City used federal Justice Assistance Grants (JAG) in recent years for the PredPol software and Records Management System upgrades referenced previously; new bicycles and TASERs; and overtime for Problem Oriented Policing. Annual JAG awards are shared with Berks County; City shares from 2011 to 2013 ranged from $41,000 to $72,000. Other grants were used to reimburse the Department for salaries and other costs associated with specific programs (e.g., Operation Nightlight). And the Department received two U.S. Department of Justice Community Oriented Policing Services (COPS) grants totaling $1.8 million for a Security Camera project that was completed in 2013.

- The Commonwealth reimburses the Department for expenses related to its Auto Theft Task Force. The projected reimbursement for the 2014-2015 fiscal year is $355,000, most of which goes toward officer salaries, benefits and overtime.

Outside of the General Fund, the Department has access to other money through the Berks County District Attorney forfeiture process. Since 2011 the forfeiture funds have provided approximately $110,000 per year.[8] The Department uses these funds for new vehicles; training registration, travel expenses, and supplies; equipment such as raid shields, laptops and surveillance systems; and "operating expenses" such as undercover drug funds or supplies.

Headcount

According to the City's budget information, the Reading Police Department had 247 budgeted positions in 2008.[9] Headcount dropped to 203 in the 2010 budget, the last one before the City approved the first Recovery Plan in June 2010. That Plan required the City to reduce headcount by another 10 positions for financial reasons. Headcount dropped to 194 positions in 2012 and has remained stable at that level since then, though the City has occasionally changed where the positions are budgeted. Changes in the

[7] The City records employee contributions to the cost of health insurance as revenue.

[8] Like other municipalities, the City records these revenues and expenditures outside of the General Fund.

[9] For consistency, all head count numbers in this section exclude the part-time school crossing guards and the Property Maintenance Inspectors who moved in and out of the Department as noted earlier.

number of police officers mirror this trend. The City had 180 police officer positions in the 2010 budget and 169 in its budget every year since then. The Department reports that call response times have remained stable, despite the 2010 workforce reductions.

Budgeted Positions, 2010 - 2014

	2010	2011	2012	2013	2014
Administration	6	5	4	3	3
Special Services	28	30	30	30	29
Criminal Investigations	32	33	30	30	29
Patrol	137	137	130	131	133
Total	**203**	**205**	**194**	**194**	**194**

Source: City of Reading, Position Listings of Annual Budgets

Not all officers are always available to respond to calls. At any given time, there may be officers assigned to cover Reading Housing Authority properties, Reading High School as part of CDBG-funded community policing activity, or the Borough of Kenhorst or officers in training. The Chief estimates that, excluding these assignments, the Department usually has 130 to 140 available for deployment.

Police Department Overtime

The City's 2014 budget allocates $2.50 million for overtime, nearly all of which ($2.45 million) goes to the Police or Fire Department. Public safety departments often use overtime to backfill vacant shifts and provide adequate staffing for 24-7 operations, and occasionally use it for strategic purposes (e.g. scheduling additional or specially trained officers on overtime to provide additional coverage).

Overtime spending in the Reading Police Department has historically been problematic because overtime is a large expenditure relative to the rest of the City budget. It has also been problematic because the Department has consistently spent more than its annual allocation so that, absent better than anticipated performance in other parts of the budget, the City operates at a deficit. The chart below shows actual overtime expenditures from 2011 to 2013 by division. It shows that Patrol Division overtime – representing the largest share of total Police Department overtime at 68 percent in 2013 – went down by 10 percent from 2011 to 2013. However, total overtime expenditures increased by 7 percent from 2011 to 2013, driven by a high rate of growth (130 percent) in Criminal Investigation overtime.

	2011	2012	2013	% Change, 2011-2013
Patrol	$1,255,632	$1,255,000	$1,126,719	-10%
Criminal Investigation	$224,207	$398,038	$515,073	130%
Special Services & Admin	$265,730	$246,864	$231,930	-13%
Total	**$1,745,569**	**$1,899,902**	**$1,873,722**	**7%**

Some municipalities decide to fill vacant shifts using police officers working overtime instead of hiring more police officers on straight time. In those cases the excess spending on overtime should be balanced by savings in salary spending. As seen in the table below, that was not the case in 2011 or 2012 when the City spent more than budgeted on salaries and overtime.

Police Department Spending on Salaries and Overtime[10]

	2011	2012	2013
Salary budget allocation	$13,211,853	$12,051,034	$11,951,844
Salary actual spending[11]	$13,746,107	$12,336,297	$11,575,783
Difference	**($534,254)**	**($285,263)**	**$376,061**
Overtime budget allocation	$1,174,860	$1,427,500	$1,479,063
Overtime actual spending	$1,745,569	$1,899,901	$1,873,721
Difference	**($570,709)**	**($472,401)**	**($394,658)**
Net difference	**($1,104,963)**	**($757,664)**	**($18,597)**

While not enough to cover the salary and overtime shortfalls shown above, the Department does receive some payments from outside organizations that request an additional level of police coverage and then reimburse the City for those overtime expenditures. The City tracks some of those reimbursements in an account along with other, smaller police-related revenues. The table below shows the budgeted and actual reimbursement amounts for the last three years.

Police Overtime Reimbursement Revenue[12]

	2011	2012	2013
OT reimbursement budget allocation	$135,000	$135,000	$170,000
OT reimbursement actual revenue	$136,898	$336,159	$239,868
Excess revenue	**$1,898**	**$201,159**	**$69,868**

The Police Department classifies overtime as Regular Overtime; Court of Common Pleas overtime, or Magisterial District (sometimes referred to as Minor Judiciary) overtime. Each of these three categories has sub-categories to help identify the reason for the overtime (such as "Replace for Sick" or "Preliminary Hearing"). Overtime is tracked by officers on paper cards which are reviewed and approved by supervisors before being submitted for data entry for payroll.

There are three categories of factors that shape RPD overtime: provisions of the collective bargaining agreement (CBA) with the Fraternal Order of Police (FOP) Lodge Number 9, police officer schedules, and other Department practices. Relevant provisions of the City's CBA with the FOP include the following:

- Overtime is work time in excess of 8 hours on any shift or 40 hours in one week.

[10] This covers salary and overtime spending for all regular, full-time employees, including civilians.

[11] The salary category includes pay for the accrued leave of retiring officers; a higher-than-usual number of retirements may partially account for over-spending in 2011 and 2012.

[12] This is the revenue that the City records in an account called "police services/copy services." The City receives other overtime reimbursements, such as those related to grant-funded activities, that are not tracked separately.

- Overtime is paid at an officer's regular hourly rate of pay, plus any applicable shift differential, multiplied by one and one-half.

- If an officer is called in from a non-working status (e.g., off duty, sick, etc.) they receive a minimum of two hours pay.

- If an officer appears in court (Common of Common Pleas or Magisterial District), they are entitled to overtime pay for a minimum of 3 hours or the actual time in court, whichever is greater.

- Court appearances when the officer is scheduled to be on vacation earn not only the applicable overtime, but 8 hours vacation time as well.

The second category of factors affecting overtime is the schedules of Reading Police Department divisions:

- The shift differential part of the overtime equation defined in the CBA is important because it means that each overtime hour is not created equal – the cost of one overtime hour depends not only who is working it, but when it is being worked. If overtime is worked before 7 AM or after 3 PM, it costs more. The table below shows the four platoons of RPD Patrol officers.

Patrol Platoons – Assigned and Total Staffing and Shift Differential

Shift	Shift Hours	Target Min. # Officers On Duty	# Supervisors On Duty	# Supervisors Total	Total Officers as of 6/26/13	Shift Differential
A	11 PM – 7 AM	14	1 Lieutenant 2 Sergeants	1 Lieutenant 4 Sergeants	33	4%
B	7 AM – 3 PM	12	1 Lieutenant 2 Sergeants	1 Lieutenant 4 Sergeants	29	0%
C	3 PM – 11 PM	16	1 Lieutenant 2 Sergeants	1 Lieutenant 5 Sergeants	32	3%
D	7 PM – 3 AM	1 (K-9)	1 Lieutenant	1 Lieutenant	6 (K-9)	3% / 4%

- In the Criminal Investigation Division, officers work two shifts: 8 AM to 4 PM, and 4 PM to Midnight. Criminal Investigation officers do not work an overnight shift, because investigation work (such as following up with witnesses and gathering information) generally cannot be done during the night shift. At the same time, those officers must be called to the scene of a serious crime to begin an investigation; if the crime occurs at night, then the responding CI officer or officers will be paid overtime. Following major crimes, like shootings, a wave of overtime occurs while detectives and officers work to collect information and lock in statements before the "trail gets cold."

Finally, in addition to CBA provisions and RPD schedules, a third category of factors affecting overtime is Department practices that are not based on CBA provisions, including the following:

- Staffing levels for each shift are established by management based in part on activity levels and the number of sworn personnel the budget can sustain. The table above shows current staffing levels, total complement, and shift differential rates for the Patrol Division by platoon. Staffing levels drive overtime in the Patrol division when absent officers are backfilled by officers on overtime.

- Reading police officers sometimes opt for compensatory time or "comp time" in lieu of overtime – i.e., additional leave time that is banked for future use in some cases. Comp time has different, but important financial implications: if one officer is out on comp time, another officer may need to backfill the shift on overtime. Officers also have the option of "cashing out" accumulated comp time at will. When officers "cash out" their comp time, it is paid to the officer based on the hourly rate the officer is earning at the time she receives the payment, not the rate she was earning at the time she banked the comp time.

Accomplishments

As described previously, the Department's greatest accomplishment has been the long-term decline in the City's crime rates and stable response times while shifting to a smaller and younger workforce. As public safety is integral to several elements of a successful financial recovery (e.g. increased business activity and employment opportunities, stabilized property values), the importance of this single accomplishment cannot be overstated.

Overtime spending in at least the Patrol Division has been moderated somewhat. This is partly the result of lower vacation leave allowances of newer officers, in turn reducing the need to backfill absent officers on overtime. It is also the result of Department efforts to control overtime, two of which are the following:

- **Limiting the overtime generated by details**. Putting together a team for a detail – such as a vice raid or a prostitution detail – often requires having more officers on a shift than are normally scheduled. The Department has worked to reduce detail overtime by scheduling details on days when the Department will be more heavily staffed, and asking officers to switch shifts voluntarily.

- **Putting essential officers on subpoena lists**. When criminal charges are filed, officers create a subpoena list, which is a list of the officers who will be needed to appear in court. Typically, multiple officers will be involved in each charge, but typically not all of the officers would have unique information and therefore be needed to testify. This is especially true early in the prosecution of a case, for example, for preliminary hearings. The Department has worked to limit subpoena lists to those officers whose testimony would add value by educating officers and by monitoring subpoena lists at the level of platoon commanding officer and division commanding officer.

There are other recent achievements as well:

- RPD's Police Academy was financially self-supporting in both 2012 and 2013, and is attracting significant numbers of students who are paying their own way – i.e., before having a police officer position – in order to make themselves better qualified candidates. RPD has also established a partnership with Alvernia College in which Criminal Justice seniors can get college credit for attending the Academy.

- RPD and the Reading Housing Authority have developed a stronger and more effective partnership. For example, they work together to identify and evict problem tenants, and the RHA makes investments such as purchasing bicycles for officers in order to improve their ability to patrol properties. The result is housing developments that are safer and better cared for.

- The RPD also has a new and effective partnership with the Pennsylvania Board of Probation and Parole: two state agents were "hand selected" to work on site with the Reading Police Department. Because of their familiarity with local parolees, by working their caseloads and going on patrol alongside RPD officers, they are able to provide valuable supplementary information.

- The Department is effectively using video cameras/ recorders both on City streets and in its interview rooms, purchased with grant funds and forfeiture funds. The City now has 46 digital video cameras that are remotely controlled from Police Headquarters in City Hall and can be used to pan or zoom manually or on a programmed cycle. The cameras are helpful in identifying potential witnesses and suspects, and especially for use on details. Officers have been trained in how to use the cameras and recording equipment as part of their detail and investigation work. In addition, RPD has seven video/ audio recorders inside and outside its four interview rooms. Recordings have proven valuable when witnesses recant statements in court.

Challenges

The preceding narrative describes the Department's challenges related to crime rates, staffing levels and financial constraints for adding more staff and overtime usage. There are other challenges as well.

The combination of lower staffing levels and time-consuming administrative tasks leaves the Department's commanding officers with less time for strategic thinking and planning. The City's payroll system has not been properly customized for Police pay types, so the Department must continue to use the legacy system to calculate payroll, and has no way to capture data that would allow the City to better manage overtime going forward. And the Department reports a significant uptick in the number of vehicular accidents, thought to be partly a result of a higher number of less experienced officers who are less accustomed to driving in narrow urban streets and are driving too fast as they respond to calls.

Initiatives

As this chapter describes, the Reading Police Department provides critical public safety services in a challenging environment with staffing levels that were dropping even before the City entered Act 47 oversight in late 2009. The 2010 Recovery Plan applied an additional 10 position reduction to help bring the Department's expenditures in line with the City's limited resources. The 2010 Plan also made several changes to employee compensation, in the Police Department and throughout City government, through wage and longevity freezes, increased employee contributions to the cost of health insurance. The impact of the compensation-related changes is discussed further in the Workforce Chapter. To the Department's credit, it has continued to contribute to the long term decline in Reading's violent and property crime rates in this challenging environment.

While these and other changes, particularly tax increases, have helped the City break the pattern of bad financial decisions that led to the distressed designation and achieve short-term financial stability, that financial balance is fragile and threatened by the expected increases in the City's required contributions to the employee pension plans. The largest of those increases is for the police pension plan where the City's contribution, net of the employee's share, will grow from $6.1 million in 2014 to $8.4 million in 2015 and remain at that elevated level absent corrective action.

Based on input the Coordinator has received since the City entered Act 47, this Plan seeks to maintain the total number of police officer positions at the level in the 2014 budget. But the City cannot realistically change its financial trajectory unless it makes changes in the Department that accounts for more than a third of total General Fund expenditures.

Since personnel costs account for the majority of the Department's budget, and setting headcount reduction aside as a less desirable option, this Amended Recovery Plan makes further adjustments to active employee compensation, strongly recommends adjustments to retiree benefits, and tries to gain operational efficiency where there is opportunity to do so. The Workforce Chapter describes the first two types of initiatives and this section describes the third.

PD01.	Cooperate with Berks County on emergency 911 dispatch functions	
	Target outcome:	Cost reduction, improved efficiency, regional cooperation
	Five Year Financial Impact:	N/A
	Responsible party:	Managing Director; Police Department

In its manual on administering police services, the Pennsylvania Department of Community and Economic Development (DCED) states:

> *…the Public Safety Emergency Telephone Act, Act 78 of 1990, as amended, outlined provisions for a county-wide toll free 911 emergency dispatch system. Not only has the implementation of this Act resulted in costs saving for local municipalities, the enhancement provisions of the County 911 system has resulted in improved opportunities for saving lives through a more effective system…. Municipal officials interested in holding the line on police costs and assuring maximum efficiency from their and other area police departments will insist upon cooperating with other municipal governments in providing this service.*[13]

The 2010 Recovery Plan included an initiative for the City to continue discussions with Berks County regarding the transfer of police emergency 911 dispatch functions from the City to the County. At that point the County was considering changes that would create a new countywide communications system and submitted a proposal to assume police dispatch responsibilities from the City. The County's proposal laid out the non-economic reasons for the merger.

> *The provisioning of police dispatch to the City of Reading will improve overall operational efficiency, decrease dispatch time, permit true coordination of emergency resources both inside and outside of the City of Reading, and permit full utilization of the resources of the county 9-1-1 center.*[14]

Under that arrangement, Berks County would invoice the City for the cost of police dispatch, just as it does other municipalities and the City for fire and emergency medical services (EMS) dispatch. Berks County receives the revenues from monthly surcharges on telephone bills that are intended to support dispatch operations, and then bills the municipalities to cover the difference.

Like Berks, other counties have had difficulty covering the cost of emergency dispatch since the state surcharges that fund it are capped and do not fully account for the shift from landline to cellular and VOIP phone technology. So it is understandable that Berks County charges municipalities, though it is also unusual. Most Pennsylvania counties – including others with Act 47 communities in them like Dauphin, Lackawanna, Lawrence and Allegheny -- do not charge the local municipalities for dispatch services.

When the City received the proposal, it determined that the costs outweighed the potential savings from transferring the responsibilities to the County. The County completed its changes to its system, including building a new communications center that City residents helped to fund through their taxes and surcharges, but do not use as extensively as other County residents since the City maintains its own dispatch operation.

[13] "Administering Police Services in Small Communities, A Manual for Local Government Officials," http://www.newpa.com/webfm_send/1501, retrieved August 14, 2014

[14] County of Berks proposal to City of Reading to assume police dispatch, October 23, 2009.

The rationale for the County to assume responsibility for these dispatch functions remains as follows:

- All emergency calls in Berks County are first routed to the Berks County emergency dispatch center before being transferred to the City's police dispatch center. So the current system in which the City and County maintain separate dispatch centers actually adds a step to the dispatch process.

- Berks County already performs this function for most Berks County municipalities and performs this function for City of Reading Fire services and EMS services.

- Centralized dispatch functions can result in improved coordination among municipal and county law enforcement agencies.

- Centralized dispatch functions should reduce the City of Reading's financial responsibility for the maintenance of communications infrastructure and 911 center equipment, allowing the City to shift some of its very limited resources for capital improvements elsewhere.

- City residents effectively pay twice for emergency dispatch services: once for the 911 surcharge on their phone bills that supports the County dispatch system, and a second time when they pay the property taxes that fund City operations including the Police Department budget.

On the City's side, Department leaders have raised concerns about merging E911 dispatch with the County. They note that Reading is, by far, the largest municipality in Berks County and it has more and different calls for service than the other municipalities. They are particularly concerned that the County dispatchers would not resolve issues themselves or prioritize the calls appropriately ("call triaging"), which could lead to Reading police officers responding to more lower priority calls.

This concern is understandable, but it is not insurmountable. Other Pennsylvania counties that provide dispatch services for a wide range of municipalities report multi-pronged approaches to overcoming the challenges of merging different kinds of operations. Strategies include:

- Providing training for and feedback to dispatchers (Erie County/ City)
- Having city dispatchers provide input to county dispatchers prior to transition (Lackawanna/ Scranton)
- Working with the city to input information into CAD system and learning how the city organizes patrols (Lancaster County/ City)
- Working with the city to set response priorities – e.g., how many cars to send in what situation; surveying command staff to understand how to respond to different scenarios (Dauphin/ Harrisburg)
- Providing a dedicated dispatcher for city calls with back-up from other dispatchers (Lackawanna/ Scranton)
- Differentiating dispatch protocols by municipality (Lackawanna/ Scranton; Erie County/ City)
- Inviting City police supervisors /officers to sit in control room to learn about operations and provide feedback (Lancaster County/ City)
- Inviting command staff to the dispatch center before and after the transition; having command staff maintain a presence at the dispatch center for a period of time to oversee the transition (Dauphin/ Harrisburg)
- Maintaining an "open door" policy for officers to visit dispatch center (Lackawanna/ Scranton)
- Providing a "ride along" program for officers and dispatchers (Lackawanna/ Scranton)

Another possible strategy is for the City's current dispatch employees to move to the County. The additional workload associated with dispatching Reading police calls would likely require the County to add staff and these employees would be uniquely qualified to meet that need.

Berks County EMS officials were also aware of the City's operational concerns. Their October 2009 proposal notes: "The County of Berks agrees to discuss and resolve policy issues regarding police call triage. The county acknowledges that the sheer volume of police calls received would require screening and alternative processing." The proposal also raised the possibility of absorbing "the majority of the existing civilian staff of the Reading Police Communications Center based upon operational need."

Reading Police Department leaders also expressed concerns about who will provide non-dispatch functions that are currently provided by the communications staff, such as using CLEAN on behalf of officers, maintaining warrants, tow logs, PFAs and trespass letters.

Again, the experience of other city police departments that successfully transferred dispatch to the County provides possible strategies:

- Lancaster County dispatchers do warrant searches, while City of Lancaster civilians maintain the tow log, PFAs and trespass letters. A desk sergeant is still on duty at all times to monitor the lobby and supervise the civilian employees.

- Dauphin County dispatchers input CLEAN data, while the Harrisburg Police Department uses civilian staff to handle walk-in inquiries, non-emergency phone calls, and other functions (e.g. tow logs, warrants, PFA's, trespass letters).

- Erie County dispatchers transfer non-emergency calls to City of Erie civilian employees.

As was the case in 2010, it is difficult to accurately project the financial impact of this transfer without the two parties first engaging in discussions and working through the potential parameters of the transfer.

But we note that other municipalities did achieve savings by reducing their staff complement and others freed resources that could be shifted to other priorities. And, as noted earlier, part of the cost savings comes from cost avoidance as the City would no longer be responsible for maintaining or replacing the dispatch equipment and technology it uses now.

The Coordinator understands the Department's hesitancy to revisit this issue. But, if City leaders want to mitigate the need for some of the other measures in this Amended Recovery Plan, this is a better option than reducing police officer headcount. If the City and County leaders are willing to renew these discussions, the Coordinator is ready to participate and help evaluate the financial costs to both parties of different options. For its part, the City shall continue to discuss this change in emergency dispatch operations with the County.

Overtime

In 2013, the Act 47 Coordinator analyzed Police overtime in order to identify the primary drivers of overtime and options for reducing costs. As described in PD02 below, the City no longer captures overtime data electronically, so the analysis was based on electronic data from January to December, 2011, supplemented by a sample of the paper cards officers use to record overtime.

The first two initiatives in this section address how the City records and monitors overtime usage and the subsequent initiatives describe actions that would reduce the City's overtime costs or increase associated reimbursements.

PD02.	Capture data electronically and automate data capture	
	Target outcome:	Improved management and accountability
	Five Year Financial Impact:	N/A
	Responsible party:	Managing Director and Police Department

Please see the initiative section of the Administrative Services chapter for a change to the Department's organizational structure that would facilitate this initiative.

The Reading Police Department needs to understand and monitor overtime trends to control it. And to understand and monitor overtime, it needs timely, accurate, organized data. With the City's previous payroll system, the Police Department used to capture information about overtime use; but now, there is no information system currently in use that gives the Department aggregate information about overtime use or absence patterns. In order for the Department to know anything about overtime since June 2012, besides aggregate expenditures by division, someone has to pull the paper overtime cards filed by the officers, as the Coordinator did in the 2013 study.

From a payroll perspective, the City's top priority has always (and appropriately) been to make sure all employees are paid timely and accurately. However, as of September, 2014, it has been 27 months since the City captured any kind of overtime data electronically. The City shall continue to customize its payroll system in order to capture the following data points:

- Type of overtime ("Overtime," "Court Card," or "Minor Judiciary Card")
- Sub-type of overtime
- Date and actual hours of overtime duty, as well as overtime earned; overtime or comp time
- Employee name and number; section and platoon of employee
- Status at beginning of overtime/ court appearance and time of nearest scheduled shift
- Case number, if applicable, and explanation
- Officers reviewing and approving the overtime (ideally through an electronic routing system)
- Overtime hours worked that are paid as comp time (currently the only information that is entered is the 1.5 times the actual overtime hours worked).

The Department shall capture additional information that is not currently captured even on the paper cards:

- Distinguish between work that is being done on a case as it is happening or has just happened (i.e., responding to the scene) and follow-up work.
- Identify Traffic Court overtime as being for parking tickets or moving violations.
- Assign a unique code to K9 Maintenance Pay, which is grouped with overtime.
- Similarly distinguish "Sergeants' Quarterly Comp."
- Establish a new code for absences that are not Sick or Vacation.

Finally, there is related information that would assist the Department in managing its officers. One example discussed below is the need to track hearings, whether the use of an affiant is permissible by law or by policy, and (if permissible) whether an affiant is actually used.

Finally, the data needs to be captured in a manner that is more efficient and more accurate than manual entry by an administrative employee but also does not reduce the amount of time officers can spend responding to calls. So, data entry shall be automated at some level – whether through the use of an electronic time-card type of system, or by officers entering information into a time tracking system (or app) rather than on paper cards.

The importance of capturing and using time data as a management tool cannot be over-emphasized. Other urban police departments have cited better information management as a reason they were able to radically reduce overtime costs in 2011. According to a Deputy Chief in the Minneapolis Police Department, "New reporting controls do allow for more real-time observation of overtime costs. Sometimes it's just a matter of tweaking the way we do business. We're able to do a more rapid job of identifying issues and addressing them more quickly."[15]

PD03.	**Create Separate Object Codes for Reimbursable OT and for Reimbursement Revenues**	
	Target outcome:	Improved accountability
	Five Year Financial Impact:	N/A
	Responsible party:	Finance and Police Department

The Police Department should be held responsible for managing within its overtime budget, but there is less need to focus on overtime that is being paid for by a third party, as long as it is actually paid at the full rate (addressed below) and unless it has negative non-financial impacts on officers, like increasing fatigue. The Police Department needs a reasonable budget for non-reimbursable overtime. It also needs a separate budget for overtime that is being reimbursed, and both the Police Department and Finance should be able to see how actual overtime reimbursement revenues compare to actual reimbursable overtime expenditures.

In the past, the Police Department has unfairly appeared to overspend its overtime budget more than it actually has, because reimbursed overtime was not anticipated or budgeted at the level that occurred or clearly labeled in financial reports. The following changes will give a more accurate understanding of the RPD's use of overtime:

- Finance shall establish separate budget lines for reimbursable overtime and non-reimbursable overtime;
- Reimbursements associated with overtime shall be booked in one or more separate accounts, separate from other police service charges, as is currently the case;
- All reimbursements shall be captured, including those associated with grant-funded activity (e.g. Auto Theft Task Force); and
- The Police Department shall develop realistic projections of reimbursements during the annual budget process using information about prior years' activity levels, even if reimbursement amounts associated with specific grants or activities cannot be anticipated.

[15] "Minneapolis Police Overtime Costs Plummet," *Star Tribune*, Matt McKinney, February 3, 2012

PD04.	Increase cost recovery of special duty overtime	
	Target outcome:	Cost reduction
	Five Year Financial Impact:	$178,000
	Responsible party:	Managing Director and Police Department

One component of police overtime is special duty overtime, which is time spent by police officers outside of the regular shifts performing functions at the request of an entity other than City government. The entity is billed for the time spent by officers. In some cases, special duty overtime is the use of officers to ensure the safety of customers, event participants, or a specific population, or to manage traffic impacted by a special event. Examples include Sovereign Center events, weekends at the IMAX Theatre, high school basketball and football games, charity fundraisers, and patrols at Albright College.

The $88 per hour rate that is currently charged was adopted by the City in June 2011 (up from $58.63), based on a report by the management consultancy Maximus, Inc. dated October 16, 2009. The goal of the report, based primarily on 2009 financial data, was to quantify all direct (e.g., salary, benefits) and indirect costs (e.g., administration, help desk, building depreciation, gas usage) of a police officer. If the City charged the resulting rate for the private use of police officers, then the full cost of the officer's time would be recovered.

The concept of private duty overtime and the use of a fully loaded rate to recover costs is that private entities should bear the full cost of private use of police officers. For example, if a private, for-profit event such as a baseball game, concert, or movie creates traffic problems that require control by police officers, or creates crowds that are large enough that police oversight is prudent, then the private, for-profit event should pay for the cost of the police officers' time as part of the costs that are covered by the cost of the tickets sold to patrons. Otherwise, the City has to pay the officers to control traffic or manage crowds, instead of preventing crime or responding to calls elsewhere.

To the extent that the City does not charge for the private use of police officers, or does not use a current, fully burdened rate, the City is subsidizing the private use of the officers. In other words, the City is making a decision – whether intentionally or not – to spend limited tax dollars to ensure safety at private events rather than other purposes. The question is whether that is the best use of the funds, or whether those funds would be better spent solving crimes, keeping libraries open, or making capital investments to spur economic activity. This initiative assumes that the private use of police officers is not the highest and best use of the City's dollars.

If the City is to curb the extent to which it subsidizes private events and for-profit entities, there are two different issues to be addressed. First, the City needs to reduce or discontinue the provision of police officers at private events where the event organizers do not pay for the coverage. Second, the City needs to ensure that the rate that is being charged for the private use of police officers is not only a fully loaded rate, but is the appropriate rate, and is current.

There are three categories of regular, private, for-profit events that are subsidized by the City: Reading Phillies games, the IMAX theatre, and the Sovereign Center:

- Reading Phillies: the Police Department provides an officer for each game with fireworks for about 2 hours per game. The Reading Phillies pay nothing for these officers' time.

- IMAX Theatre: an officer is present at the IMAX Theatre each Friday, Saturday, and Sunday evening for about 6 hours per day. The IMAX Theatre pays for the officers on Fridays and Saturdays; the City pays for the officers on Sundays.

- Sovereign Center: the Sovereign Center holds approximately 10 major events per year. The Sovereign Center pays for one officer per event inside the arena; the City pays for six to seven officers who are managing traffic and crowds outside the venue for a four to five hour period per event.

Overall, as summarized in the table below, the City spends about $54,000 annually on these three event sponsors alone, using the $88 hourly rate that is currently charged by the City. Of a total estimated cost of $112,112, the City covers 48 percent, and the vendors cover 52 percent. Again, the question for the City is, “Are there higher priorities for the use of this nearly $54,000 per year?”

City and Vendor Shares of Selected Private Event Police Costs (@ $88/ hour)

		CITY			VENDOR		
Vendor	**Est. Annual Events**	**Officers**	**Hrs. per**	**Annual Cost**	**Officers**	**Hrs. per**	**Annual Cost**
Reading Phillies	29	1	2	$5,104	0	2	$0
Sovereign Ctr	10	6	4	$21,120	1	4	$3,520
IMAX	52	1	6	$27,456	2	6	$54,912
Totals	**91**	**8**		**$53,680**	**3**		**$58,432**

Put differently, if not-for-profit event sponsors such as the School District, some churches, and the organizers of the annual “Walk 4 Life” and “Walk 4 the Animals” events are expected to – and do – pay the full cost of police officers at their events, the same should be expected of for-profit event organizers.

While the Reading Phillies and the Sovereign Center do collect admissions tax revenue, neither the City ordinance establishing the tax nor the Pennsylvania Local Tax Enabling Act that authorizes it explicitly designate that tax revenue to offset the costs for the City to provide service at those special events, or any other specific use). Admissions to motion picture theaters may not be taxed[16].

The second issue involves whether the City is using an updated, fully loaded rate. The rates that the City currently uses are based on 2009 financial information, but the City’s costs grow every year. Even in years where police officer salaries were frozen, the cost of officer fringe benefits and associated equipment costs (vehicles, gasoline) increase. The rate should be updated for the 2015 budget to reflect increases in costs since 2009. Based on the salary increases stated in the Collective Bargaining Agreements, an updated rate in 2015 would be $99.91. Going forward, the rate should be revised annually or bi-annually as part of the budget development process. At some regular, longer interval, the City should do a fresh, “zero-based” calculation of the fully loaded rate, rather than simply inflating the 2009 Maximus rate.

Although annual rate increases may generate complaints from the Police Department’s “customers,” it is likely that they are experiencing regular increases in other costs – e.g., salaries, license fees, food and beverages, utilities. It is also likely that the cost increases are in turn being passed on to ticket purchasers or event participants.

Maximum financial impact would be achieved if the City continued to provide the same level of service at private events, but all officers’ time was paid for at an updated rate. If the City’s “customers” decline to pay for the full costs, it is assumed that the City would no longer provide the service and the City would save money on police overtime. The City shall make these or other changes to its special duty overtime policies to achieve the financial impact shown below starting in 2016. That impact calculation assumes that the result would be somewhere in between two extreme situations in which all event holders pay the

[16] The Local Tax Enabling Act specifically exempts motion picture theaters from admissions taxation, except in cities of the second class.

full costs or none do. A discount rate of 15 percent is applied to compensate for uncertainties such as fluctuations in the frequency of events.

Financial Impact[17]

2015	2016	2017	2018	2019	Total
$0	$42,000	$44,000	$45,000	$47,000	$178,000

PD05.	**Calculate overtime by minutes rather than quarter-hours**	
	Target outcome:	Cost reduction
	Five Year Financial Impact:	$270,000
	Responsible party:	Managing Director and Police Department

Please see the initiative section of the Administrative Services chapter for a change to the Department's organizational structure that would facilitate this initiative.

Currently, officers' overtime pay is based on their overtime rounded up to the next quarter-hour. The Police Department Systems Administrator enters officers' start and end times into the old payroll system, which calculates the amount of straight time, overtime, and shift differential. This system rounds each time period up to the nearest quarter-hour. However, the collective bargaining agreement with the FOP says, "Overtime shall be paid on an hour for hour and minute for minute basis to the fullest extent practical."

While the financial difference to the City is not huge, the total amount paid in excess of actual earnings does grow over time. When the City is able to migrate to a time management/ payroll system that has all the functionality required for the Department to abandon the legacy system, the new system shall calculate overtime on a minute-by-minute basis consistent with the contract.

Assuming that the amount currently overpaid per overtime shift is evenly distributed between 0 minutes to 14 minutes, estimated annual savings based on projected FY2016 pay rates is shown in the table below. The savings estimate assumes that the total number of overtime cards in 2016 will be 14,306, which is what the number of cards would have been in 2012 if the pace in January through June 2012 continued through the rest of the year. Dividing this number by 16 yields the 894 instances in each row of the table below. "Rank and file" hourly overtime in 2016 is projected to be $49.02; dividing this hourly rate by 60 minutes yields $0.82 savings per minute.

[17] While the financial impact could be a combination of higher revenues and lower overtime expenditures, the figures shown below are incorporated in the Recovery Plan projection as higher revenues.

Time: Old System	Time: New System	Difference (Mins)	Avg. Rate per Min.	Est. # Instances / Yr	Est. Savings
X:00	X:00	0	$0.82	894	$0
X:15	X:01	14	$0.82	894	$10,226
X:15	X:02	13	$0.82	894	$9,495
X:15	X:03	12	$0.82	894	$8,765
X:15	X:04	11	$0.82	894	$8,034
X:15	X:05	10	$0.82	894	$7,304
X:15	X:06	9	$0.82	894	$6,574
X:15	X:07	8	$0.82	894	$5,843
X:15	X:08	7	$0.82	894	$5,113
X:15	X:09	6	$0.82	894	$4,382
X:15	X:10	5	$0.82	894	$3,652
X:15	X:11	4	$0.82	894	$2,922
X:15	X:12	3	$0.82	894	$2,191
X:15	X:13	2	$0.82	894	$1,461
X:15	X:14	1	$0.82	894	$730
X:15	X:15	0	$0.82	894	$0
Total Est. Savings:					**$ 76,692**

Since the City would at least need to improve its timekeeping software or fully utilize the software it already has, it is assumed that no savings could be achieved until 2016. Total projected savings are also discounted by 15 percent to allow for an eventual reduction in the number of overtime cards or other possible unforeseen changes.

Financial Impact

2015	2016	2017	2018	2019	Total
$0	$65,000	$67,000	$68,000	$70,000	$270,000

PD06.	**Minimize unnecessary court appearances on overtime**	
	Target outcome:	Cost savings
	Five Year Financial Impact:	$751,000
	Responsible party:	Managing Director and Police Department

Note: This initiative requires Coordination with President Judge and District Attorney.

Given the relative magnitude of revenues from fines and penalties and the costs of police officers appearing at hearings, the City should ensure that (a) police officers do not appear at hearings if not necessary or if not warranted by the case in question, (b) that on-duty affiants appear as substitute witnesses for off-duty officers when allowable and appropriate, and (c) scheduling of court appearances is coordinated to the extent possible.

What the Code Says

Pennsylvania laws dictate the types of proceedings that must be attended by the relevant law enforcement officers. The first table below summarizes the types of proceedings that would not need to be attended by the relevant police officers, absent mitigating circumstances: traffic summary offenses and appeals of parking offenses. The second table shows that an affiant may appear at preliminary hearings on behalf of the arresting officer. The third table shows that police officers do need to appear for trials and for appeals of traffic convictions (emphasis has been added in these tables).

Police Officer Need Not Appear/ Affiant Can Testify on Behalf of Police Officer

Traffic Summary Offenses: "[I]n all summary cases arising under the Vehicle Code or local traffic ordinances, the law enforcement officer observing the defendant's alleged offense may, but **shall not be required to**, appear and testify against the defendant. In no event shall the failure of the law enforcement officer to appear, by itself, be a basis for dismissal of the charges against the defendant." (234 Pa Code Chapter 4, Rule 454(B))
Appeals of Parking Offenses: Parking offenses are governed by the same rule regarding "Traffic Summary Offenses" (see above). Officers also do not need to appear for appeals from summary proceedings arising from parking offenses: "In appeals from summary proceedings arising under the Vehicle Code or local traffic ordinances, **other than parking offenses**, the law enforcement officer who observed the alleged offense must appear and testify." (234 Pa Code Chapter 4, Rule 462)

Affiant Can Testify on Behalf of Police Officer

Preliminary Hearings: The burden of proof for the prosecution for preliminary hearings is much lower than it is for trials. It appears that **any officer with knowledge of the incident** (from reading the file, consulting with the arresting officer, etc.) **may appear at a preliminary hearing as long as the arresting officer has submitted written affidavits**. However, there may be local practices and preferences of the Magistrates and District Attorney that impact this decision on a case-by-case basis.

Arresting Officer Needs to Appear

Trials: Generally the arresting officer must appear and testify in any trial resulting from the incident that led to the arrest.
Appeals of Traffic Convictions (Excluding Parking Offenses): "In appeals from summary proceedings arising under the Vehicle Code or local traffic ordinances, other than parking offenses, **the law enforcement officer who observed the alleged offense must appear and testify**." If the officer does not appear, the case will be dismissed unless the defendant waives the officer's presence or the judge finds good cause for the failure to appear and grants a continuance. (234 Pa Code Chapter 4, Rule 462)

Traffic Summary Offenses

As shown in the first table above, 234 Pa Code Chapter 4, Rule 454(B) states that the relevant law enforcement officer is not required to appear before the defendant and that the charges cannot be dismissed just because the law enforcement officer does not appear.

According to the Police Department Chief, previous discussions with magistrates about police officers not appearing for summary cases arising under the Vehicle Code or local traffic ordinances were unproductive.[18] As a result, police officers do attend these hearings, even though their presence is clearly not required by state code. Given the amount of overtime spent for officers appearing in Traffic Court – 4,376 hours or 11 percent of all overtime hours in the period studied (January to December 2011) – it is critically important for officers' appearances to be based on the requirements of the law, the particular circumstances of specific cases, and public safety priorities, rather than past practices or the general preferences of individuals.

Use of Affiant

In 2011, as a result of the work of the Police Implementation Action Team that formed to implement Police Department-related initiatives in the City's Recovery Plan, the Berks County District Attorney made recommendations regarding the use of affiants at preliminary hearings. These recommendations were discussed with the President Judge of Berks County and the FOP.

According to the City Police Chief, affiants are being used for preliminary hearings where appropriate, and the use of affiants has reduced the amount of overtime resulting from preliminary hearings. However, the Chief also noted the following:

- For more serious charges, such as aggravated assault or shootings, affiants are not used as a matter of policy. Affiants are also not used for drug cases because experience has shown that it is important for the arresting officer to testify regarding the amount and packaging of drugs in order to show that the crime is drug dealing and not just possession.

- The Department does not track when affiants are used versus when arresting officers appear. The administrative burden of doing so is seen as too great.

Despite the administrative burden, it would be helpful for the Department to know (a) the subset of hearings for which use of an affiant is deemed to be acceptable; and (b) how many of those hearings actually are attended by an affiant rather than the arresting officer. If the Department had the tools and personnel to track or analyze this information easily, then the Department could be monitoring the success of the affiant initiative in reducing court overtime and identifying any opportunities to conserve Department resources by expanding affiant use.

Coordinated scheduling

Because Preliminary Hearings and traffic matters heard by Magistrates make up the largest percentage of overtime (**80 percent** of all court-related overtime during the 18-month study period), these are the logical proceedings to target for reform.

There are timing requirements for scheduling hearings in some cases, as shown in the table below. The most restrictive is for Preliminary Hearings in cases when the defendant is arrested and in custody; these hearings must be scheduled within 14 days of the arraignment. There are timing requirements for preliminary arraignments in regular criminal cases. However, police officers need not appear at arraignments; the defendant is simply informed of the charges/his rights and bail is usually determined.

[18] Magistrates may believe that defendants have the "right to face their accuser;" however, such a view is not supported by the Pennsylvania code. A 2010 Commonwealth Court opinion, *Kovler v. Bureau of Administrative Adjudication*, also found no requirement for a parking ticket writer to be present at a hearing regarding the parking ticket. While based on a provision of the Philadelphia Code, the Commonwealth Court relied in part on a federal case (Van Harken v. City of Chicago, 7th Cir. 1997) that found that the due process right to confront or cross-examine in civil cases is not absolute; instead, the benefits of live cross-examination must be balanced against the costs to the city and efficiency of parking code enforcement. In the Chicago case, the federal court found the city's interests outweighed the benefits of requiring the officer's live presence in a relatively minor matter such as a parking violation.

Preliminary Hearing Type	Deadlines/ Timing
Summary Offense Cases: Defendant not in custody	Summary Trial to be scheduled "promptly" by the District Justice (234 Pa Code Chapter 4, comment to Rule 454)
Summary Offense Cases: Defendant in custody	Summary Trial to be scheduled "at the earliest possible time" (234 Pa Code Chapter 4, comment to Rule 454)
Regular Criminal Case: Defendant not arrested	Preliminary Hearing to be scheduled at least 20 days after the mailing date of the summons, unless an earlier date is agreed to by the parties (234 Pa Code Chapter 5, Rule 510)
Regular Criminal Case: Defendant arrested, not in custody	Preliminary Hearing to be scheduled no later than 21 days after the arraignment (234 Pa Code Chapter 5, Rule 540)
Regular Criminal Case: Defendant arrested, in custody	Preliminary Hearing to be scheduled no later than 14 days after the arraignment (234 Pa Code Chapter 5, Rule 540)

It appears that a large majority of the preliminary hearings are conducted at the Reading Central Court. This creates an opportunity to focus efforts on improving the efficiency of scheduling in this single forum. In addition, Magistrates are familiar with the police staff, potentially facilitating the type of cooperation envisioned here. Possibilities and associated considerations include the following:

a. Consider schedules of relevant officers when scheduling preliminary hearings.

   - This would require coordination between the Central Court administrator and the Police Department, including sharing the departments' shift and vacation schedule for the week/month.

   - Although not all court appearances can be scheduled during on-duty periods, even small informal changes such as the court clerk checking the police schedule before scheduling the hearing to see if the officer is scheduled for a day shift or scheduled to be on vacation could make a big impact in the long run.

b. Ask the Reading Central Court administrator to schedule preliminary hearings in "batches" by officer on a weekly basis so that the officer can cover multiple cases in a three-hour overtime block, if not on a regularly scheduled shift.

   - This may not be possible in some cases where a preliminary hearing needs to occur within a certain timeframe;

   - The Police Department and court system would have to communicate with the DA's office and defense attorney bar to explain the process and manage concerns about timeliness of proceedings and the impact on lawyers' schedules (for example, some clerks may already be scheduling hearings in batches by the assigned DA staff to streamline that office's time in court).

c. Eliminate the duplication of overtime on the same day by asking the District Magistrates to schedule short hearings involving the same officer within a single 3-hour block.

The projected fiscal impact for this initiative assumes the following:

- The City is successful in limiting the appearance of officers at summary traffic hearings to relatively few hearings where the specifics of the case warrant such an investment of public resources. The calculation of savings assumes that the number of traffic hearings going forward would be the same as in 2011, but officers would appear at only 15 percent of those hearings.

- Coordinated scheduling could result in an incremental reduction in the number of instances when officers have multiple overtime cards from the same day, with some growth over time based on improvements in shared schedule technology and process changes.

- The proportion of overtime cards submitted for comp time would be the same going forward as in 2011, and that the resulting comp time would not be cashed out in the same fiscal year (i.e., savings would be based on non-comp time cards only).

- The number of hours per non-comp time card is assumed to be three hours based on the three-hour overtime minimum per appearance (see below for more on this provision)

- Coordination with the President Judge and District Attorney would occur in the early months of 2015, and 2016 would be the first full year of impact.

The table below shows the relative shares of savings projected to result from reduced court appearances and coordinated scheduling. The City shall continue to work with the other criminal justice system participants to reduce court and hearing related overtime expenditures.

	2015	2016	2017	2018	2019
Reduced Court Appearance	$39,000	$159,000	$163,000	$167,000	$172,000
Coordinated Scheduling	$1,000	$5,000	$10,000	$16,000	$19,000
Total	**$40,000**	**$164,000**	**$173,000**	**$183,000**	**$191,000**

Financial Impact

2015	2016	2017	2018	2019	Total
$40,000	$164,000	$173,000	$183,000	$191,000	$751,000

PD07.	**Reduce the minimum amount of overtime earned per court appearance**	
	Target outcome:	Cost savings
	Five Year Financial Impact:	$445,000
	Responsible party:	Managing Director and Police Department

Overall, police officers are earning significantly more court overtime than the corresponding actual duration of the appearance because of the three-hour minimum rule, particularly in the MDJ setting, where more than half of appearances are 30 minutes or less in length. Although some allowance is understandable for the inconvenience of even a short court appearance during scheduled time off, the volume of appearances that triggers the three-hour rule makes this an important savings target.

The City could substantially save on overtime costs while still compensating officers for their time by reducing the minimum amount of overtime paid per appearance. The City shall replace the three-hour court overtime minimum to the actual time in court plus one hour.

The savings estimate presented here is based on the Coordinator's manual review of a subset of paper cards to obtain actual time spent in court. Total estimated annual savings is discounted by 10 percent in case the length of hearings changes significantly or in case there are other changes or differences that reduce savings. Since implementation of this initiative would require collective bargaining, savings are assumed to begin in 2017, the first year of a successor agreement.

Financial Impact

2015	2016	2017	2018	2019	Total
$0	$0	$145,000	$148,000	$152,000	$445,000

Potential savings from reducing the court overtime minimum would be significantly reduced if Reading police officers ceased to routinely attend Traffic summary hearings, as recommended previously, since overtime cards for Traffic Court represented nearly one-third of all court overtime.

PD08.	**Use shorter shifts for overtime replacements**	
	Target outcome:	Cost reduction
	Five Year Financial Impact:	$193,000
	Responsible party:	Police Department

The Department's current practice is to replace absent officers in order to achieve staffing levels that are set by Department management. An alternative to simply not filling open shifts that the City shall consider is using 4-hour overtime shifts rather than 8-hour overtime shifts to replace absent officers when activity levels allow it. For example, major incidents do not often occur between 3 AM and 7 AM. An officer filling in for an absent colleague on overtime during the 11 PM to 7 AM shift could potentially work from 11 PM to 3 AM and then be released depending on call volume. In this way, staffing could be adapted to activity levels, and the Department could reduce overtime usage.

To estimate financial impact, all eight-hour overtime shifts that were used to backfill an absent officer in 2011 were identified. Based on this analysis, there were 10,704 hours of overtime that were 8-hour shifts replacing other officers, or 1,338 shifts. It is not possible to project with absolute accuracy how often it would operationally make sense to use a 4-hour overtime shift instead of an 8-hour overtime shift, but the assumption used here is that 4-hour shifts would be used 20 percent of the time.

Financial Impact

2015	2016	2017	2018	2019	Total
$0	$0	$62,000	$64,000	$67,000	$193,000

PD09.	**Consider changing shift length when negotiating the next CBA**	
	Target outcome:	Cost savings, improved quality of life for police officers
	Five Year Financial Impact:	N/A
	Responsible party:	Managing Director and Police Department

The Reading Police Department currently uses 8-hour shifts. A 2011 study, published by the Police Foundation and supported by a National Institute of Justice (NIJ) grant that compared 8, 10, and 12-hour police shifts, found advantages to 10-hour shifts for both police officers and police departments.

The work that resulted from the research is called, "The Shift Length Experiment: What We Know About 8-, 10-, and 12-Hour Shifts in Policing" and is authored by Karen L. Amendola, et al. Two of the major findings of the study were the following:

- Among 8, 10, and 12, there were no significant differences between them in effect on work performance, health, or work-family conflict. However, officers on the 10-hour shift averaged significantly more sleep and reported experiencing a better quality of work life than did their peers (Ibid).

- "10-hour shifts averaged significantly less overtime per 2-week period than those on 8- and 12-hour shifts."

The study also cited work by other researchers who found a correlation between a 10-hour shift and lower levels of overtime:

- Facer & Wadsworth, 2010 found "decreases in paid overtime with compressed work weeks [CWWs], which is consistent with an earlier finding by Foster et al. (1979) who found a 33 percent reduction in overtime for those on CWWs."

- "In one study, Cunningham (1981) found that officers assigned to 10-hour shifts had greater court-related overtime compared to those on 8-hour shifts but much less overtime associated with regular workdays (which was reduced by more than half)."

Dale Harris, a retired police officer and crime analyst turned consultant, writes that 10-hour shifts have a "hidden 7 percent bonus[19]:" he estimates that about two hours of each shift are consumed by activities other than active patrol/ investigation: primarily roll call, shift-end paperwork, and breaks. He assumes that the two hours lost per shift is constant whether officers work 8-hour shifts or 10-hour shifts, so the relatively unproductive time per week for officers working five 8-hour shifts is 10 hours, while the unproductive time for officers working four 10-hour shifts is 8 hours. Therefore, going from 8-hour shifts to 10-hour shifts results in gain in patrol/ investigation time of nearly 7 percent (i.e., productive time per week increases from 30 hours to 32 hours).

Harris also finds that 10-hour shifts allow staffing levels to be better matched to activity level patterns because of shift overlap periods, which can be as short as half an hour, or as long as three or more hours. The overlap also helps ensure that officers are available to respond to calls in spite of activities like roll call, fueling, and completing paperwork that have to be done at the beginning or end of shifts. Finally, he finds quality-of-life benefits to 10-hour shifts; he writes that "10-hour, 4-day schedules tend to make it more likely that each officer will regularly have at least part of the weekend off," and observes that commuting four days per week instead of five saves officers travel expenses and time.

The Reading Police Department shall investigate the pros and cons of transitioning to 10-hour shifts, and include the schedule change for discussion in collective bargaining if warranted. The Coordinator has requested a Commonwealth funded grant to hire a subject matter expert who can provide the City and Fraternal Order of Police with more information on this topic.

[19] "10-Hour Shifts: Expensive Luxury, or Effective Deployment?" Dale Harris, May 5, 2012, http://www.coronasolutions.com/blog/?p=67

Fire and Rescue Services Department

Overview

The Reading Fire and Rescue Services Department (RFRSD) is responsible for fire suppression, emergency medical services (EMS), and special rescue services for a resident population of almost 88,000. The RFRSD is the second largest City department, comprising 19.6 percent of the City's total General Fund budget expenditures in 2014. The Department provides emergency responses to calls relating to fire suppression, EMS, hazardous conditions, motor vehicle accidents and technical rescue. The Department operates five engine companies, three ladder companies, one heavy rescue unit, and four medic units, deploying these resources from seven stations throughout the City. The RFRSD also provides non-emergency medical transports with four additional wheelchair accessible vans and one medic unit used to carry patients to medical facilities or residences. According to the Department, its overall mission is to be "dedicated to preserving life and property through fire suppression and pre-hospital medical care activities, fire prevention, public outreach, and emergency planning."

The RFRSD divisions include Administration, EMS, Suppression, Fire Prevention-Education, and Training. The Fire Chief reports to the City's Managing Director, and all services and programs within the Department report to the Chief through deputy chiefs and/or program managers.

- **Administration** oversees Department operations in the field, manages finances and personnel, and publically represents the Department. The Administration Division is also responsible for coordinating with the Department of Public Works, which provides facility and vehicle maintenance services. This Division encompasses the majority of the Department's leadership team.

- **Emergency Medical Services (EMS**) is responsible for providing advanced life support (ALS) and basic life support (BLS) emergency medical services 24 hours a day, seven day days a week to all citizens and visitors of the City. Non-emergency transport services are also provided, including wheelchair accessible van services between medical appointments and residences. The Division operates five fully equipped medic units staffed primarily with paramedics, and four additional wheelchair accessible vans staffed with emergency medical technicians (EMTs) who also operate one ambulance during the week to provide non-emergency transportation services.

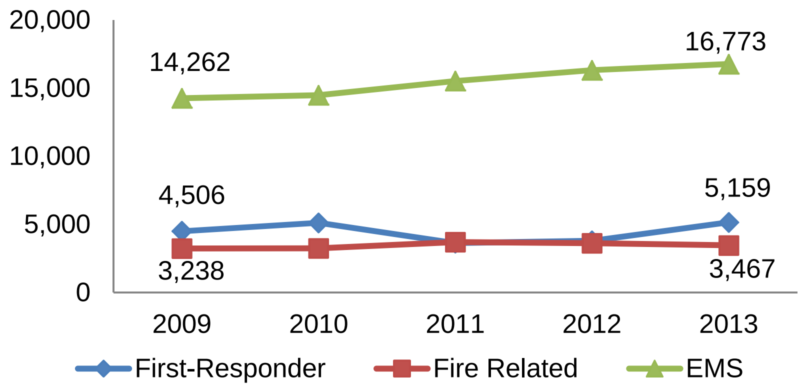
- **Suppression** delivers fire protection services, vehicular and technical rescue services, and attends to the mitigation of hazardous material incidents. The Division also aids in the provision of EMS to all citizens and visitors as first responders. The Division operates nine apparatuses for emergency response 24 hours a day, seven days a week.

- **Fire Prevention-Education** includes the public education and prevention activities performed by the Fire Marshal's Office (FMO). The Division is responsible for fire prevention and fire code enforcement. The FMO is responsible for arson investigations in collaboration with the Police Department and for code enforcement and fire inspections with the Community Development Department (Property Maintenance Division).

- **Training** provides new techniques and continuing education for its career members in fire suppression and emergency medicine and coordinates all training and certification activities for incoming Department recruits. The Training Division also conducts product reviews and makes recommendations related to equipment, gear, and tools for the Department.

The RFRSD is primarily a response-driven Department responding to emergency calls for service. Details related to these responses are captured for Department purposes - the EMS Division tracks EMS incident information while the National Fire Incident Reporting System (NFIRS) captures suppression incident data, including calls when suppression units provide first-response services for EMS. The Department also completes an annual National Fire Protection Association (NFPA) Fire Experience Survey. The graph below is a depiction of the annual distribution of Department responses. In 2013, the Department responded to 25,399 calls for service which represents a 15.4 percent increase since 2009. EMS represents the majority of calls for service in Reading, at 86.3 percent (EMS and first-responder calls combined), while fire related calls were 13.7 percent in 2013.

Distribution of RFRSD Emergency Responses[1]



The prevalence of EMS calls is not unusual. In a recent NFPA report, fires accounted for only four percent of the total calls nationally while 68 percent were EMS related.[2] The five-year growth in total call volume for the RFRSD is predominantly attributable to increases in EMS and First-Responder responses (17.6 percent and 14.4 percent respectively).

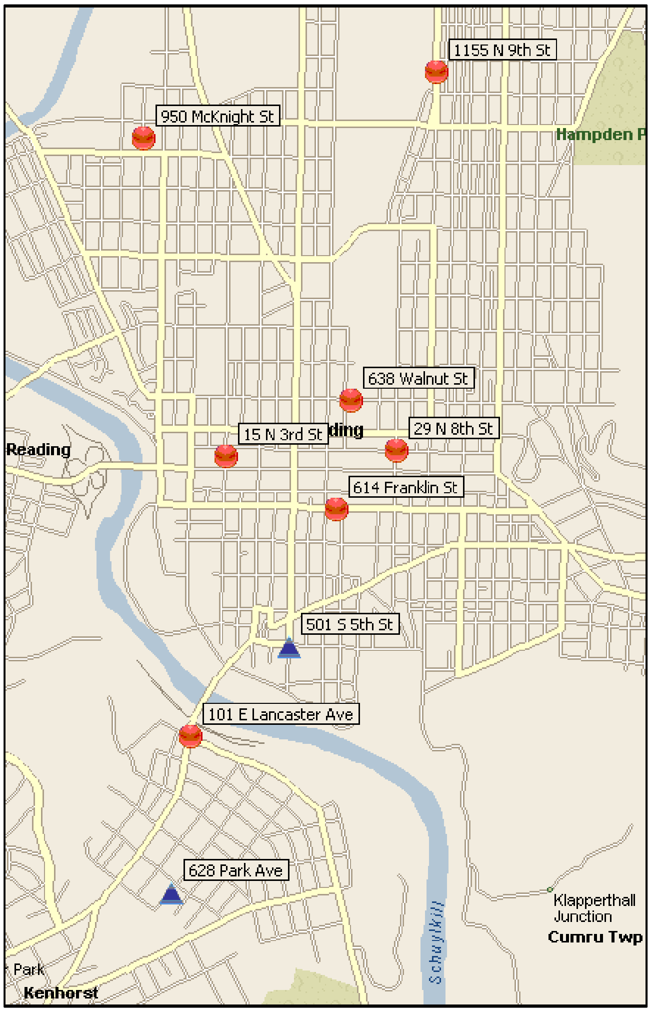
The Department operates and deploys out of seven different stations throughout the City. Each station and apparatus is listed below. About two-thirds of the Department's apparatuses are considered "active" or currently in-use, while the remaining are reserve apparatuses used to replace active apparatus when breakdowns occur or during large-scale events when unscheduled staff are called back to duty.

Station Name	Address	Apparatus
Rainbow Fire Station	29 North 8th Street	1 Engine
		1 Reserve Engine
Southwest Fire Station	101 Lancaster Avenue	1 Engine
		1 Reserve Engine
		1 Reserve Ladder
Reading Hose	614 Franklin Street	1 Heavy Rescue
		1 Tower Ladder
		1 Reserve Rescue
		1 Reserve Engine
EMS Station	638 Walnut Street	4 Medic Units
		3 Reserve Medic Units
		3 Wheelchair Vans
Riverside Fire Station	950 McKnight Street	1 Engine
		1 Reserve Engine
		1 Special Ops Trailer
		1 Brush Truck
		1 BLS Medic Unit
Marion/ Hampden Fire Station	1155 North 9th Street	1 Engine
		1 Ladder
Neversink Fire Station	23 North 3rd Street	1 Engine (pumper)
		1 Ladder
		1 Reserve Engine
		1 Brush Truck

[1] Source: City of Reading Fire and Rescue Services Department data; fire related incidents include all responses not considered first-responder incidents
[2] Karter, Jr., Michael J. *Fire Loss In The United States During 2012*. NFPA Research Division, September 2013

In September 2010, the Department completed construction of its newest station, Southwest Fire Station, which served as a more strategically located station to meet response demands and as noted in the previous Recovery Plan, allowed the City to eliminate lease payment obligations at the previous stations. This consolidation strategy was a successful approach in providing sufficient response coverage more effectively and efficiently. The picture below depicts current stations as circles (red) and the two previous consolidated stations are shown as triangles (blue) – the newly constructed Southwest Fire Station lies between the two triangles.

Fire and Rescue Services Station Locations



Although facility conditions at the new station are sound, the remaining six stations require significant upgrades and repairs. Major maintenance projects have been deferred for many years, resulting in stations having serious structural, envelope, electrical, HVAC, and interior deficiencies. A condition assessment is required for a comprehensive inventory of capital needs, but if one assumes for order-of-magnitude purposes that the six stations were renovated at a cost of $125 per square foot, total costs would be $10.2 million. Additional information regarding these related issues are discussed more fully in the Capital Improvements chapter of this Plan.

The Department's fleet is maintained and managed by the Department of Public Works, Operations Division. The Department's frontline apparatus is in suitable condition with few exceptions, including smaller emergency response vehicles for officers and specific use vehicles, such as brush trucks.

Staffing and Personnel

The RFRSD has the second greatest number of employees of all City departments, with a total of 152 budgeted positions or 25.5 percent of the City's total 2014 budgeted workforce.[3] The Department is led by a Fire Chief with 12 managers reporting to him directly on fire and EMS operations, budgeting, human relations, training, and prevention. The Suppression and EMS divisions contain the majority of the Department's positions - 140 combined or 92.1 percent of budgeted positions. There are 35 members in the Department who are dually trained and certified as paramedic-firefighters who may serve in either capacity.

The RFRSD uses a 42-hour schedule to staff and deploy all field paramedic and firefighting personnel, including officers. This means uniformed members work two 10-hour day shifts followed by two 14-hour night shifts, and then have four days off. One cycle of this schedule is referred to as a "tour." On average, this schedule results in a 42-hour work week. The Department is organized into four platoons where members are assigned to regularly work the same scheduled tour of duty together.

The original Recovery Plan required the City to adopt a new schedule with a 53-hour work week and reduce budgeted headcount in Suppression by 17 positions.[4] In response to concerns expressed by the Department management and the IAFF, the Coordinator gave the parties the flexibility to "agree on another alternative that achieves the total savings target as shown above." The arbitration award resulted in a different 42-hour work week than the one the City previously had, and the City was still able to eliminate 17 vacant positions, dropping Suppression headcount from 104 positions in 2010 to 87 in 2011.[5] In 2013 the City received a federal grant that supported additional positions in suppression, taking budgeted headcount to 109 positions in 2014. The position changes are described by division in further detail below.

Budgeted Headcount, 2010 - 2014

	2010	2011	2012	2013	2014
Administration	7	6	7	7	7
Suppression	104	87	88	89	109
EMS	29	29	31	31	31
Special Services	4	4	4	4	4
Training	-	-	1	1	1
Total Budgeted Headcount	**144**	**126**	**131**	**132**	**152**

Administration

The Administration Division has consistently been budgeted at seven positions. There are four types of positions in the Division, including: one Fire Chief, one Chief Officer, one Clerk Typist and four First Deputy Chiefs. In October 2014, the City appointed a new permanent Fire Chief. Prior to this appointment, the Department was managed by an acting Chief beginning in July of 2013.

[3] Total 2014 full-time budgeted positions is 596 which includes all funds and not exclusively the General Fund

[4] Please see initiative FD01, pages 163-164.

[5] No layoffs were necessary because of the vacancies.

Suppression

The majority of active employees in the Department are assigned to the Fire Suppression Division. Firefighter-level employees (non-officer level employees) make up most of the Division with eight officer positions - four 2nd Deputy Chiefs and four Lieutenant Fire Suppression Officers. All positions are considered uniformed positions, and are recruited, hired and promoted in accordance with the City's Civil Service Commission rules and regulations, and labor agreements. The RFRSD is governed by a collective bargaining agreement with the International Association of Fire Fighters (IAFF), Local No. 1803. The Division is made up of bid positions (permanently assigned positions) and non-bid positions. Non-bid positions are also referred to as "jumpers" and these members may be used in varying capacities.

In 2013 the City received a Federal Emergency Management Agency (FEMA) Staffing for Adequate Fire and Emergency Response (SAFER) grant which provides direct funding for fire departments to increase or maintain the number of firefighters. The Department was awarded a two-year grant of $3,301,749 to fund 21 positions in fire suppression beginning in April 2013. In February 2014, the Department hired four additional firefighters, bringing the total temporarily to 113 with a plan to transition these members to the EMS Division before the end of the year. Actual Division headcount since February has declined to 111 members because of retirements, but the Division still remains over budget by two positions in the Division (because of vacancies in other areas, total actual headcount is overall below budget). A further review of the Division's staffing and response demands is provided in the Assessment section of this chapter.

Emergency Medical Services

The Emergency Medical Services (EMS) Division is staffed with both uniformed and civilian members. All employees with the exception of the 1st Deputy Chief are hired under the City's Civil Service Commission rules and regulations and are uniformed employees managed under the IAFF, Local No.1803 bargaining agreement.

Paramedics in the Division are required to achieve a firefighter certification level after attending the Department-provided certification training. At the time of certification, Paramedics are treated as firefighters as defined in Pennsylvania Act 111 and are able to work as firefighters on an overtime basis. Despite training and firefighter certification, Paramedics are unable to "bid" on open positions in the Suppression Division under the current collective bargaining agreement.

In 2011, the Division added seven Paramedic positions in order to fully staff the three full-time medic units (24 members in total, including five Paramedics and one Lieutenant per platoon). The following year, two additional Wheelchair Van Drivers were added to respond to the non-emergency transport service requests (a total of five positions). Budgeted staffing levels have remained consistent since 2012 in the Division; however difficulties in filling vacant Paramedic positions have driven overtime expenditures. For the majority of 2014, the Department has been short four Paramedics, using overtime to staff these positions. It is expected that before the end of 2014 four Paramedic-Firefighters from the Suppression Division will be permanently assigned to the EMS Division to fill current vacancies.

In November 2013, the Department created a fourth medic unit (M-4) to reduce response volume per unit. There are no permanently assigned personnel to this unit; accordingly it is staffed using jumpers from the Suppression Division when available or staffed by unscheduled staff working on an overtime basis.

Fire Prevention – Education & Training

The Fire Prevention-Education Division includes four 2014 budgeted positions in the Fire Marshall's Office. The Office has two vacant Lieutenant positions as of October 2014.

The Training Division was established in 2012 and was previously contained within the Special Services Division. There is one Training Lieutenant position tasked with tracking and managing the State certification and training hour requirements of the entire Department. The Division is also staffed with instructors from the various divisions using overtime when necessary training occurs (e.g. training of new recruits).

Finances

As noted earlier, the RFRSD budget is the second largest department budget in the City of Reading encompassing 19.6 percent of General Fund expenditures. Department expenditures in the last two years have increased by 6.8 percent from $15.1 million in 2012 to $16.1 million budgeted in 2014. The growth in budget is largely driven by escalating salary costs due to the SAFER grant hires. As is common in other departments, personnel related expenditures account for the majority of the Department's budget – total employee compensation comprises 94 percent of the entire Department budget, and salaries alone comprise 52.7 percent of the Department's total budget.[6]

Fire and Rescue Services Department - Expenditures

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-2014
Salaries	7,229,240	7,380,547	7,856,189	8,507,434	17.7%
Fringe Benefits	2,152,348	2,610,668	2,547,077	2,981,355	38.5%
Premium Pay	474,032	435,922	448,600	478,270	0.9%
Overtime	1,573,565	1,707,489	1,061,913	641,300	-59.2%
Pension	1,992,727	1,908,613	2,296,125	2,291,508	15.0%
Social Security	109,597	104,460	89,395	144,442	31.8%
Other Personnel Expenses	94,482	81,848	140,341	103,750	9.8%
Training & Education	22,988	46,673	77,347	64,725	181.6%
Utilities	9,680	8,720	9,211	169,800	1654.2%
Equipment	65,700	148,262	201,093	233,050	254.7%
Maintenance	58,730	89,266	103,528	126,800	115.9%
Supplies & Postage	83,351	72,458	94,335	93,100	11.7%
Fire Company Appropriations	85,500	38,598	11,856	0	-100.0%
Contract & Consulting Services	197,864	185,437	125,360	122,500	-38.1%
Programs & Events	11,215	6,494	12,968	9,500	-15.3%
Fees	25,573	30,368	17,479	31,070	21.5%
Miscellaneous	232,117	252,188	129,479	140,203	-39.6%
Total	**14,418,707**	**15,108,012**	**15,222,296**	**16,138,807**	**11.9%**

In the 2014 budget the City anticipated that the additional positions would allow the Department to reduce its overtime expenditures from $1.7 million in 2012 (the last year before the SAFER grant) to $641,000 in 2014. More information regarding 2014 overtime spending is provided in the Assessment section of this

[6] Total employee compensation includes salaries, fringe benefits, premium pay, overtime, pension, social security and the clothing allowance.

chapter. Overtime expenditures typically arise when members use leave time and there is a shortage of available "jumpers" to fill the vacant slots. When this occurs, unscheduled members are required to work on overtime and are paid at one and one-half their regular hourly rate. There are also specific instances when overtime is intentional – the City provides "standby" services for various events (e.g. paramedics at a Reading Fightin Phils baseball game) and receives reimbursement for the overtime expenditures incurred.

The above expenditure table does not include expenses associated with vehicle maintenance or facility maintenance. These expenses are budgeted in Public Works and are not charged back to the RFRSD, making it challenging to determine the full cost of the Department's operations and activities. However, beginning in 2014 the City began charging departments directly for fuel consumption. The significant increase from 2013 to 2014 in *Utilities* represents this change – 95 percent of the costs are associated with expected fuel usage expenditures.

Revenues

The Department is not intended to be self-sustaining, but it does recover some of its costs. In 2014, the RFRSD is budgeted to raise approximately $5.5 million in revenue, temporarily bringing its cost recovery rate over 30 percent. That increase was driven by the SAFER grant that expires in 2015 and an anticipated increase in EMS transport fees, which has not occurred yet at the level projected below.

Department Revenues

Account Description	2011 Actual	2012 Actual	2013 Actual	2014 Budgeted	% Change 2011 - 2014
User Fees	2,821,009	2,764,506	2,894,160	3,536,638	125.4%
Grants and Gifts	155	0	962,573	1,295,145	835577.4%
Heart and Lung Reimbursement	221,877	317,096	300,525	250,000	112.7%
Fire Prevention Permits	166,813	155,971	140,014	133,000	79.7%
Standby Revenue	103,225	96,380	100,488	75,000	72.7%
Membership Fees	48,070	44,705	40,980	60,000	124.8%
False Fire Alarm Fee	22,225	66,550	47,500	45,000	202.5%
Fireman Relief Assoc. Contrib.	80,896	38,598	11,856	40,000	49.4%
Delinquent Collections - EMS	7,355	4,203	10,547	10,000	136.0%
Delinquent Collections – Spec Srv	4,104	5,206	3,829	4,000	97.5%
Fire Incident Reports	3,465	4,145	3,760	3,500	101.0%
Other Department Earnings	4,179	2,204	2,443	3,000	71.8%
EMS Record Report	3,010	3,220	2,240	2,500	83.1%
Other	358	24,260	26,198	0	0.0%
Total	**3,486,740**	**3,527,044**	**4,547,113**	**5,457,783**	**56.5%**
Cost Recovery	**24.2%**	**23.3%**	**29.9%**	**33.8%**	

The principal source of revenue for the RFRSD is *User Fees* associated with EMS activities. These funds are raised by invoicing patients for the provision of emergency and non-emergency medical services. As previously mentioned, the EMS Division offers emergency medical care and transportation 24 hours per day, seven days a week and non-emergency transportation Monday through Friday. The rates for these services are shown in the table below. The Department also offers membership rates for wheelchair van services at a cost of $35 per individual and $50 per household; members receive transport services at a discounted rate.

RFRD Medical Service Rates

Advanced Life Support (ALS)	
ALS Level 1	$850
ALS Level 2	$900
Basic Life Support (BLS)	
BLS Emergency	$700
BLS Non-Emergency [7]	$700
Wheelchair Van Services	
One-Way Transport (Non-Member)	$50
Round Trip (Non-Member)	$70
One-Way Transport (Member)	$40
Round Trip (Member)	$60
Mileage	
After 10 miles	$1 / mile

The RFRSD is budgeted to raise $2.8 million in 2014 through the billing and collection of charges to patients for medical transport services (contained in the User Fees shown in the above Department Revenues chart). The City contracts with FirstStates Financial Management Corporation ("FirstStates") to collect EMS charges, including all non-emergency and emergency transports. FirstStates receives a commission of seven percent of the total charges collected and an additional three percent for credit card payments. In 2013, FirstStates' collection rate was 34.6 percent.[8]

Collections associated with EMS depend a great deal on the recipients of the EMS service. Collectively, patients receiving service combine to form a jurisdiction's "payor mix." The three general component groups of a typical payor mix are:

- **Private or Commercially Insured:** Patients with private or commercial insurance tend to pay closest to the rates charged by the City through their insurance carrier.

- **Publicly Insured:** Public insurance providers such as Medicaid or Medicare pay capitated amounts or set amounts for services – often significantly below the fees charged by the City.

- **Uninsured (Self-Pay):** Uninsured individuals pay "out of pocket" for EMS; because EMS services are expensive, uninsured individuals typically pay only a fraction of the total fees charged.

The Department currently has approximately 62.9 percent of its payor mix in the publicly insured cohort, meaning the City receives a capitated amount for most of its services. Because of these capitations, it is more difficult for Reading to generate additional revenue from increases in EMS related fees or through improved collection processes.

Assessment

Although the Department leadership is focused on providing meaningful and dependable services to the public, lack of sustainable leadership at the Fire Chief level has been a problem. In less than four years, the RFRSD has had six different Fire Chiefs (including the newly hired Fire Chief). An unintended consequence of frequent turnover is an ever-changing Department focus, vision, and tone due to disjointed management efforts from year to year. Now that a permanent Chief has been assigned, the City should focus heavily on ensuring that the newly appointed Chief is not only given the tools and

[7] For non-emergent transportation scheduled with Reading Hospital, the rates are lowered further and based upon agreed to rates by the Reading Hospital Medical Transportation Consortium, a not-for-profit group of medical transportation service providers in the region

[8] Source: FirstStates

support necessary for a successful transition into this position, but also prepared to make the necessary changes in order to manage a more efficient and effective Department.

Staffing - Suppression Division

As noted earlier, the City received a SAFER grant to support 21 firefighter positions for a two-year period starting in 2013.[9] During this two-year grant commitment, it was envisioned that the Department would gradually lose firefighters through retirement and by the end of the award period staffing levels would return to pre-grant levels of 88 positions. However, SAFER grant funding expires July 2015 and the Division will be 10 positions above pre-grant award staffing levels.[10]

Although attrition is not expected to occur before grant expiration, the Department will lose 20 members in the next five years through the Deferred Retirement Option Program (DROP). DROP allows members to stop earning service credit towards a future pension benefit when entering, and throughout a five-year period earn the pension payments they would have received if they had retired plus interest, while continuing to work. The employee enrolled in DROP is required to retire at the end of the five year period at which point the employees receives a lump sum payment and the planned monthly pension benefit. The five-year limit gives the Department some ability to plan for retirements, though an employee enrolled in DROP may retire at any point before the end of the five-year period. In addition to the employees enrolled in DROP, the City also has vacant positions in its Suppression, EMS and Special Services divisions.

The table below depicts the Department's current plan to manage upcoming retirements. The table is organized by Division and shows the gradual reduction in the Suppression Division. The Department's plan assumes each retirement reduces total staffing by one until staffing levels return to pre-grant levels. Correspondingly, as each member retires, overtime is projected to increase. Under the Department's staffing plan the Department will need to hire five new firefighters in 2018 and three in 2019 to maintain an 88-position staffing level.

RFRSD Staffing Plan

Division	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Budget
Administration	7	7	7	7	7
Suppression	100	94	93	90	88
EMS	32	32	32	32	32
Special Services	4	4	4	4	4
Training	1	1	1	1	1
Subtotal	***144***	***138***	***137***	***134***	***132***
DROP-related departures (Taken out of next year's total)	6	1	3	7	3
Projected new hires	0	0	0	5	3

Please note that this plan is based on the assumption that employees enrolled in DROP will not leave until they are required to do so. In reality, a DROP enrollee could leave before the year noted above and

[9] City Finance notes that the grant funds some positions filled by former military veterans through the end of 2015, but the City will use the full grant allocation before that occurs.

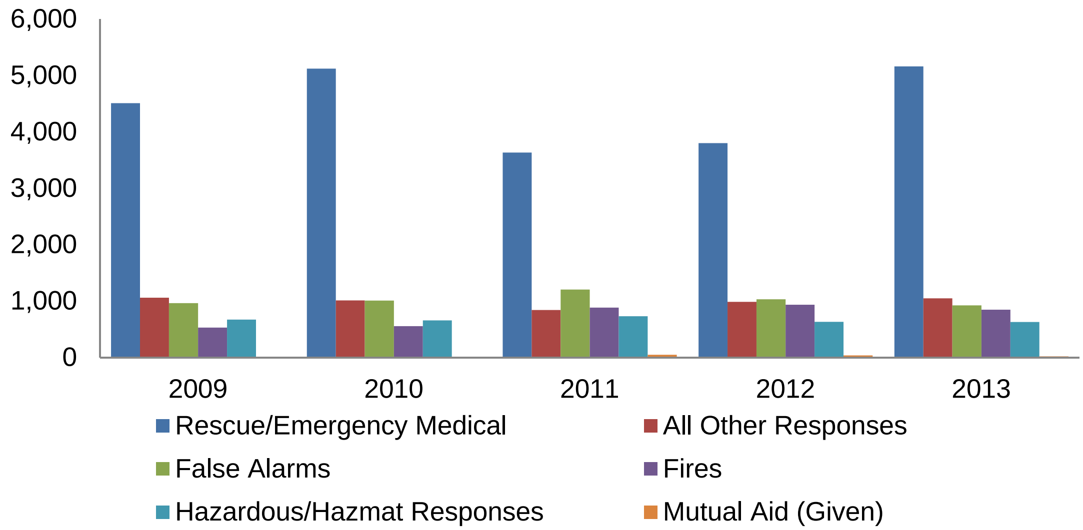
[10] The Division is budgeted for 100 positions at the start of 2015 and loses two people through retirement before July 1, 2015.

accelerate the headcount reduction. The projection also does not account for additional attrition unrelated to the current DROP enrollees.

Fire Suppression Operations

From 2009 to 2013, total responses in the Suppression Division increased 11.4 percent but this is mainly attributable to the 14.5 percent increase in first-responder runs (reported as rescue/emergency medical responses below). Fire responses in 2013 totaled 848 which equates to approximately two fire suppression responses per day spread among all suppression units. The following graph represents the annual Fire Suppression Division's response totals.

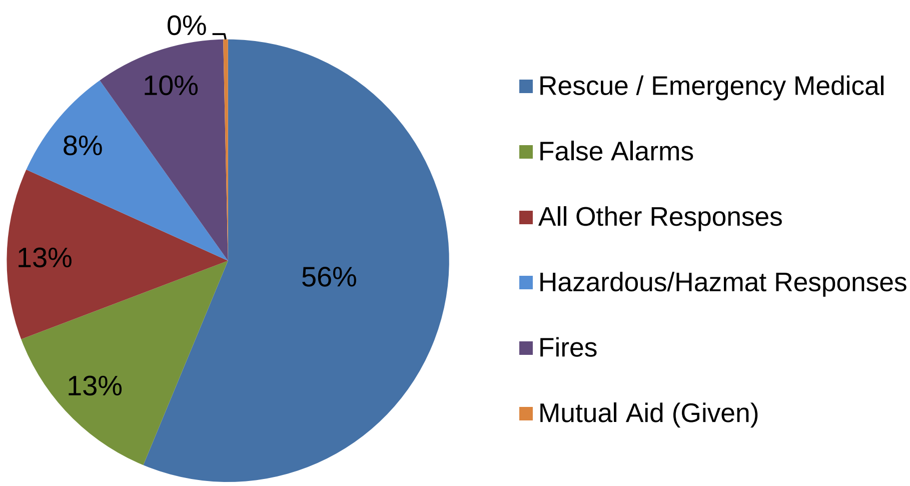
NFPA Fire Experience Survey – Fire Suppression Division Responses, 2009 - 2013



Source: Fire and Rescue Services Department

The subsequent pie chart illustrates the five-year total response distribution – 56 percent of responses are attributable to EMS-related responses, while 10 percent of responses are related to fire suppression.

Five-Year Total Response Distribution - Suppression Division, 2009 - 2013



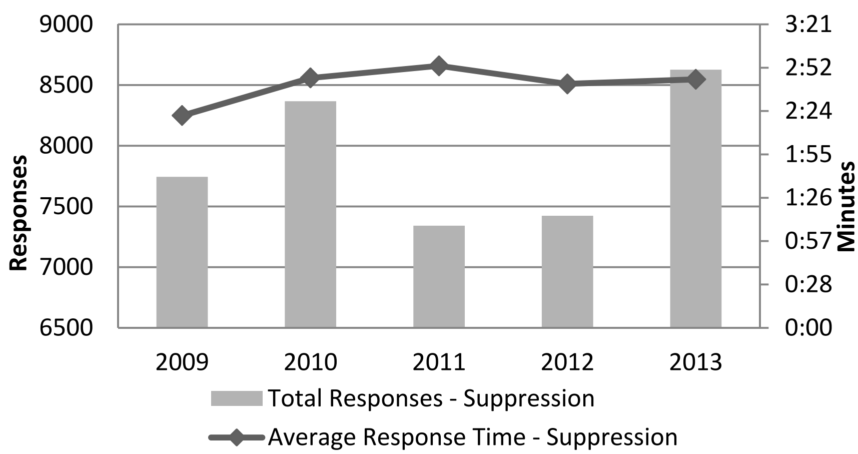
Source: Fire and Rescue Services Department

The 56 percent in rescue/emergency medical responses falls just below nationwide call distribution trends – 68 percent for a community of Reading's size (50,000 – 99,999).[11] However, the City experiences higher rates of fires than other communities of similar size. When comparing the average fire responses in 2012 and 2013, Reading experienced more than twice the national rate of fires for a community of its size (8.0 per Reading's 1,000 people versus a 3.3 national rate).[12] Residential fires have increased in Reading by 324 incidents from 2009 (257 incidents) to 2013 (581 incidents) which may help to explain its variance to other similarly sized communities. It is important to note that the majority of the residential fires are lower-level fires (i.e. cooking fires typically extinguished upon arrival); however, they present the potential for significant property damage and civilian injury. Furthermore, the age of a City's housing stock also serves as an indication of a City's fire experience and risk. As noted in the Community Development chapter, the housing stock in Reading is older in contrast to Berks County and statewide. In these older properties, it is more likely to see outdated electrical wiring, appliances and heating systems - all considered fire hazards.

The primary measurement for fire suppression is response time – time measured from the alarm sounding (dispatch received) to the first responding unit's arrival time. The NFPA's suggested response time is five minutes and 20 seconds (including a "turnout" time of one minute and 20 seconds).[13] The Suppression Division's 2013 average response time was two minutes and 45 seconds – over two minutes faster than the suggested standard. Additionally, despite fluctuations in the total number of required responses, response times over the previous five years have remained consistent – averaging two minutes and 41 seconds.

The graph below is a depiction of response times compared with annual response totals. It illustrates a relatively static response time despite significant fluctuations in total response demand. This suggests an opportunity for the Department to further examine its deployment model by reviewing the probability that a unit (with an appropriate number of firefighters) is available for a response should a different unit be taken out of the system (a company closure).

Suppression Responses vs. Average Response Time



In fire service, geographic areas are generally divided into "fire districts" to design a response model where companies (engines, ladders, rescue units) are strategically assigned to respond to community needs. The goal is to equally distribute responses among companies working in strategically located stations that reflect service level demands. However, because companies are deployed from stations, which are not easily relocated, this distribution can become skewed over time. The following graph

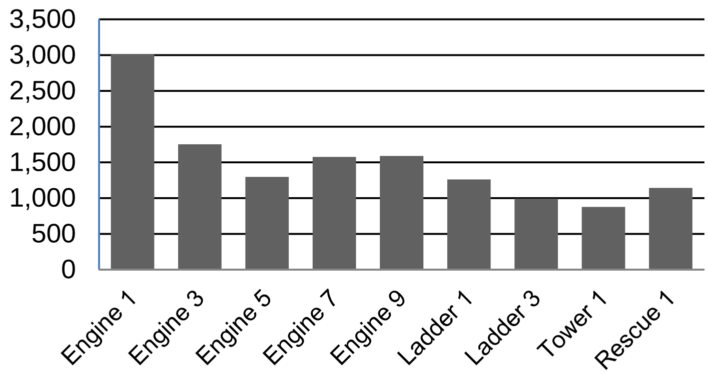
[11] Karter, Jr., Michael J. *Fire Loss In The United States During 2012*. NFPA Research Division, September 2013

[12] Karter, Jr., Michael J. *Fire Loss In The United States During 2012*. NFPA Research Division, September 2013

[13] Turnout time measures the time it takes for a unit to leave the station

represents the distribution of total responses by company in the Suppression Division. Engine 1 responded to the greatest number of calls (3,012), nearly doubling the next closest engine company (Engine 3). The distribution of responses is more evenly distributed with an average response volume of 1,312 when Engine 1 is removed. However, this data suggests another opportunity to more evenly distribute call volume by further analyzing station locations and company-level demands.

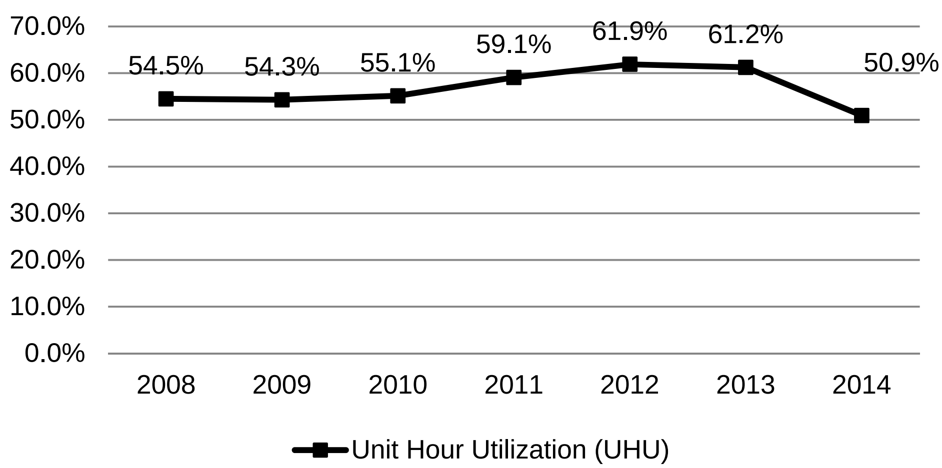
2013 Total Station Responses



EMS Operations and Revenue Generation

The primary measure of EMS workload is unit hour utilization (UHU). UHU measures the total amount of time spent responding to calls divided by the total number of hours a medic unit is in service. This measurement does not account for time spent at the station performing other duties such as training, but does indicate a level of EMS system demands. Typically, systems with a UHU above 55 percent are considered extremely busy, indicating they spend 55 percent of scheduled time actively responding to calls. The RFRSD UHU level in EMS has dropped precipitously since 2013 – by 10.3 percentage points - from an average of 61.2 percent in 2013 to 50.9 percent in 2014, which is still on the higher end of the UHU spectrum.[14] This decline is most likely attributed to the introduction of the fourth medic unit in November of 2013 - as more units are available to respond, UHU declines. As shown in the below graph, the EMS emergency operation is on pace to experience its lowest UHU in six years.

Unit Hour Utilization (UHU) Rates, 2008 – 2014 YTD



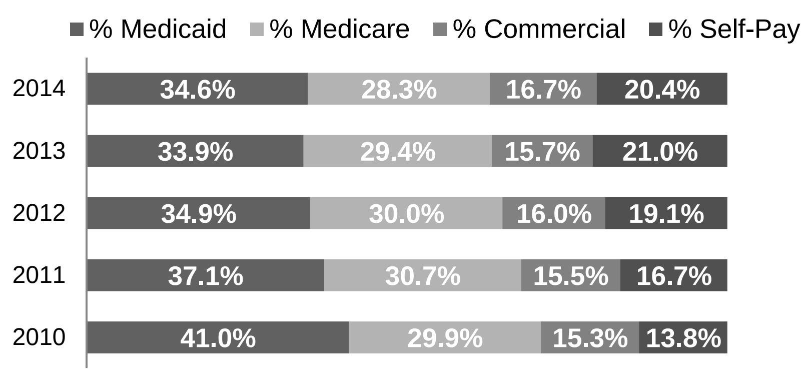
[14] UHU is captured and provided by the EMS Division within the Department; 2014 UHU calculation is measured as of July

Similar to fire suppression, the EMS discipline measures on-scene response time as another indicator of effective EMS response. Previously, NFPA standards were used to establish turnout time and response time goals – currently eight minutes for 90 percent of incidents. However, the State EMS Administration has recommended alterations of these standards to reflect a more strategic response to patient needs. The Department no longer responds to all calls using the same response goal, but instead reserves faster responses (use of lights and sirens) for patients presenting more serious symptoms (e.g., chest pain). Despite changes in response time goals, the Division continues to track response times by NFPA standards and met the eight minute standard 79 percent of the time in 2013. The Division does not differentiate response time monitoring by response type, but should do so moving forward.

Revenue collections in EMS are also typically measured and examined by departments. FirstStates provides all billing and collection services for emergency transport and non-emergency transport. From 2010 to 2013, the Division experienced growth in emergency patient transports (15.1 percent), but only saw an associated eight percent increase in total revenues. Relatedly, the collection rate (the amount collected divided by the amount billed) has been declining annually. As of August 30, 2014, the collect rate was 31.8 percent – down five percentage points from the 2010 rate of 36.8 percent.

As previously discussed, Reading's payor mix plays a role in its collection rate because of reimbursement capitations for Medicare and Medicaid payments, and difficulties collecting from self-pay patients with less ability to pay out of pocket. The chart below is a depiction of Reading's payor mix distribution over the last five years.[15] Although total Medicaid and Medicare patients have declined, corresponding increases in self-pay and commercial payors have occurred since 2010 (6.6 percent and 1.4 percent respectively). An increase in the self-pay category probably accounts, in part, for the reduction in the collection rate. Based on information provided by FirstStates, there are no current issues related to patient care documentation which would result in collection difficulties. Slight changes in reimbursable rates for Medicare and to some extent Medicaid may help to further explain the problem. Whatever the cause may be, a collection rate reduction of approximately five percentage points in four years is financially impactful and requires closer attention by the Department and the collection company.

EMS Payor Mix Distribution

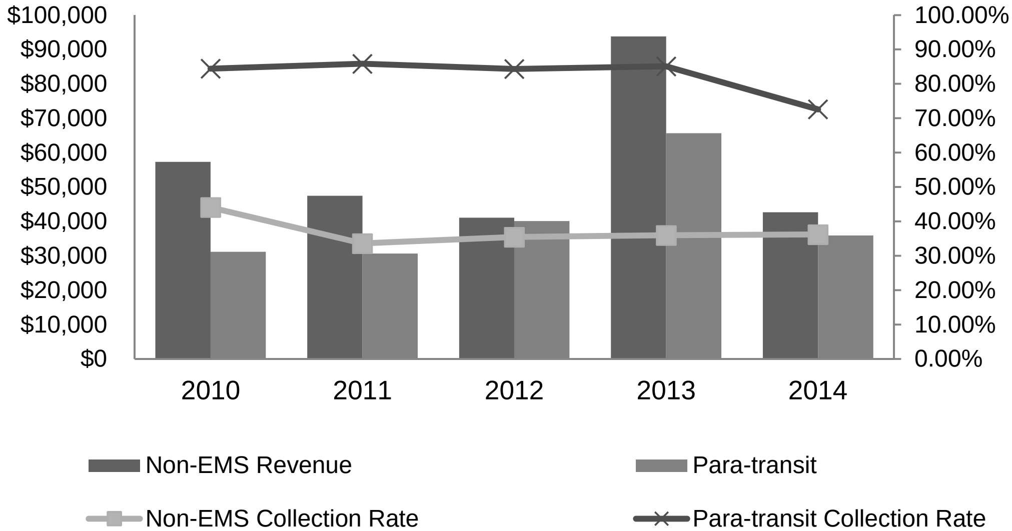


In addition to emergency responses generated from the 9-1-1 system, the EMS Division provides para-transit services (wheelchair-accessible van transportation) and non-emergency medic service (non-EMS medic units) transportation to support stretcher-required transport needs. Users of these services typically require transportation to and from medical appointments or transportation to living facilities after hospitalization. In 2011, the Department adjusted the staffing model for non-emergency transport services; previously, firefighting staff was used on overtime to replace dedicated staff on leave. This practice proved to be an expensive staffing model, and in response the Department hired two additional full-time Wheelchair Van Drivers/EMTs to staff the vehicles. The non-emergency transport services are now fully provided by dedicated Wheelchair Van Drivers/EMTs.

[15] 2014 data is as of August 30, 2014

In order to recover Department costs associated with providing non-emergency transport services, the Department charges fees as outlined previously. FirstStates provides these collection services and tracks para-transit and non-EMS revenues separately. As of August 30, 2014, the para-transit collection rate (73 percent) has not kept pace with the City's previous four-year average of 84.9 percent.[16] The collection rate for non-EMS transports has remained fairly consistent and low on average – approximately 37.3 percent. Non-EMS transport is typically paid for through medical insurance and is therefore vulnerable to the same collection challenges discussed above for emergency transports. The graph below depicts both the total revenue and collections rates for para-transit and non-EMS transports services from 2010 through 2014.

Revenue and Collection Rates, Non-EMS and Para-transit Transports[17]



Overtime

RFRSD budgeted overtime encompasses 25.7 percent of all General Fund budgeted overtime ($641,300), which is approximately the size of the Mayor's Office and City Council total budgets combined. However, the Department consistently spends beyond its annual budget allocations. Every overtime dollar spent over budget takes away resources from other municipal functions. Moreover, because overtime earnings are pensionable for the majority of the Department (i.e., included in the types of pay used to calculate pension payments), it should be used sparingly to control cost growth in pension liabilities.

As shown below, the Department exceeded its overtime budget allocation by 86.6 percent or $792,489 in 2012, and 66.6 percent or $424,413 in 2013. The 2014 RFRSD overtime budget is 39.6 percent less than 2013 actual spending (down to $641,300) because the additional SAFER-funded grant staff was expected to reduce the need to replace absent firefighters on overtime. Despite anticipated overtime reductions, expenditures have outpaced monthly projections and the Department spent 87.5 percent of its overtime budget in the first seven months of the fiscal year (2014 figures represent spending from January through July). The chart below illustrates the annual overspending in overtime and current spending through July 30, 2014.

[16] Collections as reported by FirstStates as of August 30, 2014

[17] Collections shown do not include contractual agreement revenue but these sources have a 100% collection rate ($60,000 in years 2010 through 2012, and $72,000 in 2013 and 2014)

RFRSD Overtime Budget vs. Actual, 2011 – 2014

	2011	2012	2013	2014
Budgeted	981,500	915,000	637,500	641,300
Actual Spending	1,573,565	1,707,489	1,061,913	561,419 (through July)
Spending Difference	592,065	792,489	424,413	-79,881
% Difference	**60.3%**	**86.6%**	**66.6%**	**-12.5%**

The majority of overtime expenses occur in the field operations divisions – Suppression and EMS. The following table represents annual overtime spending by division. The Department was able to reduce total overtime spending by 37.8 percent from 2012 to 2013. Even before the City added 20 firefighters via the SAFER grant midway through 2013, it filled other vacancies through its usual hiring process. While the table shows the 2014 budget allocations, the City will not stay within them. Through July 2014, the City had already spent 94.2 percent of its EMS overtime budget and 82.6 percent of its suppression budget.

Fire and Rescue Services Department Overtime, 2011 - 2014

Division	2011 Actuals	2012 Actual	2013 Actual	2014 Budgeted
Administration	1,681	5,687	4,765	3,500
Suppression	763,354	951,686	499,576	250,000
EMS	785,252	704,563	524,427	350,000
Special Services	23,278	35,953	22,578	30,000
Training	0[18]	9,600	10,567	7,800
Total	**1,573,565**	**1,707,489**	**1,061,913**	**641,300**

Department leadership believes recent increases in leave usage among members have been a leading factor in overtime spending. These absences also lead to challenges with staffing field operations. The Department does not categorize or collect overtime spending data by type, making it difficult to determine if leave usage is the primary problem.

Given the additional staffing supported by the SAFER grant, the Department's overtime expenditures should be lower. This suggests that overtime rates are being driven by leave usage and/or vacancy increases. The Suppression Division currently has one vacant position and four members regularly absent due to long term injuries/illnesses or Heart and Lung leave.[19] Additionally the EMS Division has two members using sick leave for recurring excused absences, operates with four vacancies in the three regularly operating medic units, and often staffs the fourth medic unit on overtime.

Fire Prevention-Education

Although much of the Department's focus is on response activities, the Fire Prevention-Education Division concentrates principally on prevention activities in the Fire Marshal's Office (FMO). The FMO is responsible for all fire safety programming presented to the public, construction plan reviews,[20] certificates of occupancy, incident report requests, fire investigations occurring at the conclusion of a fire to determine its source and cause, and fire inspections. Fire inspections are coordinated with the Building

[18] The training division was under the Special Service Division of the Fire Department prior to 2012.
[19] Compensation for firefighter injuries on the job in Pennsylvania, provided by the Workers Compensation Act and the Heart and Lung Act. Injured firefighters who sustain a temporary work-related injury may qualify for continuation of full salary (100%) including any increases which occur during the course of the firefighter's absence. Qualifying firefighters are also entitled to continual accrual of vacation, sick, personal and other leave time.
[20] Because the Fire Marshal does not hold the required certifications at this time, an external vendor currently handles plan reviews for fire and life safety systems. This activity is expected to be performed by the Fire Marshal in 2015 and upon certification

& Trades Division within the Community Development Department to conduct inspections when new construction or rehabilitation projects require an evaluation of compliance with the City's fire code.

With the recent growth trend in residential fires, prevention activity is an essential element of the City's safety. Since April 2014, the Division has been functioning with two Lieutenants instead of a full complement of four, reducing activity levels. The following table quantifies activities performed by the FMO over the last five years. As shown, overall the FMO has reduced activities levels by 21.9 percent, but is operating with two fewer staff members. The majority of FMO activities are focused on fire safety inspections, representing 30 percent of all activities.

FMO Activities, 2009 - 2013

	2009	2010	2011	2012	2013
Inspections	1,089	1,063	871	607	597
Investigations	97	250	105	91	92
Prevention Programs	129	107	102	103	101
Plan Review	108	113	159	116	80
Permits	21	26	12	12	33
Certificate of Fitness	45	50	50	48	56
Incident Report Requests	93	99	104	116	105
Needless Alarm Program	962	1,007	1,204	1,031	923
Total	**2,544**	**2,715**	**2,607**	**2,124**	**1,987**

Source: City of Reading Fire and Rescue Services Department

The FMO fire safety inspections are used to evaluate the compliance of all commercially occupied spaces with the Reading Fire Code. Should a violation be found, the owner is provided ample time to remediate the issue before it is re-inspected for compliance. Inspection fees are based upon the property's square footage, number of floors and type of occupancy.

The RFRSD by policy seeks to inspect every commercial property in the City annually; however with two vacant positions in the FMO and approximately 2,673 commercial properties to inspect, this objective has been difficult to achieve.[21] In 2013, staff were able to inspect 597 properties with three staff members available for the majority of the year. These inspections comprise about 22.3 percent of City commercial properties and average less than one inspection per day, per inspector. At this pace, it would take nearly five years to inspect all commercial properties instead of one year. Unlike many other fire departments, the RFRSD does not use field staff to provide inspection services.

Beyond the two current members staffing the FMO, the Department does not use field staff to provide any ongoing prevention activities unless community members stop by the fire station for information or scheduled meetings. The Department therefore does not have a proactive smoke alarm program for the public. Working smoke alarms provide residents with an early detection system, allowing more time to get out of homes safely and call 9-1-1 sooner. When firefighters are able to work on-scene earlier, corresponding reductions in property loss, civilian and fire injuries or fatalities occur. In 2013, the Department responded to more residential fires than any other fire type - 472 residential fires compared with building fires (79), vehicle fires (55) and other fires (133). Despite this distribution of fires, prevention activities are largely focused on commercial properties though inspection and permit issuance activities. With cooking fires driving the residential fire statistics (i.e. low-level fires typically extinguished upon arrival), a residential-focused prevention program is imperative to increasing resident safety and reducing fire-related response needs.

[21] The 2,673 commercial properties are based upon the number of commercial properties subject to the real estate tax in 2014.

Training

The Training Division consists of one Training Lieutenant responsible for the continuing education program for all paramedic and EMT certifications and station training exercises. Additionally, the Training Lieutenant schedules instructors when necessary to train an incoming class of Firefighters or Paramedics. All Department members are required to maintain a minimum EMT certification, and any Department member with paramedic certification is provided appropriate training to maintain certification levels. In addition to annual training activities, the Department delivers company level drills and officer development training. Below is a list of the annual training typically provided.

- Hazardous Materials Operations
- EMT/Paramedic
- CPR
- Trauma First Response
- Pre-hospital Trauma Life Support
- Pediatric ALS
- Advanced Cardiac Life Support
- EMS Vehicle Operator Certification
- Annual Infrequent Skills Review

As of October 12, 2013, the Pennsylvania Department of Health (DOH) created a new certification requirement – EMS Vehicle Operator (EMSVO). In order to meet future needs for training, the Training Division is preparing personnel to become qualified as instructors to implement a driver training program that will meet this new requirement. By doing so, the Division will not be required to hire outside PA-certified instructors in the future.

The PA DOH has also adopted the National Registry of EMTs (NREMT) standards for new EMT certifications. Beginning in 2014, this enhanced standard will increase the time and expense associated with certifying any new hires in the Department as EMTs.

Vehicle assessment

The RFRSD fleet is well-maintained by the Public Works Department. Additionally, RFRSD personnel help to preserve the good working condition of the vehicles and apparatus by tracking maintenance issues and consistently function-testing the apparatus. The majority of the Department's front line apparatuses are less than 10 years old. Although the City does not maintain a vehicle replacement schedule for vehicles or apparatus, the Department does establish replacement schedules based on expectations for years of service in frontline and reserve capacities that are in line with industry standards. Based upon the Department’s schedule, Ladder 1 requires replacement in 2015 at an estimated cost of approximately $1 million. This apparatus was originally purchased in 1997, and in 2015 it will be 18 years old. The City does not have dedicated funding for vehicle or apparatus replacements and therefore, the Department will be required to seek grant funding for these expenses.

Technology

The Department is utilizing technology in the field to support Fire Prevention and Education activities, but generally has not made significant improvements to Department technology. The Department is using an older version of Firehouse software to track and report incident information and is largely dependent upon FirstStates to provide collection data in the EMS Division. There are very few streamlined reporting systems for management to efficiently review operational or financial performance information among its divisions.

Initiatives

Public safety activities in the Fire and Rescue Services Department are fundamental government services, critical to the health and well-being of the City's residents and visitors. However, there are opportunities for efficiency and cost reduction. The initiatives identified in this Plan are intended to preserve the quality of mission-critical services while making the Department more cost-effective and efficient. They seek to shape the Department's future – a future focused on becoming more data-driven; adaptable to service demands for its citizens; and focused on its mission to both prevent and respond to emergencies.

FD01.	**Establish Part-Time EMT/Paramedic Positions**	
	Target outcome:	Improved efficiency; cost reduction
	Five year financial impact:	$422,000
	Responsible party:	Fire Chief; EMS Deputy Chief; Managing Director

Since the City adopted the original Recovery Plan in 2010, the Department has attempted to reduce overtime by utilizing staff available during regular shift hours to staff units, enforcing sick leave usage policies and increasing staff through grant awards. In spite of these efforts, EMS overtime was more than 29 and 50 percent over budget in 2012 and 2013 respectively, and will be over budget again in 2014.

In order to control overtime costs and create a more flexible staffing plan, the City shall establish a part-time EMT/Paramedic position to staff the fourth medic unit when full-time members are unavailable and during special events (standby services). Additionally, should overtime in the EMS Division exceed the annual budgeted appropriations, the Division shall use part-time EMT/Paramedics to staff any vacant position due to leave usage on any shift, platoon or unit for the remainder of the fiscal year when possible, in lieu of using full-time staff on overtime. This change would have to be bargained with the IAFF and therefore implementation is not assumed to begin until execution of the following contract in January 2016.

According to City projections, the Division will spend approximately $109,400 in overtime[22] per medic unit in 2014 which equates to 2,713 hours of overtime at an average EMS overtime rate of $40.32 per hour. If the Department used part-time EMT/Paramedics for the fourth medic unit at a rate of $15.04 per hour instead, the Department would save almost $70,000 in overtime spending.[23] Based on annual growth rate assumptions for both part-time employees and current employees, a total of $300,000 in savings is projected over the five years.[24]

The Department receives $90.00 per hour in reimbursement for providing standby services (a medic unit staffed with a two-member complement of paramedics and/or EMTs). Relative to the average overtime rate for current employees to staff the estimated 1,117 hours requested, the Department would save $123,123 over a five-year period using part-time employees as a substitute.[25] The use of part-time employees is justifiable as the schedule for standby services varies throughout the year and part-time employees are more used to a varying schedule than those working a regular Department schedule.

[22] This estimate is conservative as it is more likely that the fourth medic unit uses a higher percentage of overtime than the other three units as there are no assigned staff to this unit.
[23] The EMT/Paramedic hourly rate is based upon the Bureau of Labor Statistics Occupational Employment and Wages, May 2013 hourly rate for EMTs and Paramedics.
[24] This calculation assumes consistent overtime hours demanded over five years at 2,713 hours; leave usage data was not available to estimate the demand based upon actual leave usage.
[25] Annual cost of overtime are allocated between full-time and part-time staff assuming the 1,117 hours remains consistent.

Additionally, the Department shall pilot the use of part-time employees to staff the fourth medic unit on a peak-period basis instead of 24 hours per day, seven days a week. UHU levels indicate a need for the fourth medic unit, but the Department has not identified when the unit is most beneficial in reducing system demands. Because part-time EMT/Paramedics are not on a set schedule, the Department can better examine when the additional unit is most essential to the system. Savings associated with the use of a peak-period staffing approach are not included in the estimated savings presented below.

Estimated Overtime Expenditure Savings[26]

	2015	2016	2017	2018	2019	Total
Standby - Exp. Reduction	-	29,715	30,449	31,142	31,817	123,123
PTE Staffing - 4th Medic Unit	-	72,180	73,963	75,647	77,287	299,077
TOTAL	**-**	**101,895**	**104,412**	**106,789**	**109,104**	**422,200**

Financial Impact

2015	2016	2017	2018	2019	Total
0	102,000	104,000	107,000	109,000	422,000

FD02.	**Discontinue Non-Emergency Transport Program**	
	Target outcome:	Improved efficiency; cost reduction
	Five year financial impact:	See below
	Responsible party:	Managing Director; Fire Chief; EMS Deputy Chief

The Department provides non-emergency transport via wheelchair accessible vans and a non-emergency medic unit to City residents who require transportation to and from medical appointments or living facilities. These are not 9-1-1 generated calls for service, but instead, scheduled appointments for transportation.

Although these services are beneficial to those who use the system, organizations other than the City government also provide them. Non-emergency medical transport services do not align with the Department's mission as closely as its other services, and Department leadership needs to make progress on other mission-critical priorities as expressed throughout this section. Furthermore, the City does not recover costs associated with operating this service. Comparing the system revenues to the personnel costs associated with the employees who staff this service, the City's expenditures outpace the revenues by at least $100,000 per year. Once the cost of vehicles, car insurance, equipment and supplies is included, the loss is larger and this does not account for management's time spent on this service.

For these financial and non-financial reasons, the Coordinator recommends that the City discontinue the non-emergency transportation program and work with regional partners and businesses to transition its regular patients to other service providers.

[26] Overtime rates for part-time members include an annual 2% rate growth; full time staff overtime rates include 2% wage increases, longevity and step increases and $350 in certification pay.

Based on the Fire Chief's request, the Managing Director has decided to maintain the service for the first six months of 2015 to see if the City can fully recover all of its costs. If the City cannot recover its costs, the Managing Director has said the City will eliminate the service. The City will have to increase its revenues every year to maintain full cost recovery since system expenditures will increase over time.

The 2015 budget and the Amended Recovery Plan include the personnel costs and revenues associated with this system in 2015. The Amended Recovery Plan collective bargaining allocation to the IAFF does not include compensation for these employees for 2016 – 2019.[27] The Managing Director has committed to reducing the service costs or increasing revenues so that there is no net financial loss to operating the system and will report back to City Council on the progress. Since the City has committed to making this decision by the end of June 2015, there will be time for the Coordinator to amend the collective bargaining allocation to cover the employees associated with this service if the City is able to show that the service operates without a financial loss.

FD03.	**Suspend Minimum Staffing Requirement Once Overtime Threshold Reached**[28]	
	Target outcome:	Improved efficiency; cost reduction
	Five year financial impact:	N/A
	Responsible party:	Managing Director; Finance Department; Fire Chief

According to the current IAFF collective bargaining agreement, the City has the option to reopen the agreement when overtime expenditures reach $850,000 in any year of the agreement in order to "address the issue of how to control overtime costs and maintain such costs below the $850,000 on an annual basis." However, in the previous two years, this option has not been exercised. A reopening of the matter through the collective bargaining process would be both time consuming and expensive for the Union and the City, at a time when expenditures have already exceeded budget allocation. In order to more immediately respond to this type of budget emergency, the City shall have the right to suspend minimum staffing requirements for the remainder of the year should the overtime expenditures surpass $850,000 in any year of the agreement. Upon expiration of the current labor contract in December, 2015, this language shall be negotiated into the following contract with IAFF, Local 1803.

FD04.	**Overtime Accounting**	
	Target outcome:	Improved efficiency; expenditure reduction
	Five year financial impact:	N/A
	Responsible party:	Fire Chief; Managing Director; Administrative Services Director, Office of Information Technology

The RFRSD has little to no ability to determine and quantify the cause of its overtime spending issues, yet consistently spends beyond its budgeted amount. The Department's overtime budget comprises almost 26 percent of all overtime spending in the City and merits much closer account monitoring.

[27] Please see the Workforce chapter for more information on these allocations.

[28] In the last interest arbitration award, the IAFF and the City disagreed as to whether an arbitration panel may lawfully continue a minimum shift manning provision. The award notes that the parties preserved and retained their respective arguments on this issue if the matter were reopened and in future arbitrations. By including this initiative, the Coordinator is not foreclosing either party's respective arguments in future arbitrations.

The RFRSD in coordination with the Administrative Services Department and the Office of Information Technology shall build the capability to monitor overtime by the various drivers including but not limited to: sick leave, vacation leave, injury leave, long term illness, Heart and Lung, personal day, military service, emergency recall, bereavement leave, and court appearances.

Upon completion, the Department shall review monthly overtime accounts with the Managing Director and Administrative Services Director to discuss budgeting concerns and cost-reduction strategies. The monthly overtime spending by category shall be tracked in the ReadiStat program moving forward where discussions surrounding cost containment are imperative to reducing the cost obligations.

FD05.	**Deployment and Facility Analysis Study**	
	Target outcome:	Improved efficiency; expenditure reduction
	Five year financial impact:	N/A
	Responsible party:	PA Department of Community and Economic Development; Fire Department; Managing Director

Historically, the Department has assisted in determining the City's appropriate apparatus levels and station locations, but without further investment in analytical tools and trained staff it would be onerous for the Department to provide a thorough evaluation of its deployment and response capacity. Given consistently low response times for fire-related calls, imbalanced call/response volume among fire companies, and higher UHU levels in EMS, the Department's apparatus numbers and facility locations should be further evaluated.

The City and Department shall apply for funding from the Commonwealth of Pennsylvania Department of Community and Economic Development (DCED) for an operational study of the RFRSD emphasizing the examination of the Department's company and staffing levels, and facility locations to ensure the Department is operating in the most efficient and effective manner from a deployment standpoint. This study should assume operational spending consistent with the budget projections of this Plan.

The study shall also include a facility condition assessment that identifies capital needs of the City's fire stations, prioritizes those needs, and estimates their costs. Based on the study results of activity levels, facility locations, and facility conditions, the study shall make recommendations as to whether any existing fire stations should be replaced and whether they may be consolidated.

The City shall obtain the approval of the Coordinator on the grant application, the RFP for the study, and for the selection of the consultant to perform the study. The Coordinator shall also be included in the City team for overseeing the development of the study. The purpose of the study is to develop the deployment analysis needed to move forward with a strategic plan that enhances Department services for an evolving City and to make informed capital investment decisions. The study is expected to cost between $75,000 and $150,000 for a city the size of Reading.

FD06.	**Bi-annual Fire Safety Inspections**	
	Target outcome:	Improved efficiency; revenue enhancement
	Five year financial impact:	$332,000
	Responsible party:	Fire Chief; Managing Director

The RFRSD performs commercial property fire safety inspections throughout the City to ensure buildings comply with current City fire code standards. However, based on the 2013 pace of inspections, the Fire Marshal's Office is able to inspect only one-fifth to one-quarter of the City's commercial properties each year. As a result, the Department is not keeping pace with its own inspection or revenue goals, nor is it able to maintain current building pre-plans for emergency responders. The Department does not currently use field staff to perform inspections, and therefore misses an opportunity to enhance services to the community and capture additional revenues.

The majority of the Department works in the Suppression Division and although there are response obligations and training activity requirements during a shift, there are additional services firefighters can deliver proactively and in support of the Department's prevention mission without negatively impacting availability for emergency responses.

The Department shall utilize field personnel to increase the number of inspections performed annually. It shall do so by certifying fire suppression staff at the Fire Inspector I level in accordance with NFPA standards. While at a property, inspectors observe current conditions and based on various risks associated with the building, inspectors may provide a pre-fire plan. This plan complements standard operating procedures for the Department by providing knowledge of the property should a response be required in the future. This pre-fire emergency planning is a requirement of the Insurance Services Office (ISO) - fire insurance rates for all properties within the City of Reading are set in part based on the activities associated with prevention work in the FMO. As such, the Department shall maintain updated commercial property pre-plans accessible to all response staff on an ongoing basis. The Department will be required to train and certify members as Fire Inspectors, but shall be required to minimize overtime for those members who miss their scheduled training hours by either allowing mutual exchanges of time (MXT) or by other means. In order to reduce these costs further, training should be scheduled to align with historically lower vacation usage time periods.

Revenue projections noted in the table below include both revenue assumptions and estimated costs associated with the training of personnel in the initial year of the Recovery Plan. These figures assume eight suppression companies each performing two inspections per week at an average $100 fee per inspection. The 2015 figure assumes a six month implementation delay due to training and certification timelines. It also includes $34,060 in costs for training and certification services, an estimate provided by Bucks County Community College for providing the necessary training and certification services to the Department. The Department will additionally require mobile technology to document and invoice the inspection services and therefore, ruggedized iPads are accounted for in the initial year's valuation. If Suppression personnel perform inspections at the assumed pace, and the FMO continues the pace of 600 inspections per year (as accomplished in 2013) a biennial commercial property fire safety inspection cycle is expected to be attainable for registered commercial properties.[29]

Financial Impact

2015	2016	2017	2018	2019	Total
0	83,000	83,000	83,000	83,000	332,000

[29] The provided estimate is based upon the City's total taxable commercial property parcels, totaling 2,673.

FD07.	Residential Smoke Alarm Program	
	Target outcome:	Improved public safety
	Five year financial impact:	$72,000
	Responsible party:	Fire Chief; EMS Deputy Chief

The Department provides several fire prevention programs through the Fire Marshal's Office, but does not currently have a large-scale residential focused program. Given recent increases in residential property fires, a smoke alarm program shall be instituted using field staff when possible.

The RFRSD maintains a good working relationship with the American Red Cross, a natural partner for instituting an initial smoke-alarm program as the Department already works closely with them on programs directed at senior citizens. The Department shall be strategic in its approach to this program by mapping residential fires and targeting locations experiencing higher concentrations of residential fire incidents. Although the Department does not currently have mapping capabilities, the City's Office of Information Technology or other partners may be able to provide this service (e.g. the American Red Cross or Bucks County Community College).

The cost of Carbon Monoxide smoke alarms is estimated to be $30.00 per alarm at an annual cost of $18,000 for 600 alarms (roughly the number of residential fires in 2013). The Department shall explore grant opportunities such as the FEMA Fire Prevention and Safety grant to assist in purchasing alarms and any necessary expenses associated with installation (i.e. ladders, screws, screwdrivers or other tools). Smoke alarm installations shall be tracked going forward as a performance indicator in the ReadiStat program.

Financial Impact

2015	2016	2017	2018	2019	Total
0	18,000	18,000	18,000	18,000	72,000

FD08.	Five-Year Strategic Plan	
	Target outcome:	Improve efficiency and effectiveness
	Five year financial impact:	N/A
	Responsible party:	Fire Chief; Managing Director; Finance Department

As noted previously, the Department has experienced significant turnover in its Fire Chief leadership position throughout the last five years. In order to create a more long-term vision for the Department, the incoming Fire Chief, in concert with City leadership, shall be required to provide a five-year strategic plan that contributes to the City's long-term fiscal health while deliberately focusing on the changing needs of the Department and the City. This plan shall describe how Recovery Plan initiatives will be successfully implemented, as well as lay out the future vision for the Department (e.g. program focus areas, or division of labor among staff). Additionally, the plan shall establish outcome and performance goals related to its overall mission. The plan shall be subject to Act 47 Coordinator review and approval.

FD09.	Develop Department Performance Monitoring Program	
	Target outcome:	Improve efficiency and effectiveness
	Five year financial impact:	N/A
	Responsible party:	Fire Chief; Finance Department; ReadiStat Coordinator; Managing Director

The Department does not manage a formal performance monitoring program inclusive of regularly tracked performance indicators that align to Department outcome goals. As stated in the assessment section of this chapter, the City and the Department are unaware of important financial information, e.g., revenue collection rates. This is in part due to a lack of regularly scheduled reporting requirements with monitored indicators. Although important indicators are tracked through ReadiStat, they are not in recognition of larger Department-wide outcome goals (e.g. fewer residential fires) and do not occur regularly enough for a Department of this size. The Fire Chief shall be responsible for establishing the outcome and performance goals and the subsequent performance of the Department's activities including the remediation of problems identified through regular monitoring activities.

The Department shall establish an internal performance program in coordination with the City's ReadiStat program. As part of the Department's strategic plan requirement, performance indicators and performance goals shall be developed and linked to outcome goals. Given the response nature of the services provided in the Fire Department, outside assistance to provide a geographic depiction of Department activities shall be explored as a mechanism for review of response related goals (e.g. response time by zip code or neighborhood). By discovering trends in service demands, the Department may better align resources to community-level needs. This targeting exercise will be especially important when initiating a residential fire prevention program.

The Department shall, at a minimum, regularly review the following (in addition to the measures already monitored through ReadiStat) and shall establish goals for each measure presented:

- Weekly and monthly overtime expenditures by division shall decrease by X%
- Weekly and monthly personnel use of unscheduled time off by division shall decrease by X%
- Monthly and annual revenue EMS collection rates shall increase by X%
- Monthly response times for all EMS calls requiring lights and sirens shall be less than eight minutes 90% of the time
- Monthly response times for all fire suppression responses shall be less than five minutes 90% of the time
- Monthly or annual civilian fire-related injuries and fatalities shall decrease by X%
- Monthly EMS UHU shall vary by only X% from 2013 levels
- Commercial inspection reports (inclusive of field personnel inspections, once applicable) shall be on average 114 or higher per month
- Annual smoke alarm installation reports (once applicable) shall be on average 50 installations or higher per month

Beyond these measures, the Department shall identify the factors that influence the outcome goals identified in the strategic plan. For example, if sick leave use is correlated with overtime reductions, then the sick leave usage rates, policy, and enforcement should be noted and discussed in the performance program. Correspondingly, if EMS UHU levels increase, then adjustments in the fourth medic unit operation should be considered and evaluated further.

FD10.	Incentivized EMS Collections	
	Target outcome:	Revenue enhancement
	Five year financial impact:	N/A
	Responsible party:	Fire Chief; EMS Deputy Chief; Finance Department

The RFRSD contract for EMS billing is awarded through a competitive bid process every two years with options to renew for two additional one-year terms. The current contract with FirstStates expires at the end of 2015.

The Department shall identify and notify EMS billing service companies in order to increase competition in advance of the next bid process. Additionally, the Department shall include performance-related provisions in the RFP and any resulting contract. These shall include financial incentives for higher collection rates (increasing the share of the revenue to the vendor as total revenue increases beyond specific levels).

For instance, with the exception of two different months in the past three years, the City has not collected more than $300,000 despite increases in the number of transports. The Department shall work to negotiate a contract where achieving better financial results is more financially appealing to the vendor. An example rate enhancement is depicted below:

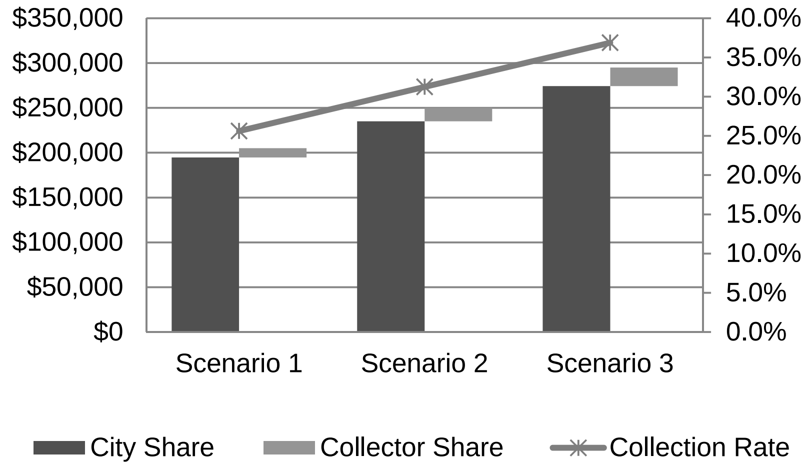
- 25.1 percent - 30 percent collection rate = 5% of revenues
- 30.1 percent - 35 percent collection rate = 6% of revenues
- 35.1 percent - 40 percent collection rate = 7% of revenues
- 40.1 percent - 45 percent collection rate = 8% of revenues
- 45.1 percent and above collection rate = 9% of revenues

Under this type of revenue sharing structure, both parties are incentivized to enhance the collection rate. As the collection rate increases, both the City's share and the Collector's share will increase. The table and graph below shows three scenarios exemplifying how this relationship works.

Revenue Performance Scenario Table

	Scenario 1	Scenario 2	Scenario 3
Billable	$800,000	$800,000	$800,000
Collected	$205,000	$250,000	$295,000
Collection Rate	25.6%	31.3%	36.9%
City Share	$194,750	$235,000	$274,350
Collector Share	$10,250	$15,000	$20,650

Revenue Performance Scenario Graph



The RFP shall also specify that the EMS billing company will take on any financial responsibilities related to credit card related fees, as they are encouraged and able to negotiate credit card fees through bundled pricing.

Additionally, the Department shall contract with a third party collections agency to collect delinquent payments. In the short term, the Department may be able to "piggyback" on services already provided to other departments (e.g. Community Development currently has a collection agency contract) to expedite implementation. Ultimately, the service shall be competitively bid and advertised to promote competitive pricing.

FD11.	**Firefighter Hiring Requirement Change**	
	Target outcome:	Cost savings, improve efficiency
	Five year financial impact:	N/A
	Responsible party:	Fire Chief; EMS Deputy Chief; Human Resources

As of this year, the Pennsylvania DOH adopted the National Registry of EMTs (NREMT) standards for new EMT certifications, increasing the time and cost of training incoming firefighters as EMTs. In order to mitigate this cost increase and to reduce on-boarding time, the RFRSD shall require EMT certification as a prerequisite for hire. EMT certification is attainable through various organizations and may be used in other positions beyond firefighting. Departments around the country have already adopted this requirement and as Reading moves forward with hiring in future years, needless training costs could be avoided.

Additional Recommendation

The following recommendation is not a requirement under the Recovery Plan, but important to the future goals and objectives of the Fire and Rescue Services Department. The Department shall apply for FEMA Assistance to Firefighter Grants (AFG) to support apparatus purchases in the future. Because the City does not maintain a vehicle replacement program or reserve fund for vehicle replacement, the Department shall explore future AFG grant cycles to fund necessary apparatus replacements.

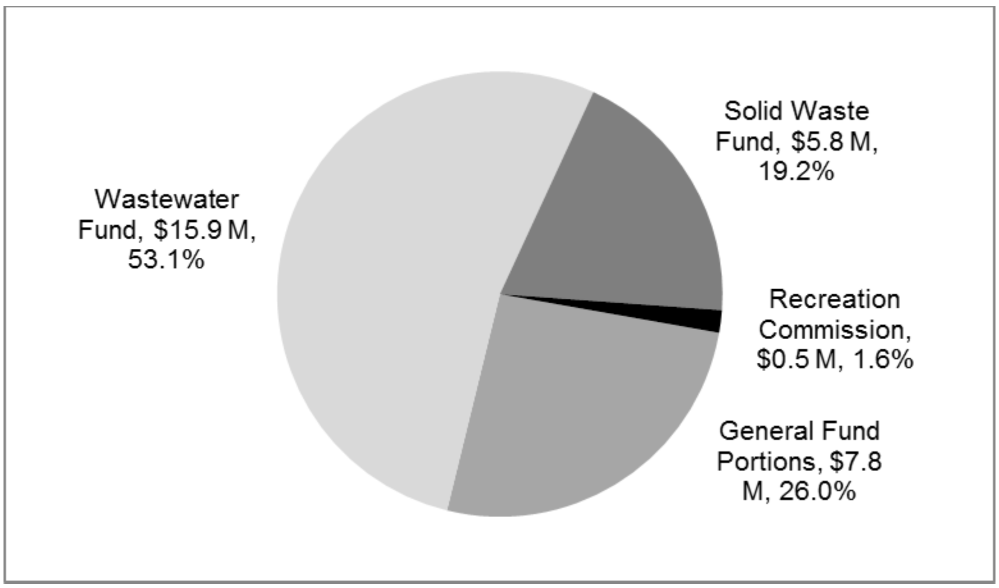
Public Works

The Public Works Department consists of administrative and engineering functions and four divisions: Operations, Wastewater, Utilities, and Solid Waste. Three of these divisions, Wastewater, Utilities and Solid Waste, are enterprise funds or business-like functions that are funded with user fees; only Operations is a General Fund function. Because Wastewater functions are financially self-sustaining and heavily regulated by state and federal laws, they will not be reviewed in detail in this Plan. Solid Waste includes Recycling, which is of special interest as discussed in this chapter.

Recreation programming, which was a City function when Reading entered Act 47 oversight in late 2009, is now the purview of a new entity, the Recreation Commission. The creation of a Recreation Commission was explored by a working group created by the McMahon administration, and the Reading Recreation Commission began operating effective January 1, 2012. City financial support continues to be a significant source of funding for the Recreation Commission, so the Commission is also discussed in this chapter.

The chart below shows the respective 2014 budgets of the Wastewater Fund, Solid Waste Fund, Recreation Commission, and General Fund functions of the Department of Public Works.

Public Works 2014 Budget



Note: This chart excludes the Wastewater Fund's 2014 budget for debt service of $14.9M.

Staffing

The table below shows the Department's budgeted staffing levels as recorded in the City's position ordinance that is adopted during the budget process.[1] The staff are separated by General Fund (including the two positions moved to the Shade Tree Fund in 2012) and the enterprise funds. The employees supported by the City's Water Fund moved to the Reading Area Water Authority (RAWA) in 2012 as recommended in the original Recovery Plan.

[1] The 2010 figures come from the 2011 position ordinance. The other figures come from the year shown in the column (2012 figures from the 2012 position ordinance).

Budgeted Headcount, 2010 - 2014

	2010	2011	2012	2013	2014
Administration	2	2	2	2	4
Engineering	2	2	1	0	0
Garage	10	10	8	8	10
Highways	18	18	18	17	16
Parks	11	11	9	9	8
Public Property	6	6	6	5	7
Recreation	2	2	0	0	0
Shade Tree	0	0	2	2	2
General Fund full-time positions	**51**	**51**	**46**	**43**	**47**
General Fund part-time positions	**N/A**	**N/A**	**N/A**	**18**	**14**
Solid Waste subtotal	3	1	15	17	19
Sewer subtotal	14	17	20	21	18
Water subtotal	63	64	0	0	0
Wastewater Treatment Plant subtotal	53	50	47	47	45
Enterprise funds full-time positions	**133**	**132**	**82**	**85**	**82**
Enterprise funds part-time positions	**N/A**	**N/A**	**N/A**	**7**	**6**
Total full-time positions	**184**	**183**	**128**	**128**	**129**
Total part-time positions	**N/A**	**N/A**	**N/A**	**25**	**20**

The chart above shows where each employee's position is located in the City's organizational chart, but it does not consistently show which fund actually pays for each position. For example, the City budgeted 17 full-time positions in the Highway Division in 2013, but enterprise funds actually paid for 13 of those positions (eight by Solid Waste and five by Sewer). So the General Fund only paid for four of the 17 positions listed in 2013.

In 2014 the City budgeted 16 positions in Highways, but it could only use enterprise funds to pay for five of the positions (all Sewer). The General Fund now pays for the remaining 11 positions. So, while the budgeted headcount in Highways dropped by one in 2014, the actual number of positions paid by the General Fund increased by seven.

This complication makes it difficult to determine to what extent the amount of General Fund supported staffing has changed over this period, though the total headcount across all funds has certainly declined because the Water employees were transferred to RAWA.

This is also reflective of the difficulty in making clear determinations which fund ought to pay for which services when such determinations are made prospectively (i.e. this is what we expect to happen, so this is how we expect to allocate expenses between funds). For example, while City residents appreciate clean streets (General Fund function), it is critically important for debris to be removed from streets so they do not end up in the sewer or storm water systems (enterprise fund function). So some operating costs, including personnel expenditures, may be split between multiple funds.

This complication is a reflection of the City's struggles to fund basic public works functions. As described above, the City has shifted some expenditures for functions like street cleaning or vehicle maintenance to enterprise funds. But when the enterprise funds can no longer cover those expenditures, they return to the General Fund as a liability. In those cases, the city's General Fund incurs higher costs, but there may not be a corresponding increase in services provided.

The table below shows the Department's total General Fund expenditures, across all units of the Department, for 2011 through 2013 and the budgeted expenditures for 2014. The 2014 budget allocation for contract and consulting includes anticipated expenses for repairs to the Pagoda Wall and other projects that would normally appear in a capital budget.[2] As noted above, the 2014 General Fund budget covers more positions associated with street cleaning than prior years, causing part of the apparent increase in salaries and fringe benefits from 2013 to 2014.

Public Works General Fund Expenditures, 2011 - 2014

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-14
Salaries	1,652,368	1,483,786	1,328,947	1,660,899	0.5%
Fringe Benefits	636,092	727,322	537,824	688,005	8.2%
Overtime	46,599	42,590	53,461	39,500	-15.2%
Temporary Wages	273,984	169,583	116,109	143,000	-47.8%
Pension	146,446	142,189	268,793	348,540	138.0%
Penny Fund	1,031	921	914	845	-18.0%
Social Security	155,517	127,448	114,640	141,021	-9.3%
Training & Education	1,745	2,500	1,409	5,000	186.6%
Uniforms	7,815	5,244	5,563	7,700	-1.5%
Utilities	2,000,304	1,949,247	1,963,583	2,073,000	3.6%
Equipment	4,716	4,901	3,520	9,500	101.5%
Repairs and Maintenance	342,173	360,600	355,499	413,134	20.7%
Supplies & Postage	369,636	404,910	417,385	416,550	12.7%
Rentals	429,175	440,294	465,433	491,000	14.4%
Contract & Consulting Services	520,753	1,124,103	555,022	1,343,145	157.9%
Other Non-Personnel	30,134	3,823	7,793	2,295	-92.4%
Total Public Works	**6,618,487**	**6,989,461**	**6,195,896**	**7,783,134**	**17.6%**

[2] Please see the Capital Improvement Chapter for more discussion of this topic.

Administration

The original Reading Recovery Plan stated the following: “Public Works faces many additional management challenges: the Department lacks any sophisticated data analysis tools; develops limited work plans; suffers from poor internal communication; operates with obsolete job descriptions; lacks measurable employee goals, objectives or review processes; and employs no meaningful performance measurement systems.” Four years later, Public Works continues to have many of the same challenges creating an important opportunity for new department leadership.

As of August 2014, the City appointed a new permanent Public Works Director who has been with the City for nine years, working in the Wastewater Division. While he was the Acting Director position for several months, he was simultaneously still functioning as the division manager for Wastewater. With his permanent appointment, a new Wastewater division manager should be appointed, to free time for the proactive management the Public Works Department badly needs; in the meantime, it is difficult to advance management initiatives while also dealing with daily job duties and service requests. The Operations division also has relatively new leadership under a manager who keenly appreciates the need to use electronic tools and data analysis to make the best use of the Department’s limited resources.

Engineering

The engineering function reports to the Public Works Director and currently consists of three people, two of which work with the sewer system and whose salaries are covered by that fund. Currently, the City has no Traffic Engineer position, and many traffic engineering responsibilities fall to the Public Works Director. The 2015 proposed budget includes one new Engineering Aide III position.

Engineering functions include administering City capital projects, which are designed and built by contracted professionals. The Public Works director reports that the City has a backlog of capital projects in general and traffic projects in particular because of staffing levels. For example, the backlog has resulted in delays in implementing street lighting projects for Penn Street and Wyomissing Park. Engineering staff also provide Pennsylvania One Call information about the location of underground facilities so that excavation projects can be completed safely.

The City successfully amended its street cut ordinance and established a fee to ensure that entities properly restore street surfaces following underground work. Although the requirements apply only to work permitted after the ordinance’s approval in December 2013, the City is already realizing the benefits of higher quality patching and full-width repaving in some cases. The permit fees also generate sufficient revenues to fund the Engineering position responsible for overseeing the program. Between projects of the gas utility, the water utility, and the wastewater utility, the program should have a significant, ongoing positive impact.

Operations

The Operations division has the broadest portfolio of responsibilities in Public Works. Operations includes the following functional areas:

- **Garage** staff maintains and manages all the City’s vehicles and major equipment. The City does not have an up-to-date vehicle/ equipment inventory, but the most recent list includes 424 items, ranging from leaf pickers, front-end loaders and utility carts to police cruisers, ambulances, and Fire apparatus.

- **Highways**[3] staff handle daily street-sweeping, street repairs (primarily potholes and sinkholes), and winter weather operations such as salting and plowing. They also handle yard waste collection, which is discussed more below.
- **Parks** staff do mowing and other maintenance in 28 different playgrounds, over 50 parks, and recreation facilities covering a total area of 138 acres. They also serve as “flex” labor, available to help transport the City’s portable stage and bleachers, for example, or assisting with office moves. Close to half of the unit’s staff are part-time.
- **Public Buildings** staff maintain City facilities, including buildings and structures in parks and playgrounds. Facilities include those used for City functions and City-owned facilities used by other entities, most notably the Reading Recreation Commission. This group also includes part-time custodians for City Hall, who account for more than half of the 2014 budgeted headcount.
- **Shade Tree:** The City has a separate Shade Tree Fund supported by a 0.2 real estate tax millage. The Fund has a $254,000 budget in 2014.

Operations divisions also perform tasks on behalf of other entities, for example maintenance and clean-ups of Reading Redevelopment Authority properties and Our City Reading properties. They also share equipment and personnel time with the Parking Authority.

Operations functions are based at the 54,495 square foot Public Works facility located at 503 North 6th Street. The 8.7-acre facility houses offices, the maintenance garage, a salt shed, and parking for equipment and vehicles.

Garage

The garage is responsible for the maintenance and repair of the fleet of vehicles and major equipment for all City departments. Overall, the condition of the City’s fleet is fair, because the City has been able to regularly purchase new vehicles and equipment through Liquid Fuels funds (Public Works vehicles) and public safety grants (Police cars and Fire Department apparatus).

As recommended in the 2010 Recovery Plan, the City also successfully disposed of accumulated vehicles that were beyond their useful life in September 2013, earning approximately $140,000. An auctioneer was selected through a competitive process, and a live auction was conducted at the Public Works facility. Operations anticipates holding additional auctions in the future as needed.

However, progress in most areas has been minimal since the original Recovery Plan was adopted in 2010, and multiple initiatives related to fleet management have not been implemented. For example:

- Purchase and implement fleet management software: Fleet management software is a critically needed tool that will help the City perform functions including tracking vehicle maintenance, repairs, and down time; mechanic time and parts costs per vehicle; preventive maintenance schedules; and fuel use by vehicle and department. In 2014, Public Works purchased fleet management software and began to populate it, only to discover that the specific software package could not work properly given the network configuration of computers at the Garage. Although the City got credit for the system and no financial loss occurred, Reading still needs software that is to be used throughout each day by all the mechanics in order to maximize data capture. Other software packages are under consideration as of October, 2014.
- Create a comprehensive vehicle list: As noted above, Public Works has a list of vehicles that includes make, model, VIN number, and year. However, the list is “not 100% up to date,” because of the stop-and-go nature of fleet management software implementation. The list also

[3] This Division is responsible for these activities on all City streets, not just highways as the Division’s name implies.

does not include information the department needs in order to manage the fleet well, such as whether each vehicle is leased or purchased, loan/lease terms, and condition.

- Implement a replace versus repair policy: The City needs to define the conditions under which it is worthwhile to repair a vehicle, and align that policy with departmental budgets for vehicle acquisition and Public Works' own garage budget. In combination with standard useful lives by vehicle or equipment type, this will allow the City to better plan fleet and related financing needs.

Public Works' own informal assessment of the City's fleet management practices is that they are "state of the art for 1962." For example, hand-written notes under car hoods are used to note when vehicles will be due for oil changes. Given the day-to-day repair and supervisory responsibilities of the Fleet Foreman and broad scope of responsibilities of the Operations Division manager, Public Works management believes that improvements in fleet management practices could be made more quickly and effectively if the position of fleet manager was established, or if a broader Operations position was created to implement projects and initiatives. The Department requested a fleet manager position during the 2015 budget process, but it was not included in the Administration's proposal to Council.

Highways

As with other northeast cities, the winter of 2013-2014 was very hard on Reading's roads, and Public Works is proud of the work they have done to repair potholes and sinkholes. In 2013, from January 1 to June 1, the Division repaired 1,778 potholes. During the same period in 2014, it repaired 7,305 potholes, or three times as many as in 2013. According to Public Works, this work was also accomplished with two fewer people than in 2013.

The number of road repairs is not only an indicator of a hard winter, but of deferred maintenance. Public Works reports that because streets are not being repaved regularly, its workers are not only filling new potholes, but also re-filling old potholes that have popped open because the surface paving is beyond its useful life. As long as paving projects are deferred, the City can expect an overall growth trend in street repairs, regardless of the weather. The capital needs of Reading's streets are discussed in more detail in the Capital Planning chapter of this Plan.

The Highways Division is also responsible for sealing streets. An ongoing program of street sealing would extend the life of Reading's street surfaces by slowing the rate of deterioration from cracks. However, Public Works reports that no street sealing program is currently in progress because staff time is used for pothole repairs, patching street cuts, yard waste collection, and street sweeping.

The Division also collects yard waste – leaves, brush, and tree trimmings – by appointment. If a resident wants to have yard waste removed, the resident must call Public Works, and staff from this Division will pick up the yard waste at the resident's home on the day of the week that they are covering that neighborhood. The Division covers a different part of the City each day and customizes routes each day based on appointment locations. The yard waste is collected in a trash truck and taken to a facility referred to as "the Wood Shed" where it is picked up by a third party at no cost to the City.

Although this is a service that residents value, it diverts already limited staff resources from road repair work. Repairing roads should be a higher priority than collecting yard waste because of the economic importance of drivable roads and the broader benefits of good roads. Generally, one to two staff members are assigned to yard waste collection three days per week, ten months per year. The volume of yard waste collected by Public Works fluctuates throughout the year, but the Division Manager estimates that 30-50 appointments are scheduled or each day of yard waste pickup, or 90-150 appointments per week. Each appointment is supposed to allow for the pickup of a maximum of five bags of yard waste, but Public Works employees often collect much more. The Division Manager reports that employees often pick up 500 or more bags each day.

One lower cost alternative to the current arrangement is for residents to bring their yard waste to the Wood Shed. This would mean that all the time currently spent by Public Works employees picking up yard waste could be spent on road repairs or other higher-priority tasks. It would also free time for the Public Works employees who schedule appointments for residents.

Public Property

The Public Property Division is responsible for maintaining, repairing and cleaning City buildings. As of August 2014, there are five tradesmen responsible for the City's maintenance and repair work: a foreman, a carpenter, a mason, an electrician, and a plumber. The division is also in the process of filling a new position established in the 2014 budget to attend to the City's heating, ventilation and air conditioning (HVAC) systems. Public Property staff functions range from providing replacement keys for City Hall offices and hanging banners on the Penn Street Bridge to re-building fences, fixing frozen pipes, patching roofs, repairing walls, and replacing fuses.

More serious building issues are reviewed by an engineering firm under contract, which will develop a rough scope of work and cost estimate, or occasionally by a City building and trades inspector who can review building conditions.

The Division uses a work order system to manage most of its repair activities, ranging from changing light bulbs in the Main Library, to fixing the heater at the Third and Spruce Recreation Center, to fixing roof leaks at City Hall. Most work orders are tracked by a secretary in Public Works, who records the person making the request, when the request is made, to whom the work is assigned, and when the work is completed. It is good that Public Works is tracking this information, but not all requests are captured, because some requests are made directly to the tradesmen or to the division manager. The work request data is also not maintained in a format that can be used for any kind of analysis, such as work orders per facility. Public Works would benefit from a computerized maintenance management system, as discussed further in the Capital Improvement Program chapter.

Building projects that are for the benefit or convenience of City employees, rather than for essential repairs or improvements to citizen services, have at times been a challenge given the number of facilities the small Public Property staff is responsible for and the poor condition of some facilities. The City can ill afford to have its tradesmen spending time on work that is not necessary. Discretionary City Hall projects are a special subset, because City Hall building components like doorways and door hardware are particularly expensive. Such discretionary projects are supposed to be paid for by the requesting department, but in practice, Public Works has often paid for labor and even for materials. However, Public Works has been empowered by the Managing Director to enforce requirements that Departments pay for their own non-essential projects and to prioritize projects based on their importance, so this is expected to be less of a problem in the future.

Contracts and utilities

The City has a variety of contracts for Public Works functions, including installation, maintenance and inspections of alarm systems; inspection of sprinkler systems; inspection of generators; street lights work; and traffic signals work. In many cases, there are multiple contracts for providing the same service at different facilities. The table below shows an example of five separate contracts with a single vendor for generally the same service, fire alarm inspection and maintenance, at different City facilities.

	Facility	Contract Term
1	EMS Station	11/20/13 – 11/19/14
2	Southwest Fire Station	11/01/13 – 10/31/14
3	Other Fire Stations	10/01/13 – 09/30/14
4	Pagoda	02/01/14 – 01/31/15

5	445 Penn St.	07/07/14 – 07/06/15

In this case, five different competitive selection processes were held when one might have had equivalent results with far less effort. Moreover, invoices against these contracts would need to be checked against five different contracts and purchase orders rather than one, so the workload increase continues throughout the yearlong contract term. Compounding the problem, some contractors also invoice the City inefficiently – for example, a pest control company is reported to submit a separate invoice for every visit to each different City building, rather than a single invoice compiling all visits per month.

Public Works is also responsible for managing electric and gas usage at City facilities.[4] Public Works is responsible for managing and paying bills for many of the accounts, though some are managed by departments that use the associated facilities (e.g. Fire, Library). The electric bills that are the responsibility of Public Works are all mailed separately – i.e., scores of different bills in different envelopes. Then the Operations Division Secretary has to open all the envelopes each month and record the amounts billed in a spreadsheet. The Secretary reports that she processes about 250 separate utility bills each month and about 450-500 bills per month total.

It is a waste of time and energy (and paper) for the City (and the electric utility) to process so many separate invoices. More importantly, the City could be using the time spent opening invoices and doing data entry to instead analyze electric usage to look for errors and savings opportunities. The Operations Division manager has recently identified and canceled several inactive accounts, in one case resulting in a $52,000 refund and $900 in monthly savings. But more can be done. All Public Works' accounts should be combined and account management responsibility for all facilities should be centralized under Public Works. A centralized approach would enable the City to develop a more professional and efficient approach to utility management.

The Reading Recreation Commission

Structure

The Reading Recreation Commission (RRC) assumed responsibility from the City for recreation programming starting in 2012. The Commission was modeled in part on the Lancaster Recreation Commission. It was created as a non-profit corporation and has a board of eleven members representing the Reading School District (RSD) and the City, with appointees from both entities. Existing City recreation division employees became employees of the Recreation Commission. A five-year agreement between the City, the Reading School District, and the Recreation Commission is intended to "provide a mechanism to adequately and efficiently maintain community recreation services and facilities and to organize, manage and supervise recreational and educational programs." It also sets forth the respective responsibilities of each of the three parties, including the financial and in-kind contributions of the City and the School District.

The cooperation agreement between the City of Reading and the Reading School District that establishes the Recreation Commission expires on December 31, 2016. The original agreement obligated the City and School District to contribute any portion of the Recreation Commission annual budget that will not be funded from other sources, but an amendment to that agreement limits the annual contribution from the City to a maximum of $488,000. The amendment also specifies that revenues from parks and playgrounds will be Recreation Commission revenues, excluding revenues from the Bandshell and the Showmobile.

The Cooperation agreement obligates the City and School District to allow their facilities to be used by the Recreation Commission to the extent that such usage will not interfere with usage by the City and School District, and makes the City and School District responsible for utility costs, maintenance and

[4] The Department of Administrative Services manages other utilities, like internet and some types of phone service.

capital improvements at their respective facilities. The costs of utilities, maintenance and capital improvements at facilities used by the Recreation Commission are considered in-kind contributions.

Achievements

Although only in its third year of operation, the Commission has been successful in transitioning from a City department and fulfilling its goal of providing neighborhood-based recreation and learning opportunities for all ages, with an emphasis on affordable programs for children. For example, in April 2014, the Pennsylvania Recreation and Park Society gave the Reading Recreation Commission two Excellence in Recreation and Parks Awards (out of 10 awards statewide) for an urban-focused girls' leadership program launched at the 3rd and Spruce Recreation Center and a joint program with the Reading Public Museum. The RRC's tennis program has also been recognized: it was featured as one of Tennis magazine's 2013 "Heroes of Tennis." The magazine wrote that the RRC program "emphasizes wellness, increased self-esteem, teamwork and skill development, and offers opportunities for volunteer activities," and "strengthens the health and quality of life of its participants."[5]

The Recreation Commission is expanding the ways it serves the children of Reading. In 2014, the RRC was approved by the Pennsylvania Department of Education as a food preparation site, allowing it to prepare food for program participants instead of using the Feeding America Kids Café program as it had previously. First the RRC was approved for the Summer Feeding Service Program, then for the Afterschool Feeding Program and Child Adult Care Food Program (CACFP-At Risk) Afterschool Feeding Program. All program costs, including staff, supplies, and food, are all reimbursed by the PA Department of Education, and kids like the food better. In 2015, the RRC will add a full-time food service program director position, which will also be fully funded by the PA Department of Education.

The Recreation Commission is in the process of becoming accredited by the Commonwealth of Pennsylvania as a provider of day care and after school programs. Accreditation is expected to have positive impacts in terms of both the quality of the programs and their financial sustainability.

Maintenance and Capital

Responsibilities for maintaining the facilities used by the Recreation Commission are shared by the Recreation Commission and the City. The Commission has three staff positions (one full-time, one going from part-time to full-time in January, and one at 30 hours per week) who perform day-to-day maintenance and operations tasks, such as changing light bulbs, making minor repairs, and janitorial work. These staff members also prepare and maintain ball fields for use, prepare pavilions and field houses for rental, and clean up after rentals.

Major repairs and capital projects are the responsibility of the City. However, the Recreation Commission has made a number of significant investments in facilities to support its programs, including the following:

New grease trap for 3rd & Spruce kitchen	$ 1,500
Kitchen renovations at 11th & Pike	$ 13,000
Other interior renovations at 11th & Pike	$ 7,000
Security gate	$ 1,500
Repairs to vandalized gym wall pads	$ 9,000
Tools and landscaping equipment	$ 10,000
Security cameras	$ 6,000
Total, these projects	**$ 48,000**

[5] http://www.tennis.com/your-game/2013/10/heroes-tennis-city-reading-pa-recreation-department/49610/, retrieved 11/17/14.

The kitchen renovations at 11th and Pike were the single largest investment the Commission has made to date in City facilities. The project cost $13,000, and included a new fire suppression and alarm system. In addition, $5,000 worth of cabinets were donated to the Commission, which were installed by Public Works staff. Because the fire safety systems of the building were not code-compliant, the Recreation Commission had to either make the improvements or shut down its food program. The Commission now bears the ongoing cost of grease trap maintenance. In addition to the $13,000 spent on the kitchen renovations, the Commission repainted the building (paint was provided by the City), refinished the floors, installed carpet, and purchased furniture and computers. A new heating system was also installed, funded by a grant from the Pennsylvania Department of Conservation and Natural Resources (DCNR).

The Recreation Commission supplements the resources it dedicates to maintenance with free labor provided by community service workers and parolees (typically two people working three days per week). The Commission also organizes volunteers who contribute thousands of hours each year on activities such as park clean-ups, painting, and playground improvements (about 3,000 volunteer hours per year).

As a result of its work since the beginning of 2012, the Commission reports that its building maintenance efforts are now shifting from reactive to proactive. For example, gymnasium floors are being cleaned and waxed on a regular schedule. However, there are capital projects that will be necessary for the Commission to continue to provide its programs, such as repair/ replacement of the heaved gymnasium floor at 11th and Pike. The Commission hopes to obtain grant funds for this project.

Finances

The 2010 Recovery Plan noted that the Lancaster Recreation Commission, which was a model for the Reading Recreation Commission, had a budget that was mostly funded by fees, donations, business sponsorships, and grants; it has gradually decreased its reliance on local government funds over a period of many years. In 2013, only 15 percent of the total $3.2 million Lancaster Recreation Commission budget was funded by Lancaster City, Lancaster County, and the Lancaster School District. However, 49 percent of 2013 revenues was made up of state and federal funds. About 27 percent was generated by the Commission's program, admission, concession and rental fees. The Reading Recreation Commission has a goal of similarly growing and diversifying its revenue sources over time.

The Recreation Commission works to maximize funding from sources other than the City and the School District:

- The Commission earns some revenue from renting pavilions and field houses at locations including Third and Spruce, Egelmans Park, Schlegel Park, and Keffer Park. It also rents fields at a variety of parks and playgrounds for soccer, football, baseball, softball, kickball, and rugby.

- The Commission works to maximize grant funding, for example for writing the curriculum for its award-winning girls' leadership program. The salary of the Executive Director has also been funded by grants from DCNR on a declining scale. Examples of major grants received from 2012 to 2014 are shown below.

Major Recreation Commission Grants, 2012-2014

Grantor	Purpose	Amount	Years
Fromuth Tennis	Tennis Program	$165,000	2012-2014
DCNR	Executive Director Salary	$104,062	2013-2014
Baseballtown Charities	Baer Park Ballfield Renovations	$78,859	2013
DCNR	Open Space Plan Grant	$72,000	2014
Berks County Community Foundation	Various	$30,800	2012-2014

- The Commission provides some of its programs to other entities, e.g., the Olivet Boys and Girls Club contracts with the RRC to participate in its tennis program, and the Reading School District will be contracting with the RRC for an additional girls' leadership program at Southern Middle School.

- The Commission charges participants' fees for some programs, e.g., adult basketball and volleyball leagues.

The table below shows the Recreation Commission's annual budgets and the City's contributions since the Commission started. The table also shows the portion of each year's revenues that did not come from either the City or the School District (grants and program revenues). The Recreation Commission is making progress toward being less financially dependent on the City and the School District. City revenues as a percentage of total revenues declined from 49 percent to 43 percent from 2013 (actual) to 2014 (budget), and revenues from sources other than the City and RSD increased from 37 percent to 45 percent.

	2012 Actual	2013 Actual	2014 Budget
City Contribution	509,245	488,000	488,000
Total Commission Revenues	873,084	997,535	1,123,252
As % of Total	*58.8%*	*48.9%*	*43.4%*
Non-City/ RSD Revenues	232,956	334,837	508,719
As % of Total	*26.7%*	*33.6%*	*45.3%*

Source: Reading Recreation Commission, 2013 Audited Financial Statements, 2014 Budget

On the other hand, the Recreation Commission does not have the same kind of financial support enjoyed by its peers. For example, most of the approximately 40 recreation commissions in Pennsylvania have three or more funding partners, typically including two or more municipalities; some have funding from trusts or foundations. As noted above, the Lancaster Recreation Commission receives funding from the City of Lancaster, Lancaster Township, and the School District of Lancaster, as well as funds from the Lancaster County Office of Aging. The Reading Recreation Commission does not receive any support from Berks County or any neighboring municipalities, and has only two funding partners. Another organization that serves youth in Reading, the Olivet Boys and Girls Club, has financial support from its national umbrella organization, Boys and Girls Clubs of America, as well as funding from the United Way. According to Olivet's 2010 Annual Report (the most recent available on its website), 44 percent of its revenues were from grants, 28 percent from the United Way, and 15 percent were classified as Contributions.

The Recreation Commission's programs and revenue-generating activities are also limited by agreements the City has with other organizations. For example:

- City Park basketball courts are used by the Blacktop Basketball League;
- Rotary Park is used by the Rotary Park Association;
- Baer Park field house is used by the Reading Inner City Boxing Club;
- Angelica Park is used by Alvernia University; and
- Pendora Park pavilion, the RRC's most popular rental facility, will be replaced by a new recreation center to be built and operated by Olivet Boys and Girls Club.

Solid Waste Division

The Solid Waste division encompasses both trash and recycling services. These services are provided to households (not commercial properties) defined as four units or less. Recycling services are provided by the City's own workforce to all these households. Trash collection is outsourced, and the current contract is with Republic Services/ Allied Waste. As of September 29, 2014, City recycling services were provided to 27,049 households, and trash services were provided to 17,324 households. As noted previously, revenues and expenditures associated with solid waste and recycling are managed in a separate Solid Waste enterprise fund.

Trash

Residential property owners in Reading may choose to have their trash collected by the trash hauler under contract with the City, or they may enter into their own agreement with a trash hauler. If they opt out of the City's service, they must contract with a licensed Trash Hauler for the collection and disposal of all trash from their property, and provide evidence to the City of their contract. The City's contractor currently serves about 65 percent of all properties in Reading.

Reading's waste collection model is very unusual. Most cities either serve all residences using an in-house program or have all residences served by one contractor, but in Reading, residents have always had the ability to choose their trash hauler. Their choices now include a hauler working under a contract with the City. Reading City Council could establish a single-hauler system by ordinance; however, it is also possible for residents to overturn such an ordinance by successfully petitioning for a referendum to repeal it. This last occurred in 2006. Given that nearly two-thirds of the city's residential properties are now using the City's collection program, it may be more likely now that a single-hauler ordinance would not be overturned by referendum.

A study developed on the City's behalf concluded that the City of Reading could not in-source trash collection at the same or lower cost than private haulers, because the City does not own a landfill. At least two private haulers do have landfills within Berks County, and one of these haulers has the current contract with the City. Although the collection of household trash in Reading is outsourced, City employees pick up trash at City facilities like municipal buildings, parks and playgrounds, and public trash cans on the streets. As of 2014, there were four positions budgeted in the Solid Waste Fund: the Solid Waste Division Manager, who is responsible overseeing both trash and recycling services; a Clean City Coordinator, who works with volunteer organizations for community clean-ups and graffiti abatement; and a Commercial/Industrial Recycling Coordinator, who implements waste and recycling education programs.

Recycling

The City's recycling program represents one of the more significant financial risks to the City of Reading in the near-term.

The City of Reading began a municipal recycling program in 1991. In 2012, in an effort to provide the service at a lower cost, the City brought this service "in-house," purchasing four recycling trucks and hiring staff to collect recyclables from City residences on a weekly basis. The 2012 budget added at least 13 positions: a foreman, a maintenance mechanic, a clerk (now Municipal Aide), five maintenance workers and five equipment operators.[6] The 2014 budget has 15 full-time positions and one part-time position in the Recycling Fund.

In October 2013, the Commonwealth Court of Pennsylvania issued a ruling invalidating the user fee that the City of Reading used to fund recycling collections, finding that the City's recycling fee was inconsistent with Act 101 of 1988, the state law that requires municipalities to implement recycling programs. The city had used this fee to fund its recycling operations for years, including before the

[6] In 2012 the City had one enterprise fund for recycling and trash. The number of staff in that fund grew from one in 2011 to 15 in 2012. Aside from the 12 positions noted above, the other three positions were Solid Waste Supervisor, Graffiti Coordinator and a clerk typist. The first two positions are now in the Trash Fund, separate from recycling. The clerk position does not appear in the Recycling or Trash Fund, though there is a Municipal Aide position in the Recycling Fund.

function was moved in house in 2012. Accordingly, the City suspended collection of the recycling fee to comply with the ruling, but continued to collect recyclable materials. The City's interpretation of Act 101 was that the City does not have the discretion to stop collecting recyclables, even if there is not adequate revenue generated by the provisions of Act 101 to cover the cost of doing so. The General Fund had to pay for the program costs that could no longer be covered by fee revenues.

However, the City resident who claimed that the City's fee was illegal and won the 2013 Commonwealth Court ruling also filed for bankruptcy, an action that triggers a stay on collection efforts. The City therefore successfully argued for the bankruptcy judge to void the Commonwealth Court ruling. The Commonwealth Court ruling was voided on January 31, 2014. In April 2014, RAWA issued a bill for the three months of 2013 when recycling billing was suspended. In May 2014, RAWA began billing for recycling fees for 2014; monthly fees were adjusted to collect 12 months' worth of fees in the 8 months remaining in the year.

In June 2014, the City was again sued for charging illegal recycling fees, this time by four city residents and a lawyer with an office of Reading. In July, the plaintiffs filed for an injunction that would prevent the City from collecting the fee until the court case is decided. The plaintiffs are also seeking class-action status for everyone who has paid Reading recycling fees since 2005, and are asking for class-action members to receive refunds for all fees paid since then. As of the writing of this Plan, recycling fees continue to be billed and collected. It should be noted that the Law Department of the City of Reading interprets Act 101 as requiring the City of Reading to "establish and implement recycling programs" because of its status as a Third Class City, and as a city operating under a Home Rule Charter with a population exceeding 10,000. In other words, the City does not have the option of ending recycling collections without violating state law.

It should also be noted that other Pennsylvania cities do charge recycling fees explicitly or implicitly. For example:

- Wilkes-Barre and Bethlehem have fees solely designated to fund recycling operations. Their recycling fees are clearly distinguishable from other fees that fund refuse collection.
- Allentown has one fee to fund refuse and recycling collections. The fee is called the Municipal Waste and Recycling Fee, so it is also explicitly linked to recycling.
- Erie and Harrisburg don't make any reference to recycling fees in their codes or budgets. But they pay for those operations in separate enterprise funds that rely almost entirely on more generic refuse collection fee revenues.
- Scranton has the least clear reliance on fees because recycling and refuse collections are supported together in the General Fund. Theoretically all money in that fund is fungible, so the City could argue that it uses one of its taxes to support recycling. But Scranton has a "residential refuse fee" that appears to generate more money than the City needs to fund refuse collection. If that is true, Scranton is using that fee to support something other than refuse collection, whether that is recycling or something else.

The City is evaluating the potential to advocate for changes to Act 101, so that revenue sources to fund the required services could be authorized, or for changes to Home Rule law, to clarify that the City is authorized to charge recycling fees because its Home Rule Charter supersedes its status as a City of the Third Class. Changes like these would help to shield the City from future legal challenges to recycling funding sources.

If the City wins the current challenge, it can continue the current recycling service model and continue to fund the program with recycling fees. However, if the City loses the current legal challenge and such changes to state law are not made, the City of Reading has two basic options for funding its recycling program:[7]

- The City could fund its recycling program with General Fund revenues. To do so, it would increase property taxes by a rate sufficient to generate the same amount of revenues as the recycling fees. This would distribute the burden of paying for the recycling fees over a broader base, since the property taxes would impact all property owners, including commercial property owners who do not use the City's recycling service.

- The City could and charge a single generic refuse fee, like many other Pennsylvania cities. The fee could more easily be targeted to the residential property owners who use solid waste and recycling services than the real estate tax, which is paid by both residential and commercial property owners. If the City charged a single fee, the actual solid waste and recycling collection services would likely be consolidated as well – otherwise, anyone wanting to choose their own waste hauler would have to pay both the single City fee and the fees charged by their hauler. If solid waste and recycling collection services were consolidated, they would have to be outsourced, since the City does not have the landfill access that would be necessary to make in-house waste collection viable.

It should be noted that the Recovery Plan's baseline financial projections assume that the City will continue to collect the Recycling fee, and that the General Fund will not provide any subsidies to the Solid Waste Fund during the period 2015 to 2019. Whether or not the City wins the litigation, however, the City's recycling program should be as efficient and effective as possible; City residents should not pay more than necessary for recycling, and long-term financial obligations should be minimized. To that end, the City should strive to control the costs of its Recycling operations and should periodically re-evaluate whether it is likely to be cheaper for the City to outsource recycling collections than to provide recycling services with City employees and equipment as it has since 2012.

Although such a cost projection inherently has a significant level of uncertainty, an analysis of the City's in-house recycling program suggests that they may be generally in line with the estimated costs of outsourcing. The table below summarizes a comparison of projected in-house costs, based on actual costs of the City's recycling program to date, projected recycling costs, and projected outsourced costs. In this analysis, outsourcing Recycling is estimated to result in a net cost to the City in year one of $91,000 because of unemployment compensation costs, followed by annual costs that are roughly equal to what the City would spend on Recycling.

	In House Costs: 14 Positions				
Costs	**2015**	**2016**	**2017**	**2018**	**2019**
Salary	577,963	589,980	603,153	615,675	628,684
Fringe + Pension	332,900	344,214	356,207	368,639	378,062
Other Personnel	157,274	161,655	166,253	170,936	175,797
Fuel	100,000	102,500	105,063	107,689	110,381
Rental/Lease	258,299	259,195	260,110	207,671	48,510
Contracted Services	18,000	18,450	18,911	19,384	19,869
Other Non-Personnel	318,991	321,659	324,380	327,156	329,987
Total	**1,763,426**	**1,797,653**	**1,834,077**	**1,817,150**	**1,691,290**

[7] It is not clear whether either of these approaches would be safe from legal challenge.

Costs	Outsourcing Costs: 2 Positions 2015	2016	2017	2018	2019
Salary	577,963	90,251	92,056	93,897	95,775
Fringe + Pension	332,900	178,514	182,206	185,981	186,244
Other Personnel	157,274	124,356	9,238	9,423	9,612
Fuel	100,000	0	0	0	0
Rental/Lease	258,299	259,195	260,110	207,671	48,510
Contracted Services	18,000	1,014,750	1,040,119	1,066,122	1,092,775
Other Non-Personnel	318,991	221,280	222,994	224,741	226,524
Total	**1,763,426**	**1,888,347**	**1,806,722**	**1,787,836**	**1,659,439**
Difference	**0**	**(90,694)**	**27,355**	**29,314**	**31,850**

The insourcing scenario reflects the growing costs associated with 14 full-time positions, not including the part-time Education Coordinator or the Division Manager who splits time between recycling and trash collection. Including those additional staff costs would increase the savings associated with outsourcing.[8]

The outsourcing scenario assumes the City would pay a hauler for curbside recycling collection, and in the first year, the costs of unemployment compensation for the employees whose positions would be eliminated. The cost of contracted recycling collection is assumed to be $3.00 per household per month initially, based on costs of private haulers for other cities in the region. The cost per household is assumed to increase by three percent each year. The $3.00 per household estimate assumes that the City leases the recycling trucks to the contractor for $1 per year; that is, the City would retain the cost of paying off the recycling trucks in the outsourcing scenario. If the City passed along more of those costs to the contractor, the savings associated with outsourcing would increase.

For the purpose of this analysis, it is assumed that there would be no differences on the revenue side. User fee revenues, DEP grant revenues, and revenues from recycled materials would all remain the same whether recycling remained in-house or is outsourced.

There are several areas of significant uncertainty in this analysis:

- **Outsourced contract cost per household**: This analysis assumes recycling cost per household to start at $3.00 per household per month, based on costs of private haulers for other cities in the region. Annual per household cost increases of 3 percent are assumed based on Public Works' experience with solid waste contracts. Having recycling services provided by City workers could be significantly more or less cost-effective, depending on what bids the City might receive from private haulers. It would therefore be wise for the City to test the market periodically.

- **Workers compensation costs**: Actual workers compensation costs for Recycling were $80,000 in 2013 and were $185,000 for the first seven months of 2014. The City has taken multiple steps to reduce employee injuries, so workers compensation costs are assumed to be only $40,000 in year one, growing at an annual rate of 5 percent. The City's Risk Manager estimates that, even with the improved screening of candidates for Recycling positions and training on injury prevention, worker's compensation costs are unlikely to go below $40,000 per year. If future workers compensation costs are higher than $40,000, then the savings that would result from outsourcing would be greater.

[8] The growth rate assumptions used here generally follow those used in the Recovery Plan baseline – salaries grow by 2.0 percent, fringe benefits by 5.0 percent, and most non-personnel expenses by 2.0 percent.

- **Pension costs**. The analysis summarized above does not include any pension contribution savings associated with outsourcing, because the vast majority of pension contributions are for the Unfunded Actuarial Accrued Liability (UAAL), meaning that most of the actual cost would not go away if positions are eliminated. If the portion of pension contributions associated with current employee service (the "normal cost") became a larger share of the total, then savings resulting from outsourcing would be bigger.

- **Health insurance costs**. The analysis summarized above includes projected costs based on actual employee health plans and costs, which are for this employee group currently less than average costs Citywide. These costs could grow for multiple reasons, for example, if employees choose different health plans or if more of them enroll in family coverage or require coverage for more dependents.

These potential changes in City costs mean that it is important for the City to periodically test the market and evaluate the most cost-effective method of providing recycling services. On the other hand, the City will continue to pay the ongoing workers compensation costs for employees who were injured in the past whether Recycling remains in-house or not. As of October, 2014, there are three employees who have open claims but are working on modified duty, and two employees who are not working due to their injuries.

It is also important to note that the Recycling division of the Solid Waste Fund makes a payment to the General Fund for indirect costs – i.e., to pay the City its share of services and administrative functions such as fleet maintenance, information technology support, HR and accounting functions, and so on. If recycling services were outsourced, less support from other City functions would be required, so the amount of this indirect cost payment to the General Fund would go down. An estimate of this revenue loss would have to be included in any cost comparison. For reference, Recycling's indirect cost payment for 2014 is $250,216; in 2015, the amount is proposed to increase to $442,000.

If the City were to consolidate solid waste and recycling services, whether in order to implement a single fee covering the cost of both, or to achieve program efficiencies, there may be other, less quantifiable benefits:

- With only one service provider rather than three solid waste haulers and the City recycling trucks, collection schedules will be better coordinated, reducing impacts on traffic.

- With only one service provider, there will be greater accountability for waste and recycling pick-up. For example, if waste isn't picked up at a residence, there will be no question about which hauler is at fault.

- There will also be more accountability on the part of households receiving service: there will be no questions about whether households have a verified contract with a private hauler, and no administrative burden on the City to ensure that residents do have a contract if they are not using the City's hauler.

- Outsourcing recycling service will relieve the City of responsibility to properly accommodate recycling trucks and Recycling employees. Recycling is currently based at the old Parks administration building, but the facility is in such poor condition that plans are underway to move the function to the Public Works complex on North 6th Street.

- The City would not need to replace the recycling trucks at the end of their approximately 10-year useful life. The City will pay $214,000 per year until 2017 for the recycling trucks that are currently in use.

Wastewater Treatment and Utilities

The Wastewater Division is responsible for the operation of Reading's wastewater treatment plant. The Utilities Division is responsible for the storm and sanitary sewers and the City's industrial pre-treatment program. As noted above, the finances of both are tracked in the Sewer Enterprise Fund. The Sewer Fund makes an annual payment of $3 million to the General Fund, an amount which is capped by a Consent Decree settlement executed in November 2005. There is also an indirect cost reimbursement to the General Fund of about $1.2 million per year in recognition of services performed by City departments such as Administrative Services. Because they are financially self-supporting, they are not covered in this Plan in depth; only a few highlights are presented below.

In addition to daily operations, significant efforts are ongoing to meet the Consent Decree requirements. The City has negotiated revisions to "reset the clock" on key Consent Decree deadlines. The City had previously planned to build a new wastewater treatment plant to correct the problems that were identified in the Consent Decree; however, the current plan is to rehabilitate the existing plant at a much lower cost (close to $100 million compared to an approximate cost of $400 million for a new plant). Design is in progress and construction will begin in 2015. The division will also make major improvements to the 6th and Canal Pump Station. The design of this project is also underway.

Just as there are consent decree requirements for the wastewater treatment plant, there are consent decree requirements for sanitary sewers. The Utilities division is working hard to meet consent decree deadlines for making major repairs and correcting load problems (e.g., lines designed for a lower load in terms of millions of gallons per day than is currently projected). The division is using diagnostic techniques like TV inspections and smoke testing and hydraulic modeling to develop a master sewer rehabilitation plan. At the same time, Utilities needs to keep up with repairs to sewer and stormwater line breaks due to settlement and sinkholes, work that increased dramatically as a result of the severe 2013-14 winter.

Initiatives

The Public Works Department has a lot of room for improvement, in part because of a lack of proactive management and a lack of appropriate management tools, and in part because of circumstances beyond the City's immediate control. The two most important initiatives for Public Works in terms of financial impacts are to establish a permanent and sustainable funding source for Recycling services and to establish a street light assessment in order to appropriately distribute street light costs and free up funds for street improvements. It will also be important in the coming years for the City to reduce its financial support of the Recreation Commission, at least in terms of facility maintenance and utility responsibilities if not in terms of cash contributions. Other initiatives are intended to make more appropriate use of Public Works' limited financial and human resources.

PW01.	**Address recycling fee and service model issues**	
	Target outcome:	More efficient service and cost reduction
	Five Year Financial Impact:	N/A
	Responsible party:	Managing Director, Solid Waste Division Manager

The City is fighting a second legal challenge to its recycling fee, and the outcome of the litigation can't be predicted. This initiative therefore sets forth plans of action for two scenarios – whether the City's recycling fee is determined to be legal or not.

If the City wins the case and its recycling fee is determined to be legal, then the City shall adjust its recycling fees annually in order to recover the full cost of providing the service.

If the City loses the case and its recycling fee is determined to be illegal, then the City shall have to establish another funding source, since the City is required by law to provide a curbside recycling program.

- The City could increase property taxes to a level sufficient to pay for the recycling program. This approach would mean that commercial property owners would be paying for recycling services they are not receiving, and residential property owners would bear less than the cost of the recycling services they are receiving. This is also a less equitable approach, since residential property owners would be paying different amounts based on the assessed values of their homes rather than on any recycling-related factor. However, funding recycling services with property taxes – just as so many other municipal services are funded with property taxes – may be less vulnerable to legal challenge.

- Alternatively, the City could charge a single fee for waste collection and recycling, similar to many other Third Class Cities. Such a fee would place the burden of the cost of these services on the residential property owners who benefit from the services. In this case, the City would have to design a program that encompasses both waste and recycling collection in the most efficient way possible.

Whether the City wins the current court challenge or not, and regardless of whether the service is to be paid from recycling fees, property taxes, or a municipal waste fee, the City should strive to provide recycling and waste services at the lowest possible cost.

PW02.	**Establish a streets or street light assessment**	
	Target outcome:	More equitable allocation of street light or street maintenance costs
	Five Year Financial Impact:	$6.2 million
	Responsible party:	Public Works

In recent years before 2014, the City has paid the cost of street lights using a portion of its Commonwealth Liquid Fuels allocation. Street lighting is an eligible use of this funding, but it would be better for the City to use more of that allocation for badly needed street resurfacing. To that end, the City shifted $900,000 in street lighting costs to the General Fund in 2014 so the Liquid Fuels money could be used for street resurfacing.

Shifting the street light costs to the General Fund, where there is already a projected deficit for 2015 and beyond, means the City will have to find additional money in that Fund to pay these costs. One option is to establish a streetlight assessment that would provide a funding stream for the costs of street lights repairs, improvements and utility costs. The Coordinator estimates these costs are $1.5 million per year[9], which could be allocated to property owners through an annual fee.

Some City Council members have understandably expressed hesitancy to establish a new fee levied on City property owners who are already paying the County, School District and City real estate taxes. If the

[9] This number is based on the portion of the Liquid Fuels Tax that has been used for Street Lighting plus expenditures for Light & Power, Street Lighting, and Maintenance/ Repair of Street Lights accounted for in the Public Works, Traffic Engineering budget.

City only levies the fee on property owners who pay those taxes, then the assessment is essentially an extension of the real estate tax. However, if the City can charge the fee on a wider range of property owners, including those who are exempt from the real estate tax, then the burden can be spread more equitably to all the people and organizations that benefit from well-lit streets.

The City should also demonstrate the value of this new service charge by providing a street light improvement plan that shows the fee will do more than just help keep the lights on. The plan should have a specific time table for repairing inoperable or poorly functioning street lights in neighborhoods that do not have this basic amenity. The plan should also address more forward-thinking lighting goals, like installing more energy efficient lights or decorative lighting that complements other community development efforts. The City should make this plan accessible on its website with a clear explanation of the schedule for undertaking specific improvements in specific neighborhoods so property owners can track the City's progress. City Council might even establish the street lighting fee on a trial basis with reauthorization dependent on their review and determination that the Administration is complying with the street lighting plan.

The City could also expand the assessment concept to include services other than street lighting, including street cleaning, street resurfacing or curb and sidewalk repair, through a broader street assessment. Similar to street lighting, the benefits of having safe, clean, well maintained streets benefits all property owners in the City, including those who are exempt from the real estate tax.

The Coordinator presents this revenue source as an alternative to the real estate tax increases that may otherwise be necessary to keep the City's annual finances in balance.[10] The Coordinator assumes the service charge would be set at a rate that fully funds annual street light repair, maintenance, replacement and utility costs.[11] If the City enacts this charge, it shall also create a separate fund for the revenue to restrict its use to street lighting purposes. In the enacting ordinance, the City shall also prescribe the method for determining the street lighting service charge amount in future years so there is less temptation to use the revenues for unrelated purposes. If the City chooses this alternative, it will need time to address the issues described above, so there is no projected financial impact for 2015.

Financial Impact

2015	2016	2017	2018	2019	Total
0	1,500,000	1,530,000	1,561,000	1,592,000	6,183,000

PW03.	**Replace Yard Waste Collection with Yard Waste Drop-Off**	
	Target outcome:	More efficient service and cost reduction
	Five Year Financial Impact:	$0
	Responsible party:	Managing Director, Operations Division Manager

As described above, the City of Reading collects leaves, brush, and tree trimmings from City residents on demand – i.e., a resident calls Public Works for a yard waste pickup, and Streets employees pick up the

[10] Please see the Revenue Chapter's initiative section for more information.

[11] There has also been some discussion of a similar fee that would cover a wider range of street-related services (e.g. street lighting, paving, street cleaning, sidewalk repair). The direction provided in this initiative shall also apply to that approach if the City pursues it.

yard waste. The Operations Division Manager estimates yard waste collections currently require one to two employees per day, three days per week, ten months per year.

A lower cost alternative is for residents to bring their yard waste to the central facility where the City's staff currently brings the yard waste. This would mean that most of the time currently spent by Highways employees picking up yard waste could be spent on road repairs or other higher-priority tasks; it would still require time for at least one employee to staff the facility during scheduled drop-off times. It would also free time for the Public Works employees who schedule appointments for residents. The division manager estimates that 30-50 appointments are made for each day of yard waste pickup, or 90-150 appointments per week.

Another alternative is to reduce the frequency with which yard waste is picked up. For example, instead of picking up at every neighborhood each week, Public Works could pick up every two weeks or every month. A third alternative would be a hybrid – lower frequency pick-up service, with drop-off times available for those who do not want to wait for pick-up.

Other Pennsylvania third class cities have a variety of different yard waste collection models, as summarized in the table below.

Yard Waste Programs, Select PA Cities

City	Pick-up or Drop-off	Pick-up	Drop-off
Erie	Pick-up	Weekly, March to Nov	N/A
Lancaster	Pick-up	Monthly	N/A
Allentown	Both	Weekly, April to Nov Put out with recycling	April-Nov, open 2 days + 2 half-days per week, inc. Saturday Jan-Mar, open once every 2-4 weeks for 2 hours
Bethlehem	Both	Two times per year	Drop-off hours daily, year-round
Altoona	Both	2 weekly collections in spring; 5 weekly collections in fall	5 days/ week, year-round
York	Both	Weekly, March to Dec	1 Saturday per month

In Allentown, Erie, Bethlehem, Lancaster, and York, the functional unit that handles yard waste is the same unit that is responsible for solid waste and recycling.

Local governments that are closer to Reading also have a wide variety of service models, as shown in the table below. In Cumru and Lebanon, pick-ups are provided two times per year, and Lebanon charges $25 per year for drop-off. In Laureldale and Womelsdorf, pick-up service is contracted out. Pottsville and Shillington have unmanned drop-off points; Pottsville's has a surveillance camera.

Yard Waste Programs, Regional Municipalities

City	Pick-up	Drop-off
Pottsville	X	X
Shillington	X	X
Cumru	X	X
Laureldale	X	N/A
Womelsdorf	X	N/A
Pottstown	X	X
Lebanon	X	X
Tilden	N/A	N/A
Alsace Twp	N/A	N/A

Source: City of Reading

Given that even this small sample includes multiple municipalities that provide yard waste pickup only two times per year, and given Reading's extraordinary fiscal pressures, a reduction in the level of service from the current on-demand level is warranted.

The City of Reading shall evaluate the best alternative to the current yard waste collection service model, with a primary goal of dramatically reducing the amount of Public Works employee time spent on yard waste collection and a secondary goal of continuing to provide a satisfactory level of service to City residents. The analysis of alternatives shall include factors such as the cost of staffing the Wood Shed facility if it is to be used as a drop-off site and the implications for yard waste volume of providing less frequent pick-ups.

No financial impacts are projected, because the Coordinator assumes the Public Works employees who are collecting yard waste will continue to work for Public Works. However, it is anticipated that the additional time spent on higher-priority road work will result in improved street conditions in Reading.

Whichever way the City reduces its yard waste pickup costs, Public Works needs to track the time spent by its employees on various tasks, including yard waste pickup and street repairs. When the City has data about how its employee time is being used, it will have better information for analyzing the costs and the benefits of City services and re-allocating its resources.

PW04.	**Define and maintain the City's contribution to the Recreation Commission**	
	Target outcome:	Cost containment, transparency
	Five Year Financial Impact:	N/A
	Responsible party:	Administration; City Council[12]; Public Works

The City's ability to provide direct and indirect financial support to the Recreation Commission over the next five years is constrained by the financial challenges described throughout the Amended Recovery Plan. However, the City should continue to support the Recreation Commission's work after the current cooperation agreement expires in 2016.

[12] Council members are part of the Recreation Commission's governing board.

Prior to the expiration of that agreement at the end of 2016, the City shall negotiate a multi-year successor agreement that clearly defines the maximum financial contribution of the City to the Recreation Commission each year and sets the amounts based on updated financial projections. The agreement shall define the City's direct financial contribution so it can be included in future annual budgets. It shall also specify which party bears responsibility for covering utility costs at the facilities; define each party's responsibilities for maintenance and repair work at facilities used by the Commission and the terms and conditions under which that work shall be done; and describe the Commission's ability to generate revenues by operating programs at the facilities covered in the agreement.

The successor agreement shall obligate the City to perform facility maintenance, repairs, and capital improvements that are necessary for facility safety and for basic operations. The City shall not be obligated to make improvements which are needed for program changes or improvements desired by the Recreation Commission.

The successor agreement shall also require the City to report to the Commission each year on the value of in-kind contributions made during the prior fiscal year, including utility costs, repair and maintenance (materials and labor), the costs of any capital improvements, and other costs, such as time spent by the City's grant-writer working on grant applications for City facilities used by the Recreation Commission. This information shall in turn be included by the Recreation Commission in any reports of financial contributions, resulting in a more accurate accounting of the full value of the City's contributions to the Recreation Commission.

Memorializing the City's ongoing commitment in another multi-year agreement will contribute to the financial stability of the Recreation Commission, and will allow the Commission to plan for additional resources that may be necessary. It will also give the City and Recreation Commission a process for resolving any disagreements over the issues described above.

Finally, the City shall use the agreement with the Recreation Commission as a basis for changing the existing agreements or establishing new agreements with organizations other than the Commission that use City recreation facilities.

PW05.	**Consolidate utility bill monitoring and payment**	
	Target outcome:	Reduced administrative costs; long-term savings
	Five Year Financial Impact:	N/A
	Responsible party:	Director of Administrative Services; Public Works Operations Division Manager

As a first step, the City shall work with its electric utility to consolidate all the City's electric accounts and bills on one monthly invoice. If possible, the electric utility should provide monthly usage and charges by facility electronically so that the City can more easily analyze its electric usage and costs without doing any data entry. This effort requires the City to centralize the payment of electric bills for all City facilities in the Public Works Department.

Once it has data electronically, the City shall monitor and analyze its electric usage and cost and seek opportunities for cost reductions. Once the City has consolidated electric bills for all its facilities, it shall repeat this process for other utilities, such as gas.

Although the improved ability to analyze utility data that will result from this initiative may lead the City to identify and implement cost savings steps – like eliminating obsolete electric accounts, or making HVAC repairs – any such savings are too uncertain to estimate. The more reliable benefit of this initiative is the staff time that will no longer have to be used opening, paying, and tracking more than 70 separate bills.

PW06.	Consolidate public works contracts	
	Target outcome:	Reduced administrative costs; long-term savings
	Five Year Financial Impact:	N/A
	Responsible party:	Public Works Operations; Purchasing Coordinator

The City shall consolidate its Public Works contracts, where possible, so that services are provided for more facilities by the same vendor instead of using multiple vendors to provide the same service at individual facilities. Doing so will increase the efficiency of the City's purchasing function and of contract administration and payment processing. Public Works and Purchasing shall also jointly design an annual schedule and workflow in order to distribute the work of predictable bid processes more evenly throughout the year. The City shall also ensure that all vendors performing work on City facilities are doing so pursuant to a valid contract. It is anticipated that consolidating the service contracts will give the City more leverage to secure better prices, though the exact savings amount is unknown.

PW07.	Reduce discretionary projects and increase compliance with service charges	
	Target outcome:	Reserve limited resources for higher priority needs
	Five Year Financial Impact:	N/A
	Responsible party:	Managing Director, Finance, Public Works

Public Works reports that although departments are supposed to pay for discretionary projects – such as City Hall office renovations – based on the time spent by Public Works employees and materials purchased for the project, the actual practice is that departments may or may not pay for materials and do not pay for time.

Given the extent of maintenance and repair needs at City facilities, and given the limited staff resources to meet those needs, discretionary projects generally should not be allowed a higher priority than maintenance and repair projects. The City shall establish a formal policy defining discretionary facilities projects and making City departments financially responsible for any discretionary projects. In developing the policy, the City shall identify any criteria that might make a discretionary project a higher priority, such as potential to result in cost savings, or a measurable service improvement for City residents.

To implement this initiative, Public Property tradesmen will have to track their time on discretionary projects, and will have to track the cost of materials. Presumably, they will also need to provide departments an estimate of the project cost in advance in order for the department to decide whether to move forward with the work.

Finance will also need to support this effort by ensuring that costs incurred are actually paid by departments requesting work.

No financial impacts are projected from this portion of the initiative; either departments would do fewer discretionary projects and Public Property staff would have more time to spend on high-priority maintenance and repairs, or charges would move from the Public Works budget to other requesting departments.

Public Works is also inconsistently compensated for services provided to outside entities. Groups that use the City's mobile stage, or need electricity for a special event, are supposed to pay fees to cover costs such as staff time and electric use. In practice, the organizations that hold events supported by these City services do not consistently pay the costs. While it is understandable to want to give a "break" to organizations that may provide valuable services to City residents or for important civic events, this is an *ad hoc* subsidy of a few select groups. It is therefore neither an equitable use of public resources, nor a use that necessarily reflects the City's budgetary priorities.

Going forward, the City shall ensure that fees for services that Public Works provides to private entities are charged and collected. Implementation of this initiative will require Public Works to properly track services provided and issue invoices, or empower another City department such as the Citizen Service Center to do so. City leadership will need to support Public Works in enforcing fee collection. The City shall also review the fees associated with Public Works' services and ensure that they are current and appropriate.

Although this portion of the initiative is projected to have a positive financial impact, that impact is assumed to be minimal in the absence of historical data regarding fees per event and number of events per year.

PW08.	**Create public works "labor pool"**	
	Target outcome:	More efficient and effective service delivery
	Five Year Financial Impact:	N/A
	Responsible party:	Public Works, Human Resources

Public Works Operations has an expansive portfolio of duties; its employee perform tasks ranging from moving a portable stage to Schlegel Park, helping fill potholes, cleaning up fallen branches and other debris after a major storm, and assisting the mason with wall repairs.

Operations would be able to perform these duties more effectively if there were positions with more broadly defined job descriptions. The current position descriptions were designed for a larger workforce that the City can no longer afford. Public Works sometimes does not have the latitude to properly staff a response to an unexpected need such as debris clean-up after a big storm or flooding in a City building. Even an unremarkable number of employee absences can prevent the division from deploying staff in an optimal way.

Pursuant to the 2010 Recovery Plan, the Human Resources Manager has been working with the AFSCME bargaining unit to update position descriptions, which should help address this issue if the Public Works management communicates its needs for inclusion in that process. The Department might need to create a new position or establish a cross-divisional labor pool that provides more flexibility to meet the City's needs. Public Works shall work with Human Resources to define its staffing needs and develop a plan for addressing them appropriately.

PW09.	**Conduct a formal service identification and prioritization process**	
	Target outcome:	Reserve limited resources for higher priority needs

	Five Year Financial Impact:	N/A
	Responsible party:	Managing Director, Finance, Public Works

Over time, governmental organizations tend to add services; they rarely shed them. Financial pressures increase the importance of regularly conducting a process of identifying what functions are performed by each department – precisely how departments' limited resources are spent – and prioritizing among those functions. Such a process should result in budgets that are more closely aligned with service priorities, and may result in the identification of functions that should be reduced or eliminated in favor of higher priorities.

Under the leadership of the Public Works Director, assisted by the Act 47 Coordinator, a formal, comprehensive service identification and prioritization process shall be conducted for the Department of Public Works. The service inventory will parse out every function of the department, from clearing snow from streets and fixing potholes to paying utility bills and fielding phone calls with questions about trash pick-up or requests to use the mobile stage. The process shall distinguish between core services and support services, and shall identify the costs of each based on activity levels and actual expenditures. Based on this more comprehensive and detailed understanding of how Public Works' resources are currently spent, the Director will recommend adjustments to service priorities and budget adjustments based on those recommended priorities. For example, the Director might recommend eliminating non-mission critical activities in order to invest more heavily in core functions.

The process will result in information that will enable the Administration and Council to make better informed decisions about proposed changes, or whether allocations of resources would better align with the City's priorities.

Depending on how the public works inventory is received and used, such an inventory and prioritization process could be performed for other departments as well. Ideally, such a detailed review of City services, focusing on relative importance and costs, would be available to assist the City in the development of the FY2016 budget. It would allow for a more meaningful process than the current incremental approach to annual budgeting.

PW10.	**Improve Public Works performance measurement**	
	Target outcome:	More efficient and effective service delivery
	Five Year Financial Impact:	N/A
	Responsible party:	Public Works, Managing Director

The Public Works Department has made a good faith effort to measure its performance, as directed in the original Recovery Plan. Its performance measures, and those of other departments, are reported quarterly. The following table is an excerpt from the Department's performance report for the first quarter of 2014.

1st Quarter 2014 Performance Measures Report (Jan-Mar 2014)
Excerpt: Public Works, Operations Division

HIGHWAYS			
Cost per repair completed (by type)	$ 26.24	$ 26.11	$ 26.69
Road rehabilitation expenditures per paved lane mile	$ 57.10	$ 135.47	$ 87.75
Snow and ice control expenditures per	N/A	N/A	N/A
Average number of calendar days required to complete work (by type)	7.42	14.7	10

However, the Department's performance measures are not yet a useful management tool. Changes need to be made in order for performance measures to give department managers the information they need to use their resources more efficiently and effectively, and to relay information about City services to Reading's residents. The table below summarizes a number of deficiencies in current performance measures and examples of how they might be corrected.

Deficiencies of Current Measures	Recommended Improvements
It is not clear how the performance is being measured. For example, cost per repair completed might include the cost of employee benefits, an allocation of vehicle costs, and an overhead rate, or it might include only the costs of employees and materials.	A short description of the formula being used and how performance is being measured should be included with the performance data.
Measures are reported monthly. One month is not enough data to be useful because they can easily be impacted by "noise" in the data – e.g., if there are a number of holidays that month, if work was disrupted by a major storm, if absenteeism was high, etc. For the same reason, month-to-month comparisons are not generally useful.	Measures should be reported three months at a time (e.g., one number for January, February and March). Three months' worth of data is less likely to affected by "noise."
Measures are reported month by month, three months at a time. Since there will be seasonal variations in many kinds of performance, the three-month snapshot is inadequate.	Each quarter's data should be presented next to the same quarter from the previous year(s); that will allow an "apples to apples" comparison unaffected by seasonal variation.
Goals are not presented, and there is nothing to compare the measure to. Performance is not compared to the same period of the previous year, or any other benchmark that would make it more understandable. It's also impossible to tell whether performance is improving or deteriorating.	A goal should be provided for comparison to actual performance. Providing data from multiple points in time would help to provide an idea of whether performance is improving or deteriorating. Providing benchmarks from an organization like the ICMA or from a peer city would help put performance in context.

Deficiencies of Current Measures	Recommended Improvements
Measure may not reflect managers' priorities.	Managers should focus on a few measures for each function that will meaningfully describe what employees are doing, how well they are doing it relative to expectations, and where to focus efforts to improve.

Capital Improvements

The 2010 Recovery Plan of the City of Reading was so narrowly balanced that it left no room for capital investments. It is reasonable – and not uncommon – for cities in severe financial distress to temporarily give capital investments a lower priority until they have solidified their ability to fund day-to-day operations and make scheduled debt payments for prior years' investments.

However, this is not a sustainable long-term strategy as illustrated by two events that preceded the 2014 budget's passage. The Pennsylvania Department of Environmental Protection required the City to make urgent repairs to three of its dams, and a retaining wall of the iconic Pagoda on Mount Penn was found to have deteriorated to the point of needing emergency repairs.

These engineering emergencies provide two painful lessons. One is, "out of sight, out of mind." The Pagoda's failing retaining wall is on a corner of the site that is difficult to physically access and therefore rarely observed. Similarly, the dams are not frequented by City employees or visitors. Unfortunately, the City is responsible for the safety and longevity of all City-owned facilities, regardless of how they are used.

The other lesson is that when capital projects become emergencies, the City has less flexibility to handle those projects. If a project needs immediate attention, then the City has much less discretion to phase the project execution over several years, gather bids to attain the best price quote or sequence the project behind other priorities.

Reading Pagoda

Stairs Outside Pagoda

The central theme of this chapter is that, regardless of the level of capital investment that the City can make in the coming years, the City needs to take a proactive approach to managing all its properties and identifying their capital needs. The City cannot afford the financial risk created by reactive property management and maintenance.

This chapter has five sections:

- The first section discusses the major ways that the City's properties are used, and the relationship between usage, benefits, and financial responsibilities.

- The second section presents capital projects recently implemented by the City, and looks at how they align with the City's capital needs.

- The third section provides a rough sense of the City's overall capital needs through a discussion of the conditions of some City assets.

- The fourth section presents an order-of magnitude estimate of capital needs and reviews sources of capital funding.

- The final section proposes a plan for gradually doing a better job of caring for the City's capital assets.

This chapter does not address the very significant assets of the City's water system (RAWA) or the wastewater treatment plant. Because the costs of these systems are borne by their users through fees, they do not face the kind of resource challenges the City has in caring for its non-enterprise buildings, infrastructure, and equipment.

Use of City Assets

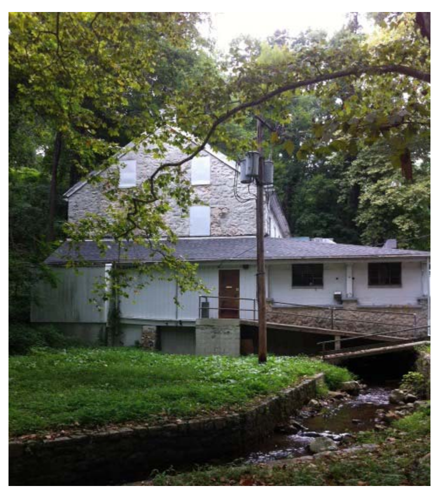
Use of the City's assets falls into several categories:

- Some are used by City government itself, such as City Hall or the fire stations.

- A large number are operated by other entities for public purposes. The most significant of these in terms of size and number are the City facilities, parks and playgrounds operated by the Reading Recreation Commission pursuant to a cooperation agreement between the City and Reading School District; the water supply-related assets operated by the Reading Area Water Authority under its lease agreement with the City; and the Main Library and three branch libraries operated by the Reading Public Library. Others include the Reading Pagoda and the Fire Tower at the top of the Mount Penn Reserve and the Liberty Firehouse Museum.

- A third category of properties are those operated for private purposes, such as the Reading Fightin Phils use of FirstEnergy Stadium or several entities using the "WEEU" building for radio transmission equipment.

Angelica Nature Center



East Ends Athletic Club

- Finally, the City has significant land assets that are used to some extent for recreational purposes, like mountain biking and hiking. However, it appears that these assets are relatively underutilized, given their extent and quality.


View from the Pagoda


Mineral Spring Park Shelter

There is variety in the structure and terms of the arrangements between the City and the operating entities. In some cases, like the East End Athletic Club, the organization that operates the facility is also responsible for all costs, including any capital improvements. In other cases the entity that uses the facility makes a rental payment to the City to cover these costs.

In many cases, though, the entities that operate the facilities assume responsibility only for day-to-day janitorial services. The City – specifically the Public Property Division within the City's Department of Public Works -- retains responsibility for more extensive facility maintenance and repairs and capital improvements. In some cases, the City has also retained responsibility for covering the cost of utilities that other organizations use at City facilities. This is problematic because lessees have no direct financial incentive to conserve electricity, gas, or water, especially if they do not even see the bills before they are paid. The potential liability of the City in case of injury at a City-owned facility is another consideration.

In some cases City officials have made a deliberate decision to provide these services or cover these costs as a subsidy to support the organization's mission. Given the City's financial limitations and the poor condition of many assets that are solely City government's responsibility, the City needs to re-evaluate these arrangements. In instances where the City decides to continue the subsidy, it should be transparent, quantified and capped or reduced over time.[1] In all instances, the City needs to be aware of the cost implications of the lease terms, and be accountable for any use of limited City resources for the benefit of lessees.

[1] For a specific example, please see the Public Works chapter for more information on the City's arrangement with the Reading Recreation Commission.

Capital Projects, 2010-2014

The following are capital projects planned for 2014:

- 9th and Marion Fire Station Roof Replacement (completed)
- Pagoda Retaining Wall Repairs (expected to be complete before the end of 2014)
- Information Technology Infrastructure project, including replacement servers, Police Department dispatch, mobile and records systems, enterprise wireless network, and electronic asset inventory system (some elements completed in 2014; will be continued in 2015)
- $575,000 for dam work ($500,000 for Bernhart and $75,000 for Bushong) (assessments completed in 2014; engineering and environmental work to be performed in 2014 and 2015)

The table below shows the value of capital projects executed by the City of Reading between 2010 and 2013[2]. The projects are grouped by entity that operates the facility and then in decreasing order by dollar amount.

City of Reading Capital Projects, 2010-2013

Project	Entity Using Facility	Amount
First Energy Stadium	Reading Fightin Phils	10,084,000
Southwest Fire Station	City of Reading	3,154,000
Security Cameras	City of Reading	1,732,000
Police Dept Pistol Range	City of Reading	1,601,000
Paving	City of Reading	656,000
Main Library Rehab	City of Reading	476,000
Spring Garden Street Demolition	City of Reading	181,000
Recycling Baler Facility Rehab	City of Reading	153,000
Fire Station Improvements	City of Reading	144,000
Branch Library Improvements	City of Reading	96,000
11th & Pike Playground	Recreation Commission	369,000
Schlegel Park Pool	Recreation Commission	256,000
Northmont Playground	Recreation Commission	228,000
Barbey Playground/Park	Recreation Commission	207,000
Other Park/ Rec/ Playground	Recreation Commission	176,000
Reading Iron Playground	Recreation Commission	142,000
Keffer Park Playground	Recreation Commission	111,000
Lance Place Playground	Recreation Commission	91,000
3rd & Spruce Playground	Recreation Commission	83,000
Angelica Boat House	Berks County Conservancy	332,000
Liberty Fire Station	RDG Area Fire-Fighters Museum	62,000
Other Projects	Various	302,000
Total		**20,636,000**

[2] The sources of the project values are (a) reports on expenditures from City CDBG funds, provided by the Community Development Department; (b) Construction Contracts spreadsheets provided by the City's auditor, which are used for the development of the Capital Assets section of the City's Comprehensive Annual Financial Report; and (c) a report on grants used for capital purposes provided by the City's Grants Writer. Amounts may not reflect total project expenditures, and amounts should be considered approximate since the data from the three sources are inconsistent in some cases.

The largest capital project in this period was the improvements at FirstEnergy Stadium, which is leased by the Reading Fightin Phils baseball team. That project was funded by debt originally issued by the Reading Fightin Phils and then assumed by the City as part of the lease agreement re-negotiated in December 2012. Under the terms of the lease agreement, the team reimburses the City for the annual debt service and makes an additional rental payment that is approximately $30,000 per year. The City also received a $5.0 million Redevelopment Assistance Capital Program (RACP) grant from the Commonwealth of Pennsylvania to fund the project.

Also of note is the large number of recreation facility projects: eight of the 20 specific projects are for parks, playgrounds, or the Schlegel Pool. The City has commonly used a portion of its annual Community Development Block Grant (CDBG) to fund these projects.

Only a small share of total capital dollars were spent on paving ($656,000, or 3.2%), which is addressed in more detail below. The third largest project was $1.7 million for grant-funded security cameras. This is an important investment in the public safety of the City, but does not help address the deferred maintenance needs of city facilities.

Because funding for City capital projects is so limited, the City's capital program in recent years has been primarily shaped by the funding that is available rather than by capital needs. For example, improvements at FirstEnergy Stadium were made that are ultimately being paid for by the Reading Fightin Phils as well as a state grant. Other specific-purpose grants have funded the City's security camera project, renovations at the Main Library, the recycling baler facility, and the renovation of various playgrounds. CDBG funding can be used more flexible, but is still restricted to certain project types in certain locations. As a result, there are many important projects that go unfunded year after year.

Condition of City Assets: Buildings

The best approach to identifying, quantifying and prioritizing capital needs is to perform a condition assessment. That is, using either in-house resources or contracted services, having a multi-disciplinary team perform a detailed review of each facility to evaluate the condition of building envelopes (roofs, doors, windows, and walls), structures, HVAC systems, electrical systems, plumbing, interiors, and grounds. The City of Reading does not such an assessment at this time.

In the absence of such a comprehensive condition assessment, the City relies on its Public Property tradesmen. As of the writing of this Plan, the Division has two foremen and five tradesmen: a carpenter, a mason, an electrician, a plumber, and a HVAC technician. The table below is a very high-level summary of the condition of City buildings according to the Public Property tradesmen; the table includes the City buildings that are heavily regularly used. Cells that have an "X" in boldface have especially dire needs.

	Structure	Roof/ Gutters	Doors/ Windows/ Walls	Interior	HVAC/ Plumbing	Electrical	Site/ Land-scape
City Hall		X					
Public Works Center							X
Main Library		X	X		X	**X**	X
Northwest Branch Library			X		X	X	
Southeast Branch Library					X		

	Structure	Roof/ Gutters	Doors/ Windows/ Walls	Interior	HVAC/ Plumbing	Electrical	Site/ Land-scape
Northeast Branch Library			X				
Police Evidence Storage	X	X	X	X			
Schuylkill Riverside Fire Station	X	X	X	X	X	**X**	
Neversink Fire Station			X	X	X	**X**	
9th & Marion Fire Station	X		X	**X**	X	**X**	
Plum & Franklin Fire Station	X			X	X	**X**	
Rainbow Fire Station	X			X	X	**X**	X
EMS Building		X	X	**X**	X	**X**	
Southwest Fire Station							
City Park 106 Building				X			
Recycling Building	X		**X**		X	X	
3rd & Spruce Rec Center						X	X
11th & Pike Rec Center			**X**				
Pendora Park Field House			X		X	X	
Schlegel Park Field House		X			X		
Baer Park Field House			X			X	
Keffir Park Field House			X				
City Park Comfort Station		X	X				
Schlegel Pool Building				X	X	X	
City Park Greenhouse	X	X	X				

With the exception of the new Southwest Fire Station, the fire stations and Main Library have the most need for capital improvements. A review of work order requests submitted to Public Property from January to June 2014 supports this informal assessment. Of 184 work order requests received during this period, 11 percent were for the Hampden/Marion Fire Station, which was originally built in 1885 and has extensive interior damage because of years of water infiltration. Another 10 percent were for the Main Library, and nearly eight percent were for the EMS Station. Public Property tradesmen also cited concerns about the poor condition of the Rainbow, Plum and Franklin and Schuylkill Fire Stations. The City needs a condition assessment and a station location analysis to determine whether the existing fire stations should be renovated, replaced with new stations on the same sites, or consolidated into new stations.

Rainbow Fire Station

9th & Marion Fire Station

EMS Station

Liberty Fire Museum

By comparison, City Hall is in relatively good condition. It has the most technologically advanced HVAC system of any City building and energy-efficient lighting. But the existing roof is beyond its useful life, and there are many leaks. Roof replacement will be a large and complex project because of the size of the building, the multiple roof levels, the number of roof penetrations, and the historic masonry parapet walls of the older part of the building.

Public Property's tradesmen are highly skilled and knowledgeable of the condition of the City's buildings. However, their knowledge is not documented and therefore not easily accessible to others, so there is nothing approaching an objective, transparent process for prioritizing and planning capital over a multi-year period. Moreover, their understanding of City building conditions is shaped by responding to complaints received from City employees and the conditions they encounter when they are out in the field. They are not asked, nor does the scope of their responsibilities allow them the time, to perform condition assessments to identify problems proactively. Plus their primary responsibility is to keep each building available for daily use. Without needed capital improvements and with lean maintenance budgets, they have been forced to use piecemeal and "band-aid" approaches.

However resourceful the City's tradesmen may be, band-aids will not be adequate forever, so more comprehensive and more costly capital projects will be needed eventually. The City needs to identify necessary capital projects in advance, before they become emergency projects with even higher price tags.

Condition of City Assets: Bridges and Roads

The City of Reading is responsible for eight bridges. PennDOT District 5-0 performs annual or biennial inspections of the bridges using contracted engineers and provides the inspection reports to the City. The inspection costs are paid by Federal funds (80 percent) and by the bridge owners; in practice, the costs of inspections are deducted from Liquid Fuels tax allocations. Each inspection includes a list of maintenance or repair items that are recommended, and a cost estimate for those items.

Although a summary of recommended bridge maintenance and repair work was not available at the time of publication, it is good news that the City's bridges, unlike its other capital assets, are regularly inspected and that current, professional inspection reports exist for each of the bridges. It is also good news that no critical structural deficiencies exist for any of the City's bridges.

The City of Reading is responsible for 157.8 linear miles of roads. The City does not have a Pavement Management System – i.e., software for tracking pavement conditions and street work orders – or any written record of streets or street conditions. Public Works does track pothole repairs (location and repair dates) in a spreadsheet. The Operations Division Manager reports that a regular cycle of repaving projects has not been in place for 10 to 12 years.

The City has been able to do very little in the way of re-paving its roads over the last several years because of its financial constraints. The table below shows the City's re-paving projects since 2010.

Project	**Year**	**Cost**	**Funding**	**Lin Mis**
Court Street (3rd to 7th)	2010	$ 268,500	CDBG	0.4
N 6th St (Amity St north), Bern St (5th-6th)	2012	$ 411,734	Federal Trans	0.5
Cotton St (9th-19th)	2014	$328,896	Liquid Fuels/ UGI	1.0
Total		**$1,009,130**		**1.9**

This re-paving project information is notable for at least two reasons. One is the number of miles that was re-paved from 2010 to 2014: 1.9 miles. This represents only 1.2 percent of the City's total roads, demonstrating that the City is not investing adequately in its streets. The second is the cost of the projects. The most recent project at Cotton Street cost $329,000 to pave 1.0 mile. The Court Street and 6th/Bern Street projects cost even more on a per mile basis. These costs are high relative to paving costs elsewhere. For example, the City of Pittsburgh uses $250,000 per mile to estimate paving costs, but as a much larger city, it also paves 24 to 64 miles per year. It may be that there are substantial fixed costs for paving projects, such that small projects have higher per lineal mile costs than large projects. If this is true, then the City of Reading may be able to save money on a per mile basis by expanding the scale of its paving projects.

The Operations Division Manager estimates that the useful life of pavement in Reading is 10 to 15 years, depending on traffic. That means that the City should be paving between 10.5 and 15.8 miles each year to keep up with a regular replacement cycle. If the City was able to achieve a per mile cost of $250,000 for re-paving, then the City should be funding re-paving projects to the tune of $2.6 million to $3.9 million per year.

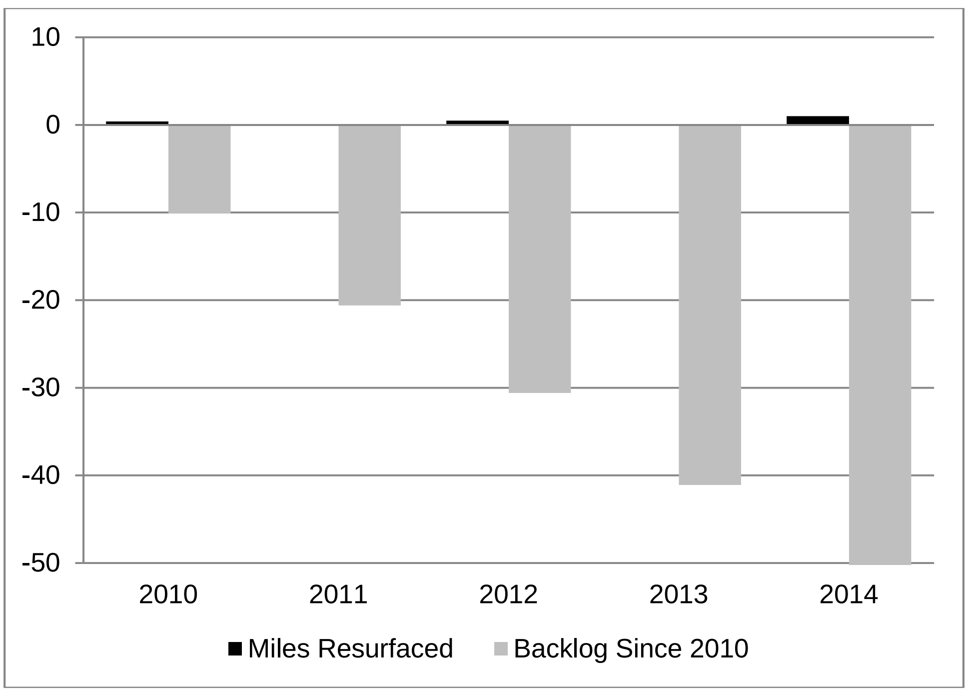
Useful Life	Mis/ Yr	Cost/ Yr
10 years	15.8	$3.9 M
15 years	10.5	$2.6 M

On the other hand, the backlog of paving needs grows each year the City does not re-pave at least 10.5 miles. The table below shows the number of linear miles that were resurfaced from 2010 to 2014. It also shows the shortfall each year, relative to the number of miles that should be resurfaced to keep up, and the cumulative shortfall.

Year	Lin. Mis Resurfaced	Shortfall Rel. to 10.5 Mi Target	Cumul. Shortfall
2010	0.4	(10.1)	(10.1)
2011	0	(10.5)	(20.6)
2012	0.5	(10.0)	(30.6)
2013	0	(10.5)	(41.1)
2014	1.0	(9.5)	(50.6)

The chart below graphically shows the magnitude of the cumulative backlog relative to the number of miles being resurfaced each year.

Reading Asphalt Resurfaced Miles and Backlog, 2010-2014



The burden of resurfacing 10.5 linear miles of asphalt roadway each year is significant – as previously noted, at an estimated cost per mile of $250,000, the financial cost is $2.6 million. However, the burden of a backlog is even greater.

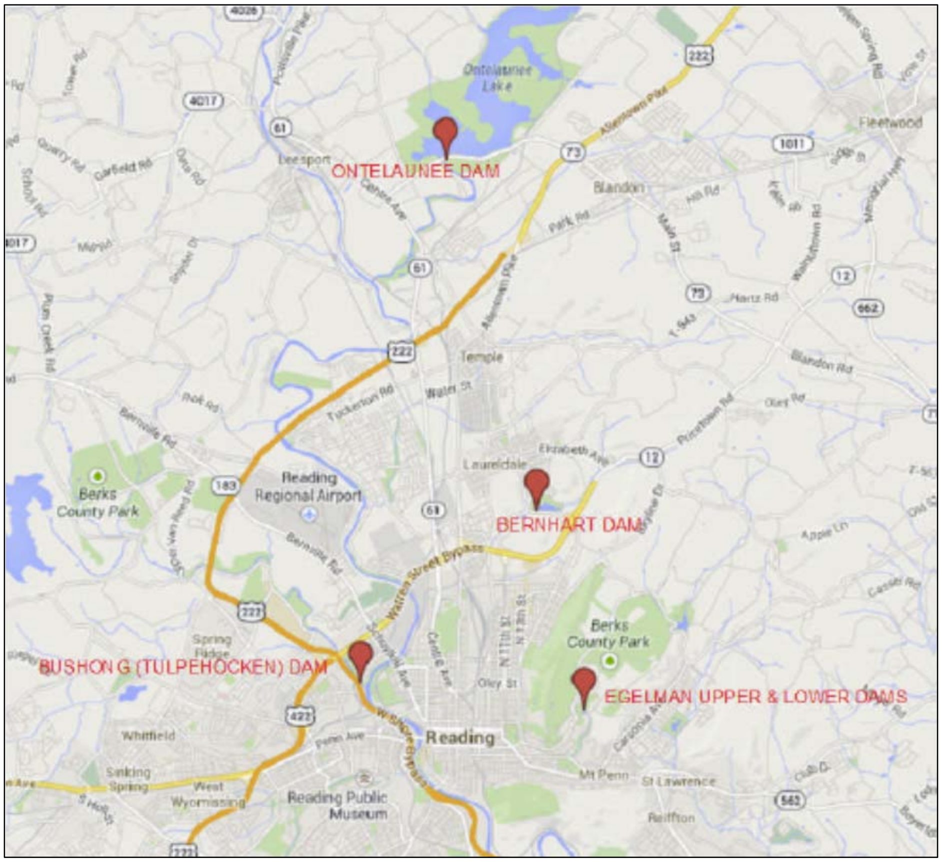
Year	Backlog	Lin. Miles	Total Miles	Est. Cost	Premium
	From 2010-2014 (mis.)	Life Cycle	Life Cycle + 10% of Backlog	$250K/ mi., 2% Inflation (M)	Inflation Impact, Base Yr 2015 (M)
2015	50.6	10.5	15.6	$3.9	$0.0
2016	45.5	10.5	15.6	$4.0	$0.1
2017	40.5	10.5	15.6	$4.0	$0.2
2018	35.4	10.5	15.6	$4.1	$0.2
2019	30.4	10.5	15.6	$4.2	$0.3
2020	25.3	10.5	15.6	$4.3	$0.4
2021	20.2	10.5	15.6	$4.4	$0.5
2022	15.2	10.5	15.6	$4.5	$0.6
2023	10.1	10.5	15.6	$4.6	$0.7
2024	5.1	10.5	15.6	$4.6	$0.8
TOTAL		**105.0**	**155.6**	**$42.6**	**$3.7**

Note: Some figures may not match due to rounding.

The backlog of resurfacing from 2010 to 2014 alone is 50.6 miles. Supposing the City were to try to tackle the backlog of the last five years over the next ten years – i.e., if it added one-tenth or 5.1 miles to the 10.5 mile annual resurfacing target – the number of annual miles to resurface would increase by 48 percent, to 15.6 miles. Since construction costs typically grow over time, the cost of the backlog is not just the cost of the additional miles each year, but the difference between what the City will pay and what it would have paid if the work had been done years earlier. The table above shows the City would pay $3.7 million more to eliminate a five-year backlog over a ten-year period, assuming 2 percent per year construction cost inflation.

Condition of City Assets: Dams

The City owns five dams: Ontelaunee, Egelman's upper, Egelman's lower, Bernhart, and Bushong Mill. Ontelaunee is a medium sized dam and the others are small sized. The average age of these dams is 115 years. The locations of the dams are shown on the map below.



Since 2000, the Pennsylvania Department of Environmental Protection (DEP) contacted the City multiple times regarding dam safety concerns. These concerns led to major emergency repairs at the Egelman's Lower and Egelman's Upper dams, including rebuilding a collapsed portion of a retaining wall along Hill Road. In January 2014, the City retained outside support for a dam condition assessment with the goal of bringing the dams into compliance with DEP requirements. The City received a draft of the assessment in August 2014.

The assessment categorized future work into five categories: High, Medium, and Low Priority; Public Safety; and Operations and Maintenance. High priority work is recommended for completion within the next year; medium priority, within the next two years; and low priority, within the next three to five years. The Operations and Maintenance designation "indicates a potential dam safety concern that involves routine action to be taken by the City of Reading in order for the issue to not become a dam safety issue." Public Safety items are safety issues observed near the dams that do not directly affect the safety of the dam, but are nonetheless a higher priority than the "low priority" items; these include warning signage, site security, and concrete slab repairs.

Based on the August 2014 draft, the total estimated cost of work needed on the dams is $1.4 million. Estimated costs by dam and priority category are as shown in the table below; however, the table does not include three high priority projects at Bernhart and Egelman's Lower for which cost estimates were still under development as of the draft release date:

	Ontelaunee	Egelman Upper	Egelman Lower	Bernhart	Bushong	All Dams
High priority	0	0	145,000	255,000	415,000	815,000
Medium priority	5,000	5,000	0	135,000	0	145,000
Low priority	0	0	0	46,000	0	46,000
Public Safety concerns	15,000	35,000	85,000	51,000	170,000	356,000
Operations and Maintenance	6,000	10,000	5,000	6,000	5,000	32,000
Total - All Work Categories	**26,000**	**50,000**	**235,000**	**493,000**	**590,000**	**1,394,000**

For all of the dams except Ontelaunee, removal is an alternative to capital improvements. The estimated range of costs of dam removal are as shown in the table below. However, these cost estimates do not include any of the site work beyond stabilizing the dam area that would likely be needed in the case of removal, since each of the dams is located in a public park.

Estimated Dam Removal Costs

	Min	Max
Egelman's upper and lower	160,000	310,000
Bernhart	305,000	725,000
Bushong Mill	245,000	425,000
Total	**710,000**	**1,460,000**

Bernhart Dam

Bushong Dam

Egelman Upper

Ontelaunee

RAWA uses the Lake Ontelaunee dam, so maintenance and repair costs are assumed to be tied to the City's water system. The Egelman's dams arguably have a storm water sewer management function, so it is possible that the Sewer Fund may take on the costs of their repairs. If so, and if the Bushong Mill dam was removed instead of being repaired, then the City would still need to make substantial investments in the next several years, as shown in the table below[3]:

	2015	2016	2017	2018	2019	5-Yr Total
Bernhart	255,000	153,750	34,083	34,083	34,083	511,000
Bushong Removal	335,000	0	0	0		335,000
Total	590,000	153,750	34,083	34,083	34,083	846,000

However, given that there are still several High Priority Action items that have not yet been priced, it is likely that total costs will be materially higher.

The next steps are to complete and issue a final version of the assessment and then finalize a plan based on its results. The City will then seek DEP's approval of the plan and then have to budget the required funds and proceed with required repairs.

ADA Compliance

As discussed above, the capital needs of the City's facilities are significant because maintenance and capital investment has been inadequate over the last several years. The City's capital needs are even greater because the City's facilities are not compliant with the American Disabilities Act, or ADA.

The ADA requires all city and county governments to make all of their activities, services and programs accessible to all people with disabilities, including "public meetings, court activities, and programs of police, fire, voting, emergency management, and parks and recreation departments." Facilities constructed or altered after January 26, 1992, must comply with the ADA Standards for Accessible Design (ADA Standards). For older facilities, the relevant standard is called "program access," which means that "State and local government's services, programs, and activities, when viewed in their entirety, must be readily accessible to and usable by persons with disabilities."[4]

The City is committed to ensuring program access, and is therefore in the process of developing an ADA Transition plan. A draft of this plan dated June 16, 2014 categorizes the current accessibility of public buildings as good, fair, or poor, as shown below:

Good	Fair	Poor
City Hall	3rd & Spruce Recreation Center	Park Field houses (5)
Nature Center at Angelica Park	11th & Pike Recreation Center	Liberty Firehouse Museum
Schlegel Park Pool house	Northeast Library	Northwest Library
City Park Concession Stand	Southeast Library	Pagoda
Main Library		

[3] This table shows 2014 cost estimates and does not include any estimated cost escalation impacts . It also assumes that the cost of removing the Bushong Mill dam is $335,000, that Low Priority and Public Safety items would be addressed over several years, and that Operations and Maintenance costs are annual costs.

[4] U.S. Department of Justice, Civil Rights Division, Disability Rights Section: "Project Civic Access - Cities and Counties: First Steps Toward Solving Common ADA Problems." http://www.ada.gov/civiccommonprobs.htm, retrieved August 12, 2014.

Examples of necessary alterations include renovations to allow access to building levels (elevator or platform lift); restroom, entrance or parking lot renovations; counter height and drinking fountain changes; and new signage. In addition, the plan identifies the need to construct 758 curb ramps around the City to ensure that all people can safely cross streets throughout Reading.[5]

The Plan identifies the work that is needed at each facility to make it accessible; estimates the cost of the work; and proposes a plan for doing the work over a 20-year period. The table to the right shows the estimated cost of all the identified renovations, excluding cost escalation over time. As shown at rows 5a and 5b, a five percent multiplier is then applied for the cost of architectural and engineering fees, and a 15 percent contingency is added. The result is a grand total of $7.1 million.

1a	City Hall	15,000
1b	City Park Concession Stand	1,000
	Sub-total: "Good" Facilities	**16,000**
2a	3rd & Spruce Rec Center	130,000
2b	11th & Pike Rec Center	38,000
2c	Northeast Library	6,600
2d	Southeast Library	6,600
	Sub-total: "Fair" Facilities	**181,200**
3a	5 Park Fieldhouses	42,500
3b	Liberty Firehouse Museum	575,000
3c	Northwest Library	225,000
3d	Pagoda	750,000
	Sub-total: "Poor" Facilities	**1,592,500**
	Sub-total - All Facilities	1,789,700
4a	Curb Ramps ($5,484 ea)	4,156,872
	Sub-total: Construction	**5,946,572**
5a	5% A/E Fees	297,329
5b	15% Contingency	891,986
	Grand Total	**7,135,886**

The plan divides the $7.1 million total by 20 years for an annual estimated cost of $357,000. The plan then states that 4 percent should be allowed for the escalation of labor and material costs each year, but it does not calculate the resulting cost increase. When the impact of a projected 4 percent cost escalation rate is included, the total cost over 20 years is actually $10.6 million, which is $3.5 million or 49 percent higher than the grand total shown.

A key takeaway from the draft ADA transition plan is that, since construction costs will grow over time, faster execution will reduce total spending. This will be true even if the four percent escalation rate assumption is too high. For example, if average annual cost increases were only 2.5 percent, the cost over 20 years would still be $2.0 million or 28 percent higher than if all the work was done at once. For reference, the average annual increase in the building cost index compiled by the Turner Construction Company from 2001 to 2013 was 3.4 percent.[6]

As of October 23, 2014, a revision to the ADA Transition Plan is anticipated that will include at least three significant changes to the alterations and projected costs described in the preceding paragraphs:

- Because the Pagoda and the Liberty Fire Museum are on the National Register of Historic Buildings, it is expected that elevators will not be required to be added to these buildings; rather, video cameras will be used to give disabled visitors "virtual" access to the upper floors. This change will significantly decrease the total cost of the Plan.

- The Fire Tower at the top of the Mount Penn Reserve will be added to the Transition Plan. This building is not on the National Register of Historic Buildings. If the City was required to provide

[5] The plan does not include City buildings that are not accessed by the public – i.e., fire stations, the Wastewater Treatment Plant, the Public Works Offices/ Garage, the Recycling Center, and the Sewers Team Facility. Note that the transition plan assumes that polling places currently located at the Ninth and Marion and Third and Court Firehouses would be relocated to accessible facilities.

[6] Turner Building Cost Index, 2nd Quarter 2014, http://www.turnerconstruction.com/cost-index. Retrieved August 12, 2014.

access to all visitors to the top of the building, this change would significantly add to the cost of the Plan.

- Many of the existing curb ramps in the City that were thought in the previous Plan draft to be ADA-compliant will have to be renovated to meet updated standards. This change would significantly add to the cost of the Plan.

As noted previously, the City of Reading is committed to bringing its public buildings into compliance with the ADA. The proposed General Fund budget includes $110,000 for ADA Engineering, and the proposed CDBG Action Plan for 2015 includes $300,000 for curb ramps. If this use of CDBG funds is not approved, then the City will have to use more General Fund dollars for the ADA work.

Capital Projects in the 2015 Proposed Budget

As the City developed its 2015 operating budget in the fall of 2014, there was no parallel capital budget development process, presumably because of the limited availability of funds for capital projects. The Department of Public Works therefore included requests for funding for several capital projects in its 2015 proposed operating budget, which after vetting were included in the City's proposed 2015 budget. Proposed projects and funds are shown in the table below.

Project	Request
ADA Engineering Plan	110,000
FirstEnergy Stadium swimming pool replacement	40,000
Bernhart Dam repair or removal	500,000
Other dam repairs	700,000
Main Library façade inspection and repair	25,000
Water meter testing & backflow preventers (phase 1)	70,000
City Hall roof repair/ replacement (phase 1)	125,000
City Hall fire alarm system update	25,000
EMS Station floor repairs	40,000
EMS Station exterior wall stabilization	25,000
Rainbow Fire Station bay floor structural repairs	30,000
Neversink Fire Station façade repairs	12,000
9th & Marion Fire Station repairs	5,000
Riverside Fire Station roof repairs	14,000
Total project funding requests	**$1,721,000**

In addition to these proposed General Fund projects, $300,000 in CDBG funding has been proposed for use on curb ramps pursuant to the ADA Transition Plan.

This list of funding requests is good news in the sense that Public Works recognizes that there are urgent capital maintenance/ repair needs at City buildings and the Department is taking steps to meet those needs. The bad news is that, given other competing priorities for limited operating budget funds, it is likely that most of the project funding requests would be denied.

It should be noted that the identified projects address specific repairs or projects at several buildings that are in need of much more comprehensive renovations. For example, $5,000 in funding is proposed for repairs at the 9th and Marion Fire Station; however as described earlier, 9th and Marion has significant deficiencies in its structure, exterior envelope, interior, HVAC and plumbing systems, and electrical systems. A phase I investment of $125,000 is proposed to begin replacing the roof of City Hall, while the whole project is estimated to cost about $1.2 million. These requests are clearly an admission that larger funding proposals would likely not be approved, and they demonstrate a laudable commitment to doing the Department's best to keep poor facilities limping along. But it may be that such a piecemeal or "band-aid" approach may be costlier in the long run than a more comprehensive renovation (because there would be economies of scale and lower mobilization costs) or building a new facility to replace one or two old ones (because renovations are costlier than new construction and because future utility costs could be reduced through a more comprehensive project).

Finally, it is worth noting that $1.2 million or 70 percent of the total request is for dam repairs. While it is obviously important for the City to reduce potential liabilities associated with dam conditions, it is also a pity that so much money needs to be spent on a project that will have so little impact on City residents or employees.

Capital funding sources

Ideally, a mature city the size of Reading would fund its capital program with a blend of pay-as-you-go and debt funding. In such an ideal scenario, the City would issue debt to handle large "lumpy" projects, like the replacement of the City Hall roof, and spread the costs of such a project over its useful life. At the same time, shorter-lived projects would be paid from operating funds or "pay-go," helping the City to limit its total debt burden and maintain some financial flexibility.

Of course, the reality of the City of Reading is very far away from this ideal scenario, and the City is not able to keep up with capital funding needs with either pay-go or debt. Practically speaking, the City is not able to issue debt at all, since interest rates would be prohibitively high, and the City cannot afford to increase its heavy debt service burden. Because the City is relying exclusively on pay-go for the anemic capital investments it is able to make, the City has required recent and current taxpayers to bear a disproportionate burden of the costs of caring for its assets.

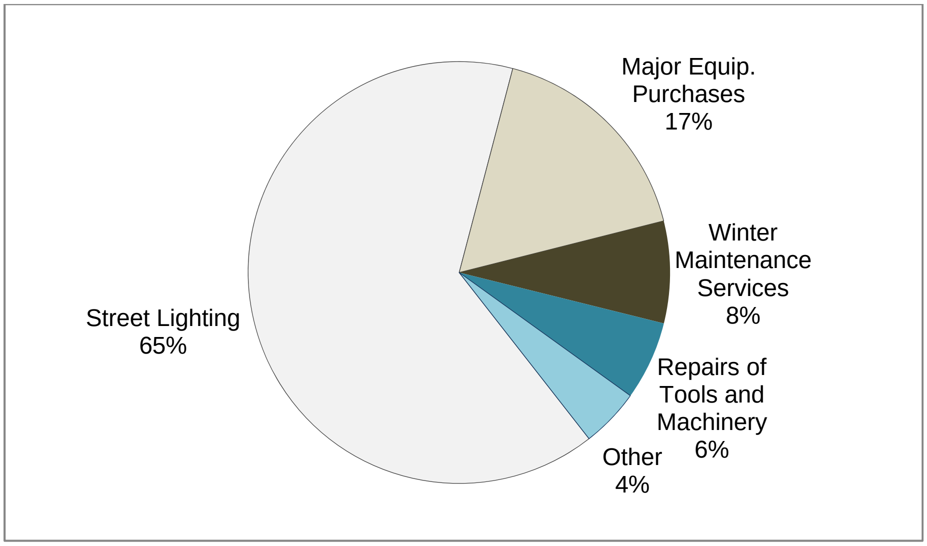
In the absence of these traditional, preferred funding sources, the City has relied on annual allocations from the Commonwealth of Pennsylvania and the federal government to meet some needs as described below.

Liquid Fuels Funds

The Commonwealth of Pennsylvania levies a Liquid Fuels Tax on each gallon of liquid fuel (primarily gasoline) used or sold and distributed in the state. The Commonwealth allocates the tax revenues among local government entities in the state for use on roads, streets and bridges. Fifty percent of the funds for municipalities are distributed based on a municipality's proportion of local road mileage to the total local road mileage in the state and 50 percent on the proportion of a municipality's population to the total population of the state. The City of Reading's Liquid Fuels allocations has been relatively stable at $1.3 to $1.4 million per year since 2010.

The City's year-to-year spending has varied considerably over the last four years but, in total across all years, the largest share of the City's allocation has been used for street lighting. The chart below shows total spending by category from 2010 to 2013.

Liquid Fuels Expenditures by Category, 2010-2013

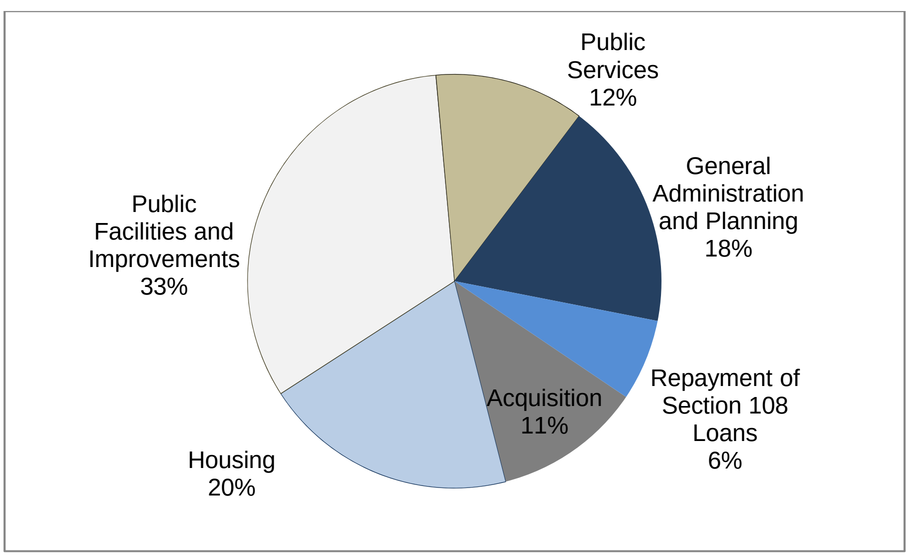


Source: PA DOT reports (MS-965), provided by City of Reading Office of Finance

CDBG Funds

The City's Community Development Block Grant funds are used for a variety of purposes, only one of which are Public Facilities and Improvements, or capital projects. Sometimes CDBG funds are used to leverage grants, such as those from the Pennsylvania Development of Conservation and Natural Resources (DCNR) grants. Other uses of the City's CDBG grant funds include repayment of HUD 108 loans for the Abe Lincoln Hotel; salaries for code enforcement and CDBG administration-related positions in the Community Development Department; homeownership assistance; residential façade improvements; demolition of dangerous buildings; Community Policing; recreation programs; support for the Olivet Boys and Girls Club; and the Human Relations Commission. The chart below shows the allocation of CDBG among the categories used by HUD, according to expenditure reports provided by Community Development.

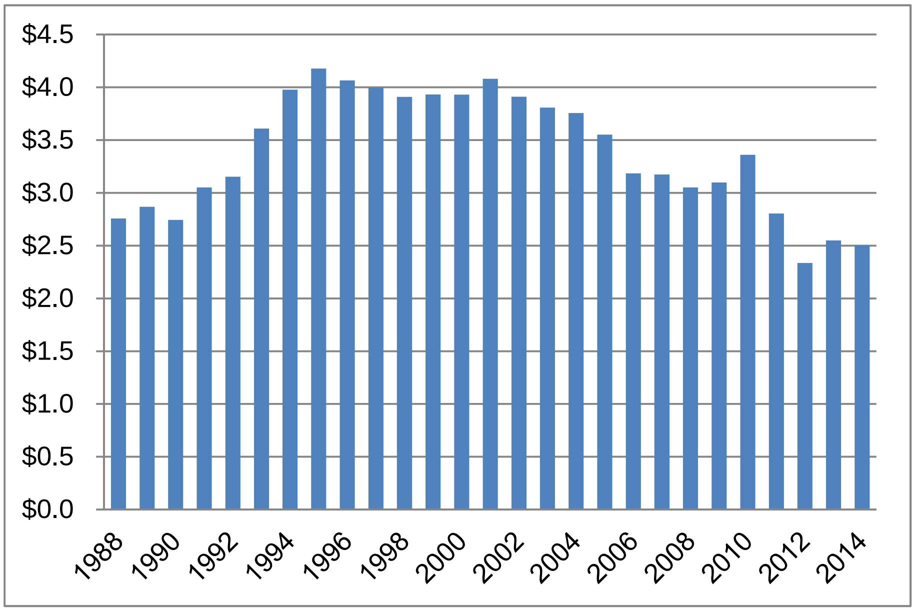
CDBG Expenditures by Category, 2010-2013



Source: US HUD CDBG Performance Profile Reports provided by City of Reading Dept. of Community Development

Expenditures in the Public Facilities and Improvement category represents one-third of total CDBG expenditures over the four-year period from 2010 to 2013. While it is good that a significant portion of the City's CDBG allocations has been used for capital assets, that money has primarily been dedicated to parks, playgrounds and recreation facilities, not infrastructure like roads or "brick and mortar" assets like fire stations. The City's CDBG awards have generally been declining since 2001, as shown in the chart below.

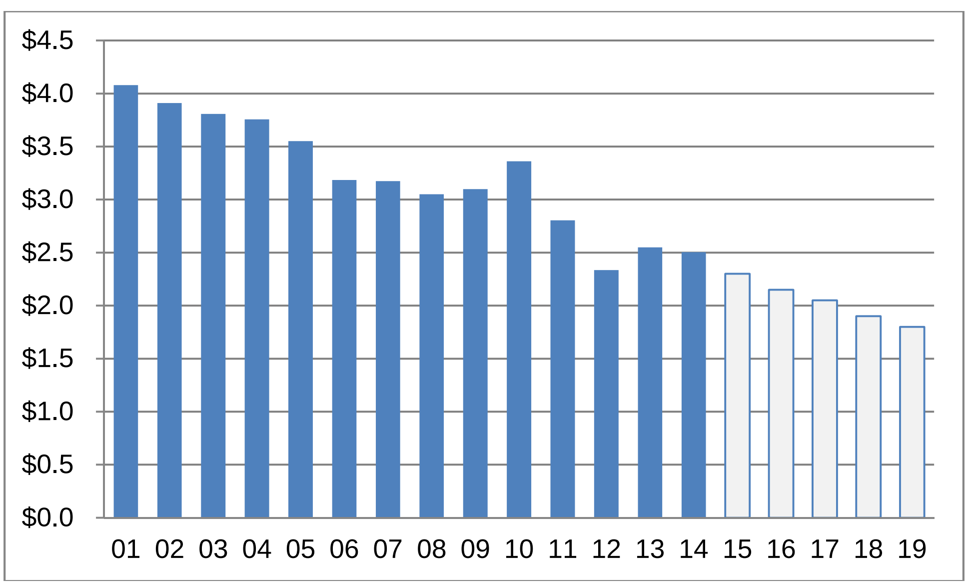
City of Reading CDBG Awards, 1998-2014



Source: City of Reading Department of Community Development

If the downward trend in CDBG awards since 2001 continued for the next five years, annual awards would decline from $2.5 million in 2014 to $1.8 million in 2019, as illustrated in the chart below.

Linear Trend Projection of Reading CDBG Awards, 2015-2019



Capital Needs

Reading's unfunded capital needs are significant. As discussed earlier:

- If the City had no backlog in paving needs, it would have to spend $2.6 million - $3.9 million each year to pave enough of its roads so that every road would be repaved over a 10-15 year period, assuming an average paving cost of $250,000 per mile. Because of the City's extremely limited paving activity, not to mention the lack of a proper street sealing program, there is a large backlog and the needs are likely higher than this estimate.

- An August 2014 draft condition assessment report estimates that the City will need to spend $1.4 million for work on five dams, excluding three high priority projects for which a price estimate was not available. If the City opts to remove dams instead of replacing them, the estimated price is $710,000 to $1.5 million.

- The June 2014 draft of the City's ADA transition plan has an estimated $7.1 million price tag that could be spread over 20 years, but doing so would subject the City to inflationary pressures that could push total costs closer to $10.7 million.

- The City is not actively tracking the recommended capital improvements to its bridges recommended by PennDOT inspectors, let alone including them in an annual capital project request prioritization process.

There has not been a condition assessment that would provide the same type of estimate for the level of annual repairs needed on City-owned buildings. The proposed 2015 budget includes $150,000 to repair City Hall, most of which would begin the roof replacement project, $126,000 to begin critical repairs to the City's fire stations, and $25,000 for the Main Library. From the information available, the Coordinator believes the level of funding necessary to address the fire stations, Main Library, and other facilities is much higher.

The table below shows one capital improvement scenario for 2016-2019 to give the reader some sense of the magnitude for the City's annual capital needs (2015 is assumed to be approved as proposed). Using $9.8 million as a temporary estimate of the amount of money needed for building improvements[7], the City would need to allocate about $5.6 million - $6.2 million a year from 2016 to 2019 to meet the needs shown in the chart below. And even the level of work shown here would not address any bridge repairs, work on the City's 138 acres of recreation facilities, or less visible capital needs, like replacing or upgrading any other information technology-related hardware.[8]

[7] Based on recent firehouse renovations in the City of Allentown, the Coordinator uses a $125 per square foot estimate for building renovations. Excluding the newest fire station, the five older stations have 69,783 square feet, which would cost $8.7 million to renovate, or $2.2 million per year from 2016 to 2019. The remaining estimated $1.1 million for the City Hall roof replacement is also added in 2016 and 2017. The City would likely need more than this amount to do necessary renovations at other facilities; this figure is only provided as a temporary estimate until a fuller condition assessment of all City buildings is completed.

[8] As a measure of the level of funding necessary to support the City's IT infrastructure, the City will spend an estimated $900,000 a year through 2018 to repay the bank loan that funded the IT replacement executed this year.

	2015	2016	2017	2018	2019	5-Yr Total
Buildings	411,000	3,045,000	2,563,000	2,352,000	2,410,000	10,781,000
ADA Improvements	110,000	366,000	375,000	384,000	394,000	1,629,000
Roads	0	2,665,000	2,732,000	2,800,000	2,870,000	11,067,000
Dams[9]	1,200,000	189,000	43,000	44,000	45,000	1,521,000
Total	**1,721,000**	**6,265,000**	**5,713,000**	**5,580,000**	**5,719,000**	**24,998,000**

Initiatives

In addition to knowing that the City's capital needs are significant, we also know that if the City continues to defer investment, their cost will not stay the same – they will grow. The City needs to begin to invest in its capital assets at a pace sufficient to prevent the liability from growing, and at a pace that will prevent any catastrophic failures.

The next section discusses a four-part approach to funding at least a portion of the City's capital needs over the next five years. These initiatives need to be implemented within the existing framework of Ordinance 98-2012, the City's Capital Improvement Program ordinance, which establishes minimum standards for capital project requests, criteria for prioritizing capital project requests, and a process for implementing capital projects and monitoring their progress. Such a transparent and collaborative process will be essential for the City as it evaluates many competing priorities for capital funds in the coming years and develops a professional asset management function.

CP01.	**Perform asset condition assessment and implement asset management system**	
	Target outcome:	Improved stewardship of capital assets
	Five Year Financial Impact:	N/A
	Responsible party:	Public Works; Administrative Services (Including IT)

This initiative has two goals: obtaining accurate condition information about the City's facilities, and obtaining a data management tool that will improve the City's ability to maintain its facilities going forward.

Public Works shall procure and implement an asset management system to track information about its assets and their conditions, track work order information and project costs, and facilitate the production and analysis of performance measurement data. Integration with the City's GIS data should be considered. The City should also consider selecting a system that includes pavement management functions and fleet management functions. The system shall have the capacity to be used remotely by Public Works employees using tablets or smart phones. Such a comprehensive and easily accessible inventory should help the City gather asset condition data "on the fly," track other asset information like insurance and leases, schedule preventive maintenance work, and build up facility operating cost information for use in identifying problems, developing "chargebacks" for lessees or departments, and making educated renovate vs. replace decisions. Finally, it should help the City simply keep all of its assets on the "radar screen."

The Public Works Department shall collaborate with IT on the selection process since IT will be responsible for launching and maintaining the system. But this project is a priority for the Public Works

[9] These figures assume that 2016-2019 costs for dam improvements are 20 percent higher than the best-case scenario numbers shown earlier in this chapter to account for items that have not yet been priced.

Department, which shall have primary responsibility for defining and mapping the work processes to be facilitated by the program; selecting a program that meets their needs; training employees on the program; and using it effectively. Given the need for coordination among the various divisions of Public Works, Operations shall keep other divisions "in the loop" and seek opportunities for the asset management system to simultaneously address needs Department-wide.

Public Works shall hire an architecture or engineering firm to perform a condition assessment of its facilities to determine the magnitude and urgency of the backlog of capital maintenance and repair. The assessment shall:

- Include all facilities that are the responsibility of the General Fund, excluding any that have had condition assessments performed within the last three years or any the City is likely to dispose of in the near future. (Over time, Public Works can consider whether to extend system coverage to enterprise fund facilities and assets.)

- Include a review of City data, such as drawings, facility reports, maintenance records, and verbal reports from Public Property personnel.

- Report apparent (i.e., using non-invasive and non-destructive on-site field surveys) facility conditions, and document specific deficiencies with narrative and photographs.

- Estimate remaining useful lives of systems.

- Report deficiencies that are likely to need addressing within 10 years, and the work required to correct the deficiencies, including cost estimates for correcting deficiencies that account for inflation.

- Categorize all recommendations in terms of relative urgency and propose a sequence and timeline for implementing recommendations.

- Provide summaries by facility and a summary for all facilities.

- Include data fields that the City will need to populate its asset management system, and provide data in a format that can be uploaded to the system.

The assessment data shall serve as a baseline that City personnel will be responsible for maintaining and updating going forward. This assessment may or may not include City streets, depending on the ability of Streets personnel to populate the system with street condition data given their existing workload and training requirements.

The Coordinator has requested $270,000 in grant funding from the Pennsylvania Department of Community and Economic Development for this purpose (please see appendix). The request is for $220,000 for the condition assessment and $50,000 for the asset management system, for a total of $270,000.

Funding

The next three initiatives represent an initial strategy for designating more funding to address the critical needs discussed above. In the short term the City should try to supplement this strategy with pay-as-you-go funding, perhaps by designating a portion of any fund balance above a certain agreed-upon level for that purpose.[10] In the longer term, if the City is able to reduce the portion of its General Fund that is already consumed by debt service and retired employee benefits, the City will also be able to borrow more money to fund future capital projects.

[10] Please see the initiatives section of the Administrative Services chapter for more discussion on this issue.

CP02.	Designate a portion of the earned income tax for capital project funding	
	Target outcome:	Improved stewardship of capital assets; reducing reliance on commuter tax to facilitate exit from Act 47 oversight
	Five Year Financial Impact:	$4.0 million in General Fund; $13.2 million in Capital Improvement Fund
	Responsible party:	Administration; Council; Finance; Public Works

As discussed more thoroughly in the Revenue Chapter, the City currently levies a 2.1 percent earned income tax levy on its residents and a 1.3 percent earned income tax on commuters who work in Reading but live elsewhere. For commuters, the first 1.0 percent usually returns to their home municipality and the remaining 0.3 percent goes to the City of Reading.

To exit Act 47 oversight, the City must reduce the commuter EIT to 1.0 percent, and all of that revenue usually returns to the commuter's home municipality. As a Home Rule municipality, the City is not required to reduce its resident EIT to exit Act 47, but City leaders understandably want to do so since the 3.6 percent total EIT rate is one of the highest in Pennsylvania, putting the City at a competitive disadvantage for attracting and retaining residents and businesses.

While the City needs to reduce its dependence on the commuter EIT to fund operations, it also needs sufficient funding to invest in capital improvements that clearly benefit residents, commuters and any other visitors to the City. Having adequately paved roads, structurally sound bridges, ADA compliant sidewalks and safe, reliable public safety facilities benefits all people who spend time in Reading, regardless of their residency.

Therefore, the City shall maintain its resident EIT rate at 2.1 percent through 2019, keeping the total EIT levy at 3.6 percent assuming the School District levy does not change. In 2015 the City shall levy a 2.1 percent earned income tax on its residents with revenue from 0.1 percent of that tax designated to fund the following specific capital projects that are listed in the City's 2015 General Fund budget or other capital projects included in the 2015 General Fund budget:

- Making the annual payment for the 2014 information technology replacement project
- Funding a traffic engineering study
- Funding an engineering plan related to the required improvements under the Americans with Disability Act (ADA)

Starting in 2016, the City shall transfer the revenue generated by 0.1 percent of the EIT to a capital project account, separate from the General Fund, and exclusively designated to fund capital improvements. The capital-related portion of the resident EIT shall increase to 0.2 percent in 2017 and 0.3 percent in 2019 as shown in the chart below.

Earned Income Tax Rate – Residents

	City Tax for Operations	City Tax for Capital	RSD Tax	Total Tax
2014	2.1%	0.0%	1.5%	3.6%

	City Tax for Operations	City Tax for Capital	RSD Tax	Total Tax
2015	2.1%*[11]	0.0%	1.5%	3.6%
2016	2.0%	0.1%	1.5%	3.6%
2017	1.9%	0.2%	1.5%	3.6%
2018	1.9%	0.2%	1.5%	3.6%
2019	1.8%	0.3%	1.5%	3.6%

The City shall also petition the Court of Common Pleas of Berks County, pursuant to Section 141 of Act 47, to increase the rate of earned income taxation upon commuters by 0.3 percent in each year through 2019. The crediting provisions of Act 511 provide for the commuter's home jurisdiction to have first preference on the tax imposed on their residents up to their amount so imposed, which is usually 1.0 percent. The additional amount of tax revenue resulting from the City's commuter EIT rate shall not be subject to sharing with the Reading School District or any other governmental entity.

In 2015 the City shall levy a 1.3 percent earned income tax on commuters with revenue from 0.1 percent of that revenue designated to fund the capital projects listed above.

Starting in 2016, the City shall transfer the revenue generated by 0.1 percent of this levy to a capital project account, separate from the General Fund, and exclusively designated to fund capital improvements. The capital-related portion of the commuter EIT shall increase to 0.2 percent in 2017 and 0.3 percent in 2019 as shown in the chart below.

Earned Income Tax Rate – Commuter

	City Tax for Operations	City Tax for Capital	Home Jurisdiction Tax	Total Tax
2014	0.3%	0.0%	1.0%	1.3%
2015	0.3%[12]	0.0%	1.0%	1.3%
2016	0.2%	0.1%	1.0%	1.3%
2017	0.1%	0.2%	1.0%	1.3%
2018	0.1%	0.2%	1.0%	1.3%
2019	0.0%	0.3%	1.0%	1.3%

By the end of the Amended Recovery Plan period, the City will have no current year commuter EIT revenue available to support City operations, reducing the City's reliance on this tax. The Coordinator projects that this initiative will generate an increasing amount of revenue to fund capital projects, as the City shifts a larger share of its total EIT levy to capital, the City starts to receive prior year revenues associated with this capital EIT, and the tax base grows. Starting in 2016 or as soon as the asset condition assessment referenced in CP01 is completed, the City shall use that assessment to select other

[11] Revenue from 0.1 percent of this amount must be designated for capital projects in the General Fund as described above.

[12] Revenue from 0.1 percent of this amount must be designated for capital projects in the General Fund as described above.

projects for funding. Please see the Revenue and Economic Development chapters for more discussion of the EIT revenue projection methodology and context.

Projected Financial Impact (Capital Fund Only)

2015	2016	2017	2018	2019	Total
$0	$1,311,000	$3,128,000	$3,657,000	$5,143,000	$13,240,000

In 2015 the financial impact of this initiative is a gain of $960,000 in the General Fund relative to the Amended Recovery Plan baseline since the City will maintain the earned income tax rates at their current levels and designate a portion of the revenue for capital projects already in the General Fund budget.

For 2016 through 2018, the City shall use a portion of the capital project EIT to make the remaining annual payments (estimated at $900,000 per year) for the 2014 information technology replacement project, removing those costs from the General Fund. A portion of that savings is lost because the City will also have higher EIT collection expenses each year than projected in Amended Recovery Plan baseline. The EIT collection expenses are indexed to the City's EIT revenues, so a higher total EIT tax rate translates to higher collection expenses that are paid out of the General Fund. By 2019 there is a $103,000 loss in the General Fund associated with these higher collection expenses as the incremental revenue above the Amended Recovery Plan baseline flows to the capital project fund and the costs associated with collecting the higher EIT revenues are borne by the General Fund.

Projected Financial Impact (General Fund)

2015	2016	2017	2018	2019	Total
$960,000	$1,440,000	$837,000	$827,000	-$103,000	$3,961,000

CP03.	**Consider increasing City's use of Community Development Block Grant (CDBG) funds for capital**	
	Target outcome:	Improved stewardship of capital assets
	Five Year Financial Impact:	N/A
	Responsible party:	Administration; Council; Finance; Public Works; Community Development

The share of the City's CDBG annual award dedicated to capital projects declined from 40 percent in 2010 to 22 percent in 2013, but even the reduced share is a significant commitment to capital projects. The average over the four years was 33 percent.

Of the CDBG funds spent on capital projects from 2010 to 2014, a large percentage, 30 percent, was for City buildings. Another 31 percent was for park and playground improvements; 37 percent was for streets and traffic control projects; and 2 percent was for equipment. Given the City's backlog of capital needs, it is wise that a significant portion of CDBG has been spent on streets, traffic and building projects, and also wise that these funds are generally not used for equipment. However, the investments that have been made in parks and playgrounds are much higher, relative to their value, than the investments that have been made in City buildings. Parks and playgrounds are important assets, and improvements to them are valuable to City residents; however, capital needs at other kinds of City facilities are growing more urgent and could result in the need for emergency repairs or in reduced service levels if not addressed.

The Act 47 Coordinator recommends that the City consider two shifts in its use of CDBG funding over the plan period to increase capital investment in infrastructure and buildings:

- Increase the share of CDBG funds dedicated to capital purposes from the four-year average of 33 percent to 40 percent by slightly reducing the shares of CDBG funds used for Public Services, General Administration and Planning, Housing, and Acquisition.

- Increase CDBG capital funds for the most urgent, CDBG-eligible capital projects (fire stations and other eligible municipal buildings) rather than to park and playground improvements. The kind of transparent, criteria-based project prioritization process, set forth in the City's Capital Improvement Program ordinance can help facilitate this shift.

It should be noted that shifting CDBG funds to capital purposes from other categories would have a negative impact on the General Fund if the difference was to be made up from operating dollars. It is assumed that 2016 is the first year of implementation, since the City has already proposed the 2015 CDBG Action Plan.

CP04.	**Continue to designate a portion of the Liquid Fuels allocation to street resurfacing**	
	Target outcome:	Improved stewardship of capital assets
	Five Year Financial Impact:	N/A
	Responsible party:	Administration; Council; Finance; Public Works

In recent years before 2014, the City has paid the cost of street lights using a large portion of its Commonwealth Liquid Fuels allocation. Street lighting is an eligible use of this funding, but it would be better for the City to use more of that allocation for badly needed street resurfacing. To that end, the City shifted $900,000 in street lighting costs to the General Fund in 2014 so the Liquid Fuels money could be used for street resurfacing and the introduced version of the 2015 budget continues that arrangement. There is a separate initiative in the Public Works chapter that provides one alternative for the City to cover this additional General Fund liability.

From the capital improvement perspective, this shift should enable the City to continue to use more of its Liquid Fuels allocation for street paving. As described earlier, the City will still likely use a portion of the Liquid Fuels allocation for purposes other street paving. Using the averages for 2010 – 2013, the City had been using 65 percent of its $1.35 million Liquid Fuels allocation (or $878,000) for street lighting that should now be available for street repaving.

The Amended Recovery Plan baseline projection already accounts for this shift since it began in 2014, so there is no additional financial impact projected here.

These three initiatives combined will generate a portion of the funding that the City needs to repair and maintain its core capital assets. As noted earlier, the City will likely need additional funding from pay-as-you-go resources, use of reserves or, in the longer term, new borrowing to meet these needs.

Capital Improvement Funding Scenario, 2015-2019 (Millions)

	2015	2016	2017	2018	2019	Total
Capital EIT (resident & non-resident)	$1.3	$1.8	$3.1	$3.7	$5.1	$15.0
Liquid fuels allocation (street work)	$0.9	$0.9	$0.9	$0.9	$0.9	$4.4
Total from prior initiatives	**$2.20**	**$2.70**	**$4.00**	**$4.60**	**$6.00**	**$19.50**

Coordination and prioritization

CP05.	**Share facility responsibilities with lessors**	
	Target outcome:	Improved stewardship of facilities, net cost reduction
	Five Year Financial Impact:	N/A
	Responsible party:	Law Department, Public Works

The costs of operating facilities owned by the City but used by other entities include utility costs, maintenance and repair costs, and capital costs. For the City to ensure that it can care properly for its facilities over the long term, the City would need to be able to budget for preventive maintenance and unexpected repairs, and also establish a reserve to accumulate funds that will periodically be needed for capital projects. Since lessees are benefiting from the use of City facilities, it would not be fair for Reading's taxpayers to bear all the costs.

In some cases City officials have made a deliberate decision to provide these services or cover these costs as a subsidy to support the organization's mission. Given the City's financial limitations and the poor condition of many assets that are solely City government's responsibility, the City needs to re-evaluate these arrangements. In instances where the City decides to continue the subsidy, it should be transparent, quantified and capped or reduced over time. In all instances, the City needs to be aware of the cost implications of the lease terms, and be accountable for any use of limited City resources for the benefit of lessees.

The City shall develop a model for quantifying the costs of operating facilities and a policy regarding how those costs are to be shared between the City and lessees. The policy may differentiate between the cost-sharing obligations of lessees under leases that would result in some public benefit and those that would only have a private benefit. The goal of the model and policy shall be to better understand the total long-term costs of operating facilities, and ensure that respective financial responsibilities of City and lessees are being borne in a manner that is fair and transparent.

Based on its facility cost model and policy, the City should review its lease agreements and, where appropriate, amend the agreements. In addition:

- The City shall ensure that there are current lease agreements in place for all facilities used by other entities;

- The City should attempt to standardize the terms of lease agreements, where appropriate to simplify administration and make lease terms more equitable; and
- The City shall monitor and enforce the terms of its lease agreements.

CP06.	Coordinate paving projects with Sewer Fund, RAWA, and UGI	
	Target outcome:	Improved stewardship of assets
	Five Year Financial Impact:	N/A
	Responsible party:	Public Works, Utilities

The City's 2013 Street Cut ordinance creates higher re-paving standards for entities that make street cuts; for example, large cuts trigger a requirement to mill and resurface the entire travel lane between the curb and street centerline. It is anticipated that UGI, the City's Sewer Fund, and RAWA will have a significant number of projects subject to the Street Cut Ordinance going forward.

Similar to the cost-sharing agreement for paving achieved by the City with the Utilities Department and UGI on the 2014 Cotton Street project, the City shall work to develop agreements to share the financial responsibility for street paving projects going forward. If possible, the City shall work with other entities to develop a multi-year plan for utility work and paving work to facilitate work plan development and to achieve economies of scale in the negotiation of cost-sharing agreements. Such agreements are expected to be financially beneficial to all parties, relative to bearing sole responsibility for paving work; less disruptive to City residents and visitors, relative to multiple projects at the same sites; and more effective in gradually improving the quality of City streets.

This initiative will reduce the City's costs for paving projects, giving the City more money to catch up on its backlog.

CP07.	Document capital expenditures and projects in a Capital Budget and Plan	
	Target outcome:	Improved stewardship of assets
	Five Year Financial Impact:	N/A
	Responsible party:	Finance; Public Works; Utilities

As described earlier, because the City has not been able to use debt or any significant amount of operating budget funds for capital improvements, the limited projects that the City has executed have mostly been funded by CDBG and other grant funds.

However, the City has not been producing a capital budget document that compiles all the City's long-lived investments, regardless of funding source. For example, although capital projects in 2014 included the Information Technology equipment purchase, the replacement of the roof at the 9th and Marion Fire Station, and dam repairs, the ordinance adopting the Capital Improvement Plan for 2014 includes only the following:

2014 Capital Improvement Budget Summary		
Project	**Cost**	**Debt**
CED African American Museum Site Prep.	$500,000	$500,000
TOTAL	**$500,000**	**$500,000**

The City shall develop and adopt a capital budget and capital plan each year, consistent with the City's Capital Improvement Program ordinance, that includes all projects that meet the City's own capital eligibility criteria, regardless of funding source. The capital plan shall include a summary of the results of the facility condition assessment described in initiative CP01. Producing these documents will be a first step toward appropriate transparency and accountability regarding the City's investments in its facilities, infrastructure, and other long-lived, high-value assets.

Community Development

Overview

The role of the Community Development Department (CDD) is to ensure the City's property owners and residents maintain housing and buildings standards in accordance with community and legal guidelines in order to improve the quality of Reading's neighborhoods while growing the prosperity of its communities. This chapter begins with an overview of the various functions of the Department and then provides a more detailed evaluation of three of the CDD's four divisions, excluding the Administration Division which is further explained in the Economic Development chapter.

The CDD is responsible for:

- **Development and compliance** with subdivision and land development ordinances, the historic district preservation ordinance, and the zoning ordinance.

- **Administration of Federal Entitlement Grants** including the Community Development Block Grant (CDBG), Home Investment Partnership (HOME), Emergency Shelter Grant (ESG) and Neighborhood Stabilization (NSP2) program grants. Activities funded by these programs within the City include a variety of infrastructure improvements, economic development initiatives, and housing and planning activities.

- **Enforcement of Building Codes and Community Standards** including the building, fire, mechanical, electrical and plumbing State and Local building codes along with the City's property maintenance codes.

The Community Development Department operates under a 2013 Strategic Operating Plan. This plan identifies the broad mission, vision, goals, strategies, and contingency plans to meet division expectations for success. The overall purpose of the plan is to outline how the Department will build upon its accomplishments to develop a customer-friendly environment for interested parties to openly and transparently work within the boundaries of City standards. Department leadership is especially determined to enhance the customer experience. This concept is discussed further in the Initiatives section of this chapter.

The CDD is led by a Director who reports to the City's Managing Director. The CDD is organized into four major Divisions including Administration, Property Maintenance Division (PMD), Building & Trades (B&T) Division, and the Planning & Zoning Division. The responsibilities and activities of these divisions are described below:

- **Administration** oversees the financial and programming aspects of the Department. Specific tasks include managing and reconciling federal grant funds in both the U.S. Department of Housing and Urban Development's (HUD) Integrated Disbursement and Information System (IDIS) and the City's General Ledger. The Division also pursues and administers a variety of other federal, state and private grant programs including Stimulus funds under the American Recovery and Reinvestment Act of 2009 which includes the Neighborhood Stabilization Program (NSP2) and Homelessness Prevention and Rapid Re-housing program (HPRP). Additional grants have been received through the National Endowment for the Arts, Economic Development Initiatives (EDI), Brownfield Economic Development Initiatives (BEDI), Community Services Block Grants (CDBG) and Redevelopment Assistance Capital Program (RACP) programs from the Commonwealth. They are responsible for monitoring compliance with all of the above federal, state and local regulations.

- **Property Maintenance Division** provides property maintenance code enforcement inspections for properties to achieve compliance with City codes and ordinances. The division responds to housing and property maintenance complaints; provides health and safety inspections at food establishments such as restaurants and grocery stores, performs health inspections for illegal trash dumping, odors, and animal waste; and administers housing permits, health permits and mobile vendor permits.

- **Building and Trades Division** approves necessary permits for repairs and renovations, electrical, mechanical and plumbing related work; performs building plan reviews; provides use and occupancy permit inspections; and issues all trade licenses for contractors wanting to work in the City of Reading. The Division also conducts pre-construction and design review meetings with citizens, builders, developers, and contractors to facilitate the development review and construction process. These "one-stop shop" meetings are managed by Building & Trades and are conducted in close collaboration with Planning and Zoning, Public Works/Engineering, and the Fire Marshal's Office. Meetings are held weekly, by appointment, and are intended to simplify and streamline applications by bringing predictability to the regulatory system and enhancing communication between all stakeholders at the beginning of the application process.

- **Planning, Zoning and Preservation Divisions** are responsible for planning, historic preservation and zoning enforcement and administration in the City. The unit prepares and amends Reading's Comprehensive Plan land use and zoning ordinances while providing support to the City Planning Commission, Zoning Hearing Board, and Historical Architectural Review Board (HARB). The Division also prepares neighborhood and redevelopment plans, reports, and maps; provides technical assistance to City departments on projects that have an impact on Reading's historical structures (particularly demolitions); reviews zoning plans and permit applications; performs inspections; and issues enforcement notices for noncompliance with the City's zoning ordinance.

The 2014 Department expenditure budget is approximately $3.9 million, and anticipated revenues are $5.0 million[1] resulting in budgeted net revenues of $1.1 million. As shown in the below table, the CDD has more than recovered its costs in 2012 and 2013 and the majority of these annual net revenues fund other General Fund expenditures in departments such as Police or Public Works. The revenues shown include all revenues received by the Department (inclusive of grant funds).

Community Development Department Finances, 2012 Actual - 2014 Budgeted

	2011 Actual	2012 Actual	2013 Actual	2014 Budgeted
Expenditures	2,661,173	3,156,894	3,447,018	3,957,718
Revenues	3,387,202	3,882,884	4,419,528	5,022,640
Balance	**726,028**	**725,990**	**972,510**	**1,064,922**

The CDD is primarily an enforcement-driven department with a focus on enhancing the City's economic circumstances through neighborhood and community revitalization. Although every unit collaborates with its counterparts in the Department, each division's activities, staffing and budget are discussed separately below. The economic development functions of the CDD are provided by the Administration Division and discussed in the Economic Development chapter.

Property Maintenance Division

As a division of the CDD, the Property Maintenance Division (PMD) focuses on promoting Reading as a place to live, work and raise a family. The Division is charged with monitoring and enforcing the City's

[1] $5.0 million in revenue includes $500,000 of Community Development Block Grant funding from the U.S. Department of Housing and Urban Development

Codified Ordinances that govern issues including, but not limited to, housing, public health, quality of life, and trades. Under the 2013 Strategic Operating Plan, the Division's mission is to:

> *Improve the quality of life of constituents by maintaining clean, safe and attractive neighborhoods throughout the City. To monitor, enforce and educate constituents about the City's housing ordinances related to life safety, health, and quality of life by implementing ordinances in a planned, comprehensive, fair and equitable manner.*

Finances

The PMD 2014 budget is $2.5 million and has grown by approximately 57.4 percent since 2011. Like most City departments, the Division's largest expense is personnel - 91.7 percent of the total 2014 General Fund budget. In the past three years, personnel expenses as a percent of the Division's budget have grown by 6.3 percentage points – up from 85.4 percent in 2011. This increase is attributable to the growth in salaries and fringe benefits during this period – an increase of 59.9 percent or $711,000 in budgeted expenditures.

PMD Expenditures, 2011 Actual – 2014 Budgeted

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-14
Salaries	863,097	1,062,646	1,282,807	1,333,479	54.5%
Fringe Benefits	324,824	359,682	381,257	565,693	74.2%
Pension	102,614	151,671	296,600	293,506	186.0%
Social Security	66,027	81,869	98,310	102,011	54.5%
Other Personnel	633	4,775	3,438	500	-21.0%
Training & Education	5,013	10,842	9,187	11,000	119.4%
Utilities	0	0	0	17,000	N/A
Equipment	55,304	41,379	0	14,400	-74.0%
Supplies & Postage	7,858	7,652	30,134	8,500	8.2%
Uniforms	6,356	18,097	7,400	8,000	25.9%
Contract & Consulting Service	47,338	34,954	17,101	38,121	-19.5%
Miscellaneous	117,045	138,918	101,112	120,200	2.7%
Total Property Maintenance	**1,596,108**	**1,912,484**	**2,227,347**	**2,512,410**	**57.4%**

The PMD collects fees generated from various personnel related field activities and annual fees charged to property owners by the Division. In 2014, the Division is budgeted to raise $3.7 million, representing an increase of 113.1 percent over 2011 actuals. The increase is largely due to anticipated increases in Housing Inspection and Housing Prior Year revenues (this is revenue associated with previous year unpaid housing inspection invoices), and the additional CDBG funding (added in 2013).

Property Maintenance Division – Revenues, 2011 Actual – 2014 Budgeted

Revenue Description	2011 Actual	2012 Actual	2013 Actual	2014 Budgeted	% Change 2011-2014
Housing/Rental Permit	757,335	891,217	687,501	890,000	17.52%
Housing Inspection	0	515,326	764,633	800,000	N/A
CDBG Revenue to Fund Codes	0	0	500,000	500,000	N/A
Housing Prior Year	0	0	116,919	450,000	N/A
Quality of Life	296,295	374,650	330,608	390,000	31.63%
Public Health & Safety	24,850	136,896	116,328	262,500	956.34%
Food Permits	130,121	163,263	209,145	165,000	26.81%
Certificate of Transfer	0	0	0	135,000	N/A

Revenue Description	2011 Actual	2012 Actual	2013 Actual	2014 Budgeted	% Change 2011-2014
Fines and Penalties County	51,173	52,300	53,347	58,000	13.34%
Vacant for Sale	0	0	0	21,000	N/A
Top Ten Revenue Sources	1,259,774	*2,133,650*	*2,778,480*	*3,671,500*	191.44%
All Other Revenue Sources	480,199	*403,119*	*221,297*	*37,120*	-92.27%
Total Revenues	**1,739,972**	**2,536,770**	**2,999,777**	**3,708,620**	**113.14%**

Of the Division's total $3.7 million in 2014 budgeted revenue, the top five revenue generators make up approximately 81.7 percent.

Housing and Rental Permit charges (annual registration fees for property owners that rent out property units) are the largest revenue contributors to the Division's budget, comprising 24 percent of all budgeted revenues in 2014. The Housing and Rental Permit fees are annual registration fees charged to owners of registered properties with rentable units. The registration fee per property is $100 per parcel but include penalties for late payment of $300 for each additional month the payment is late. Annual bills are sent in January and due to the City in June when the majority of revenues are collected for the year – late penalty charges are attached to any invoices sent out beyond the City's scheduled due date.

Housing Inspections are the second largest revenue stream for PMD, comprising 21.6 percent of all 2014 budgeted revenues. The Division inspects residential housing units to ensure they are code compliant with City's standards. Housing inspections are scheduled with property owners and inspection fees are dependent upon the number of units, ranging from $140 for a single-family property to $315 plus $10 per unit for a rental property with 16 or more units. Several penalties exist for issues varying from failure to appear to a scheduled inspection, to non-code compliant penalties and re-inspection charges. Currently, the Division is on pace to inspect each residential housing unit every three years (the initial Act 47 Recovery Plan required a two year schedule, but inspections are discussed later in the Property Maintenance Division assessment section of the chapter).

Of the annual CDBG award from the U.S. Department of Housing and Urban Development (HUD), $500,000 has been dedicated in 2013 and 2014 for various code enforcement activities. This revenue comprises 13.5 percent of the Division's budgeted revenue in 2014. Although this revenue is generated based upon the activities performed by the Division, these funds are transferrable to support other grant-eligible expenses or activities.

Supplementary to the Housing Inspection revenue, is the Housing Prior Year revenue earnings. When property owners fail to pay the fees associated with initial or subsequent inspections and penalties, a third party collector is enlisted to collect debt from the previous year. In 2013, the collections agency was able to bring in an additional $116,919 through this activity and is budgeted to raise $450,000 in 2014 – approximately 12.1 percent of the Division's 2014 budgeted revenue. The jump in anticipated revenue is based off of the Division's estimated 20 percent collection rate on debt amassed between 2007 and 2013. As shown later in the chapter, this valuation was largely overstated based upon 2014 actual collections.

Quality of Life revenue is generated through activities performed by Property Maintenance Inspectors who assess properties for compliance with various City standards. This assessment is done as part of the housing inspection process and/or through sweeps performed in designated areas throughout the year. Any found violation results in fees to the property owner. This revenue makes up approximately 10.5 percent of the Division's revenue.

Staffing

As shown in the table below, changes in the Department's structure make it challenging to track staffing levels over the years. Prior to 2011, the Property Maintenance Inspectors (PMIs) were managed by the Police Department as part of the Patrol-PMI Division (with the exception of the Property Improvement

Division Manager position which was budgeted under the CDD Administration Division). Beginning in 2011, the City transferred these duties to the CDD, adjusting some of the position names but making no changes to overall staffing levels. In 2012, the City added seven PMIs to the budget to increase the pace of housing inspections.

Property Maintenance Division Headcount

Title	2010	2011	2012	2013	2014
Codes Manager	-	1	1	1	1
Chief Clerk	1	1	1	1	1
Property Maintenance Inspector Aide	3	3	3	2	2
PMI Supervisor	3	3	3	3	3
Development & Inspections Clerks	-	2	3	3	5
Property Maintenance Inspector	14	13	20	22	20
PMI Administrator	1	-	-	-	-
Property Maintenance Specialist[2]	-	-	1	-	-
Health and Safety Clerk	3	-	-	-	-
Total	**25**	**23**	**32**	**32**	**32**

The PMD is managed by a Codes Manager who reports directly to the CDD Director. The Codes Manager oversees all aspects of the Division's activities and operational performance. All supervisors report to the Codes Manager.

The Property Maintenance Inspector Supervisors (PMISs) oversee all inspection activities, including the prioritization and quality of the inspections effort, and the general management of the PMI workforce.

Property Maintenance Inspectors (PMIs) are responsible for property inspections, the majority of which are rental property inspections. Housing inspections are required every two years to enforce compliance with the City's adoption of the International Property Maintenance Code (IPMC). A computerized system systematically schedules these properties based upon previous inspection dates to ensure each property follows a standardized inspection schedule. Upon inspection, if the PMI identifies a violation, a notice of violation is immediately issued. The property owner is then given the opportunity to correct the violation before a re-inspection is conducted, timing being dependent upon the seriousness of the violation (three days are provided for more egregious violations, while 120 days are granted for less urgent violations). The PMI also has the power to issue citations and an "order to abate" should a property present an immediate safety hazard to the residents and/or the public. Once a citation and order to abate is issued, the court holds a hearing to decide the outcome of the property.

There is one PMI designated and certified as a Health and Food Inspector for the Division, who performs all inspections in properties where food is prepared and/or sold (i.e. restaurants or grocery stores). This person also generates the majority of Food Permit revenues for the Division. In addition, two PMI Aides are assigned to Quality of Life (QOL) inspections. Although PMIs performing other duties within the Division may also write QOL violations, it is the primary function of these two positions to respond to QOL complaints. These inspections generally enforce codes relating to aesthetic standards for properties within the City (i.e. overgrown weeds or grass, improper storage of trash, or abandoned vehicles). QOL PMI Aides respond to citizen complaints and referrals from other departments to inspect properties for varying QOL code violations. They are also primarily responsible for generating the Quality of Life revenues in the Division's budget.

[2] In 2011 the Property Maintenance Specialist was budgeted in the Administration Division. The position was transferred to PMD in 2012

The Chief Clerk is charged with sending out violation notices and activity charges resulting from inspections. The amount of time customers have to make payment varies by type, though recently created policies allow the Chief Clerk to submit collection data to a third party collector after 90 days. The City is also placing liens on properties where payment is not received after extended periods of time (this does not apply to Quality of Life violation notices).

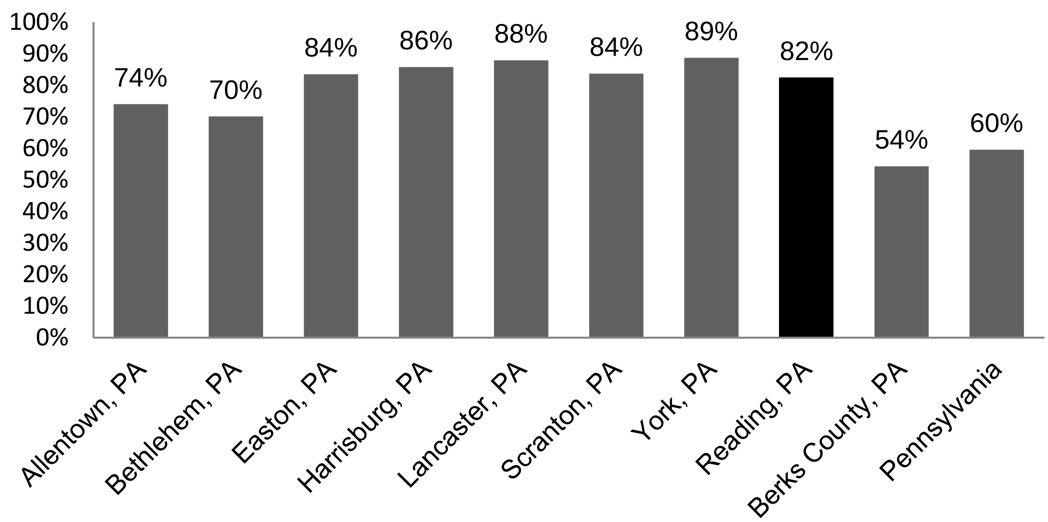
The Development and Inspections Clerks along with the Chief Clerk are responsible for scheduling all inspections, including housing inspections or re-inspections, health and food inspections, and any court appearances necessary for severely code deficient properties. The Clerks also manage the violation invoicing and collections process, and serve as the Division's customer service representatives in the office. Clerks are generally the recipients of all customer complaints made by citizens regarding City properties or business establishments serving food.

Property Maintenance Assessment

Many factors contribute to a city's property maintenance and code enforcement responsibilities. Many of those factors are related to the age of housing stock in a community – newer properties are more likely to be in compliance with City codes and safety standards due to newer construction and more recent inspection assessments, resulting in lower rates of code violations.

The City of Reading is challenged by an older housing stock and high rates of vacant properties. Properties that fall within these classifications tend to require more maintenance or have an expensive backlog of deferred maintenance. These expenses can create considerable economic challenges for property owners, resulting in lower rates of code compliance. The tables below show housing stock characteristics from 2008 through 2012.[3] Approximately 82.4 percent of the City's housing stock was built prior to 1970. When compared with other cities of the third class, Reading is close to the median - 84 percent. However, Reading faces a higher percentage of aging properties when compared to Berks County (28 percentage points higher) or Pennsylvania (22 percentage points higher).

Total Housing Stock: Percent Built Before 1970
(2012 ACS Estimates)



According to the American Community Survey estimates, Reading has experienced a reduction of three percentage points in the percent of vacant housing stock since 2008 – a steeper decrease than any of the six other third class cities listed in the table below. However, when housing stock vacancy rates are compared among peer cities, Reading is at the median - 13 percent, with considerably higher rates than

[3] Source: American Community Survey 3-Year Estimates

Berks County (6 percentage points higher) and slightly higher levels than Pennsylvania (2 percentage points higher).

Total Housing Stock: Percent Vacant

% Vacant Housing						
	2008	**2009**	**2010**	**2011**	**2012**	**% Change**
Allentown, PA	9%	10%	9%	11%	11%	2%
Bethlehem, PA	5%	6%	7%	8%	7%	2%
Easton, PA	13%	16%	13%	15%	14%	1%
Harrisburg, PA	21%	19%	19%	19%	20%	-1%
Lancaster, PA	9%	8%	9%	8%	9%	0%
Scranton, PA	13%	13%	14%	14%	13%	1%
York, PA	13%	15%	13%	14%	13%	0%
Reading, PA	**16%**	**16%**	**13%**	**13%**	**13%**	**-3%**
Median	**13%**	**14%**	**13%**	**13%**	**13%**	**0%**
Berks County, PA	6%	7%	6%	6%	7%	0%
Pennsylvania	11%	11%	11%	11%	11%	0%

As the code enforcement entity in Reading, the CDD and the PMD address these challenging statistics in several ways. A few of these activities are described as follows:

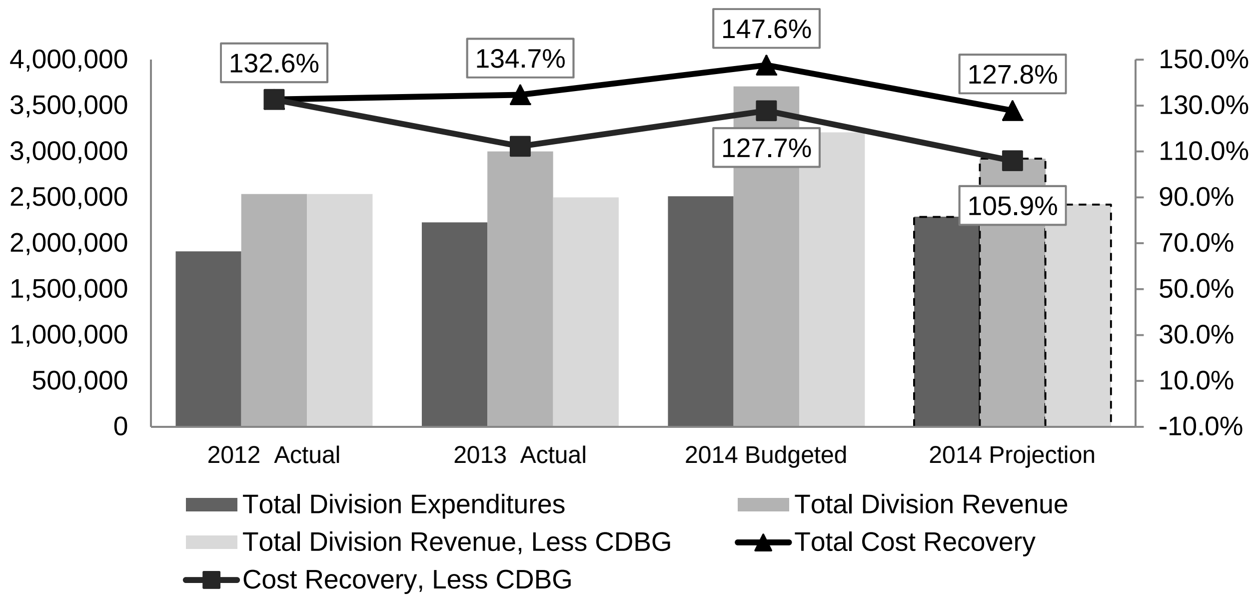
- Administer rental and vacant permits and complete regular inspections to enforce Reading's adoption of the International Property Maintenance Code (IPMC);
- Manage a Quality of Life (QOL) program to encourage clean, well-maintained spaces for the public to live and work by ticketing properties in violation of City standards;
- Issue permits for food vendors and conduct regular inspections for food producers and providers;
- Respond to citizen complaints regarding City properties and investigates these properties for code compliance, issuing notices of violation to properties with found violations;
- Perform Health & Safety Inspections as part of a program to ensure property code compliance before a transfer of a property to a new owner occurs; A Certificate of Transfer is required for all properties sold in the City regardless of use;
- Coordinate a blighted building program to investigate deteriorated properties for purposes of remediation.

Through these activities and annual charges for permits, the PMD is budgeted to generate approximately $3.7 million in revenues, including CDBG funding at $500,000. Upon review of the Division's budget, when all revenues and all expenditures are considered, the Division fully recovers its costs at 147.6 percent meaning 47.5% of revenue generated is beyond the Division's operating spending need. Additionally, when you estimate 2014 year-end revenue projections, this trend continues and the Division is estimated to recover approximately 127.8 percent of its costs in 2014.[4] Since CDBG funding may be

[4] The 2014 revenue projection is based upon doubling second quarter revenues with the exception of Housing Rental/Permits where only a 10 percent increase was estimated due to revenue collection trends which reflect the majority of revenues being collected in the first two quarters of the year; the 2014 personnel projection is based on the Division spending 91percent of its 2014 budget which is comparable to a 2013 spending pattern.

repurposed for other eligible activities, cost recovery was additionally estimated excluding CDBG funding. Under this scenario, the Division continues to recover all of its expenditures at 105.9 percent. The graph presented below illustrates the cost recovery for 2011 through 2014 with budgeted and projected figures shown separately, and also compares cost recovery with the inclusion and exclusion of CDBG funding as noted by the two lines in the graph (cost recovery less CDBG funding is the lower of the two lines in 2013 and 2014).

Property Maintenance Division Cost Recovery, 2011 Actuals – 2014 Budgeted and 2014 Projection



Cost recovery evaluation at the Division level is important when considering how the City may otherwise spend its money. For instance, provided that the Division fully recovers its costs, a consideration for repurposing CDBG funds for other eligible City requests, such as capital improvements or vacant and dangerous property demolitions, should be made.

Additionally, cost-recovery may be used to monitor the Division's direct field activities. Activity-based cost recovery evaluations help to illustrate the ongoing general well-being of a program (or investment in a program). For instance, if personnel-based activities are generating enough in revenues to reimburse personnel related expenditures for performing those activities with little change from year to year then there is perhaps, less of a concern from an operations management or budgeting standpoint. On the other hand, when these figures begin to vacillate in one direction or another, a closer look to determine the cause of the fluctuation is an important part of running an operation efficiently and effectively.

When the revenues generated from the field activities performed by PMD personnel (e.g. housing inspections or food permits) are evaluated against the personnel related costs associated with providing these field activities, the Division does not fully recover its costs.[5] As shown in the table below, the Division recovers approximately 86.2 percent of its activity-based personnel costs in 2012, 87.2 percent in

[5] Annual revenue figures are based on the following revenues: housing inspections and prior year collections, QOL and prior year collections, public health & safety and prior year collections, food permits, certificate of transfer, work order fees, housing no show fees, fines & penalties, placard removal fees, and appeals fees; CDBG funding was not included in the initial activity-based cost recovery evaluation shown; Housing Inspection Prior Year revenue was not budgeted in 2014, but actual collections are included in the 2014 activity-based revenue projection as revenues were accounted for in the second quarter; Annual personnel expenditures include the following: salaries, fringe benefits, pension, overtime, temporary wages, social security, and uniform expenses; Expenditures for office personnel (office clerks) were excluded but for an estimated 10 percent of their costs which were included to account for time spent supporting field activities; Managerial and supervisory personnel expenditures were not excluded from the evaluation as their duties are based upon the activities performed in the field.

2013, and based upon budget assumptions, recovers 90.1 percent of its activity-based personnel costs in 2014. Though revenues grew by almost 27.3 percent from 2012 to 2013, it was not enough to offset personnel expenditures which grew by 25.9 percent. The cost recovery formula used in this analysis excludes those revenues which may be generated regardless of field activities, such as housing permit fees. Housing permit fees are collected on an annual basis by sending a bill to each property owner – a function that generates revenue, but not based upon the field performing a related task. Additionally, CDBG funds are excluded for the same reason described above - this revenue may be used for other eligible costs.

Activity-based cost recovery figures in 2014 assume budgeted revenue goals are achieved, however as shown in the 2014 revenue projection figures below (shaded in grey), sluggish collections through the second quarter of 2014 directly impact the cost recovery percentage. These anticipated revenue losses result in a 77.1 percent activity-based cost recovery estimate for 2014 - a reduction of 13 percentage points from the 2014 budgeted figure.

Activity-Based Cost Recovery

	2012 Actual	2013 Actual	2014 Budgeted	2014 Projection
Activity-Based Revenue	1,274,215	1,622,706	1,847,303	1,437,470
Activity-Based Personnel Expenditures	1,478,189	1,861,021	2,049,477	1,865,024
Activity-Based Cost Recovery	**86.2%**	**87.2%**	**90.1%**	**77.1%**

Although CDBG funding may be used for other eligible activities, these funds are currently being used by the Division to relieve the City's operating costs for grant-eligible work or activities performed in qualified neighborhoods. Therefore, the activity-based cost recovery was reviewed further to include the impact CDBG funding has on cost recovery. When the CDBG revenues are considered, the Division achieves full cost recovery, exceeding spending by 3.9 percent. To illustrate CDBG's impact on cost recovery, a second table is shown below. As presented, the Division recovers its activity-based personnel costs in 2013 and in 2014.

Property Maintenance Division, Activity-Based Cost Recovery (Inclusion of CDBG Revenues)

	2012 Actual	2013 Actual	2014 Budgeted	2014 Projection
Total Revenue: Activity-Based + CDBG	1,274,215	2,122,706	2,347,303	1,937,470
Activity-Based Personnel Expenditures	1,478,189	1,861,021	2,049,477	1,865,024
Activity-Based Cost Recovery + CDBG	**86.2%**	**114.1%**	**114.5%**	**103.9%**

Although full cost recovery may not be the goal, in order to improve Division performance, further examination of cause is necessary. The projected cost recovery shortfall is a reflection of three likely possibilities: the number of inspections are decreasing, violations rates are falling (indicating compliance is up or inspectors are applying varying inspection standards from previous years), or collection rates are declining. As the PMD continues its enforcement activities, trends in these figures over long periods of time are an important part of future decision-making.

As shown in the previous 2014 revenue projection figures, when second quarter revenues are doubled to estimate year-end revenues, there is a resulting $410,000 revenue shortfall which is reflected in the activity-based cost recovery figure. The following chart clarifies the 2014 year-end projections based upon second quarter revenue collections. This estimate is not unrealistic as the 2013 second quarter revenues made up slightly more than half of the year-end actual revenues (56.9 percent). Year-end activity-based personnel related expenditures are estimated to be 91 percent of budget, reflecting a similar trend in 2012 and 2013 which saw year-end spending at 91.2 and 82.4 percent of budgeted expenditures.

Property Maintenance Division, 2014 Revenue Estimates

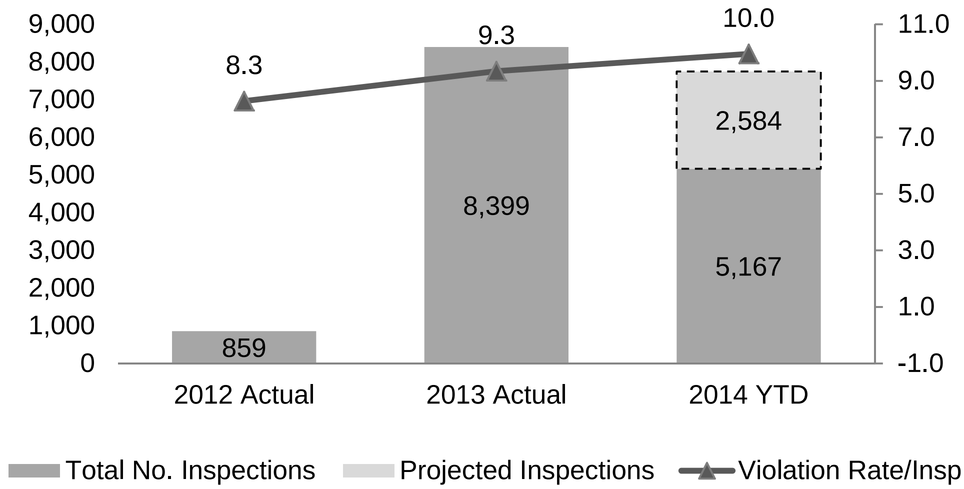
Revenue Description	2014 Budgeted	2014 Q2 Revenues	2014 Projection	2014 Estimated Shortfall
Housing Inspection	800,000	254,516	509,032	(290,968)
Quality of Life	390,000	72,012	144,024	(245,976)
Public Health & Safety	262,500	31,295	62,590	(199,910)
Food Permits	165,000	89,323	178,646	13,646
Certificate of Transfer	135,000	0	0	(135,000)
Fines and Penalties	58,000	23,973	47,946	(10,054)
Work Order Fees	17,303	9,702	19,404	2,101
Placard Removal Fees	12,000	2,170	4,340	(7,660)
Housing No Show Fee	7,000	33,337	66,674	59,674
Appeals Fees	500	0	0	(500)
Housing Inspection Prior Year	0	142,745	285,490	285,490
Quality of Life Prior Year	0	43,907	87,814	87,814
Public H&S Prior Year	0	15,755	31,510	31,510
Total	**1,847,303**	**718,735**	**1,437,470**	**(409,833)**

The projected $410,000 shortfall is mainly driven by weak collections in housing inspections and quality of life (QOL) inspections which combined make up the majority of budgeted activity-based revenues. After six months of collections, housing inspections and quality of life revenues had only generated 31.8 percent and 18.4 percent of budgeted revenues, falling short of mid-year revenue expectations by a combined $537,000. Unbudgeted collections in Prior Year revenue for these two categories offset this shortfall by $373,000 reducing its effect on the budget down to approximately $164,000.

To review the potential factors of this revenue shortfall, the Coordinator evaluated the housing inspection violation rate (i.e. lower violation rates result in lower revenues). In the short-term, it appears the housing inspection violation rate is increasing annually suggesting that inspectors' assessment skills are improving and they are discovering more violations per inspection, more stringent standards are being applied, or that property conditions are worsening. Additional information from the Division's data systems and supervisors is required to determine what is actually happening but currently, related information is not captured in the Division. The table below shows the relationship between the annual number of housing inspections performed and the corresponding violation rate. The 2014 projected number of housing inspections is based on a continuation of the Division's current monthly inspection rate through the remaining months of the year.[6] Additionally, should the noted projections hold true in 2014, inspections will be down by approximately 650 inspections. This reduction in the number of annual inspections may help, in part, to explain lagging revenues in housing inspections.

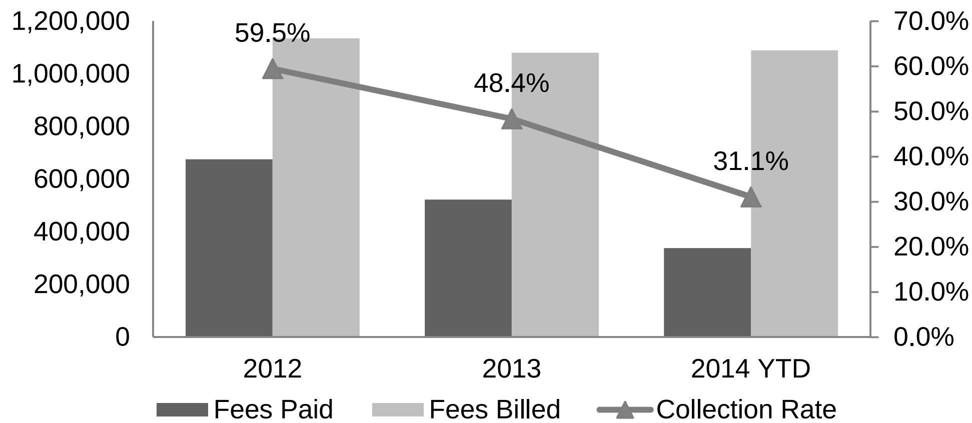
[6] Source: PMI Metrics Summary through August 30, 2014; the total was divided by eight months for a monthly rate which was then applied to the remaining four months of the year.

PMD – Number of Housing Inspections vs. Violations Rate [7]



As previously noted above, a $291,000 revenue shortfall is projected in 2014 based on current collection trends. The PMD, in accordance with the City's fee schedule, charges for housing inspection and any violations discovered throughout the inspection process. According to City data, the collections rate (the percent of dollars collected from the total amount charged to the property owner) is weakening while the violation rate is increasing (as shown in the previous graph). The following graph represents the declining collection rate over the three-year period – a drop of 28.4 percentage points.

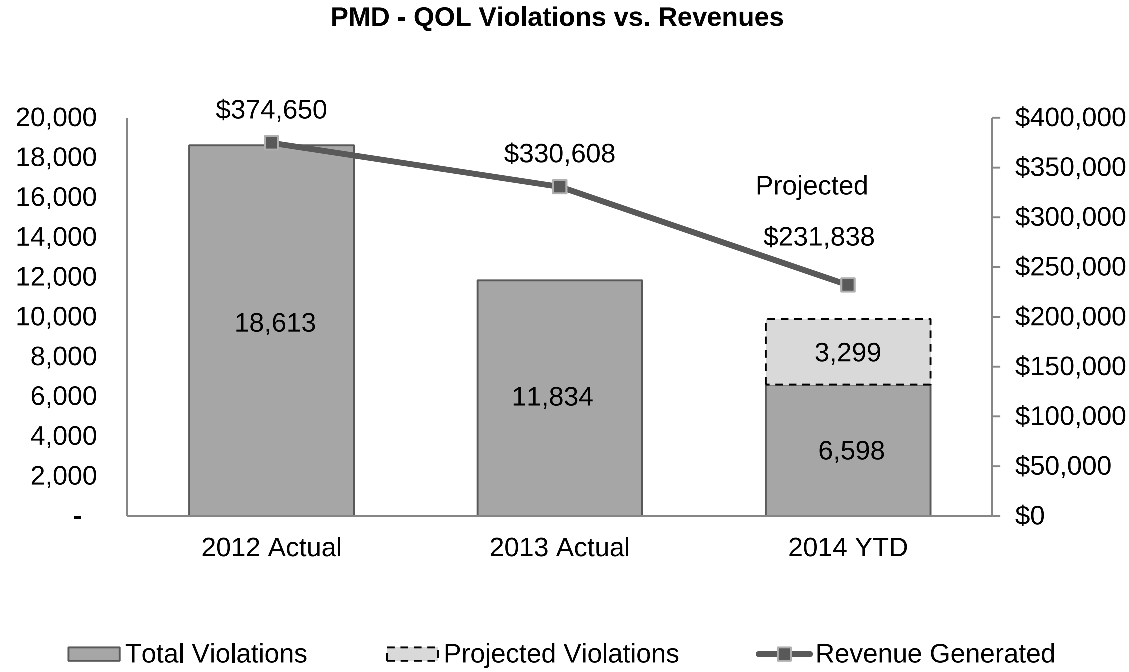
PMD – Number of Housing Inspections vs. Collection Rate
2012 Actuals – 2014 YTD [8]



The combined data represented in the previous two graphs suggests that although inspections may be down slightly and the violation rate is climbing, the Division's declining revenue may be primarily attributable to a weakening collection rate which disrupts the Division's ability to recover its activity-based personnel expenditures.

[7] Source: PMI Metrics Summary report for 2012, 2013 and 2014 as of August 26, 2014
[8] Source: PMI Metrics Summary report for 2012, 2013, and2014 as of August 26, 2014

Also described above are declining Quality of Life (QOL) revenues. The below graph illustrates the annual total QOL violations and revenue actuals for years 2012 and 2013, and then displays 2014 projected QOL violations and revenues based on current monthly trends (a total of 9,897 violations and $232,000 in revenues are projected).[9] As the number of violations decrease relative to a peak in 2012, revenues are correspondingly drooping. The Division is budgeted to raise $390,000 through QOL violation fees in 2014, however should the below projection be reflective of year-end performance levels, there will be a revenue collection shortfall of approximately $158,000.

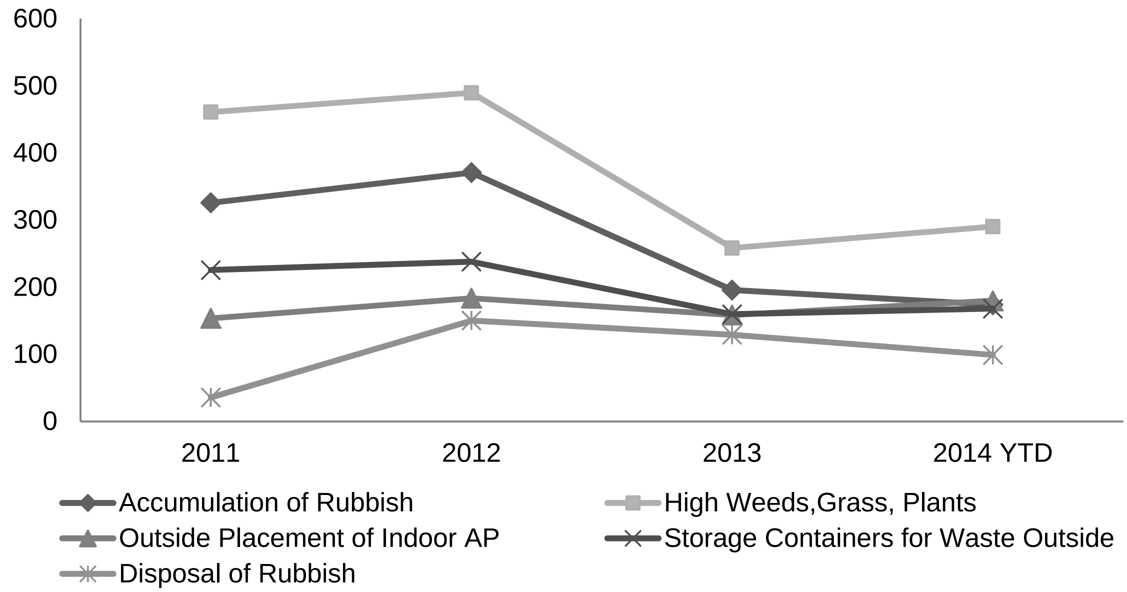


Further evaluation is required to determine if the number of violations in 2013 decreased due to code compliance increases or because work performance declined. Should it be the former, then it would appear that the QOL violation program is having the intended impact; if not, more consistent performance monitoring of the unit and personnel are necessary to target performance irregularities.

In order to explore whether or not code compliance is increasing, a trend review of the top five QOL violations was performed. The below graph represents the monthly violation rate for the top five QOL violation categories over the four-year period (2014 is based upon the monthly rate as of August 26, 2014). Overall, the monthly QOL violation rates among these top five violation categories suggest violation rates are leveling – 2013 and 2014 levels vary only marginally. As illustrated, the largest percentage change from 2011 levels is associated with a 46.6 percent reduction in the Accumulation of Rubbish category. Although it is too soon to know if the leveling of violations is a trend or a reflection of larger staff performance related issues, it should be monitored continuously to determine how best to staff the unit given revenue needs from potentially stagnant violation activities.

[9] Projected revenues incorporate the Quality of Life Prior Year revenue into the total

PMD - Top Five QOL Violations
Monthly Rates, 2011 Actuals – 2014 YTD



Although not considered in the cost recovery evaluation shown above, the PMD is also responsible for the collection of annual housing and rental revenue. This revenue includes the annual Housing and Rental Permit registration fees charged to property owners renting units to citizens in Reading. This is the single most sizable revenue source for the Division with $890,000 projected in 2014 - 24 percent of the Division's budgeted revenue. As mentioned, the majority of this revenue is collected during the first two quarters of the year. According to City revenue reports that run through June 30, housing and rental permit revenues are lagging 2014 expectations with only 74.7 percent of annual budgeted revenues collected. With 25 percent outstanding, this equates to a $225,000 shortfall. Because collections are more heavily collected in the first half of the fiscal year, the Coordinator does not expected revenues to make a strong recovery before the end of the year.

In recognition of the Housing Permit revenue collection issue, the PMD began sending older housing permit invoices to a third party collector, National Recovery Agency (NRA), and tracking prior year collections separately from current (categorized as Housing Prior Year in the Department's revenue). NRA does not charge the City for the collection services, but instead assesses an additional fee to the original invoice amount to recoup its costs. The hiring of NRA has increased overall collections by generating over $117,000 in additional revenues in 2013. NRA is budgeted to produce an additional $450,000 in 2014 - budgeted revenues are based upon an anticipated collection rate of 20 percent of the total outstanding debt amassed from 2007 through September of 2013. However as June, 30, 2014 the Department collected 25.2 percent of the budgeted $450,000 and based on current collection trends, is likely to raise closer to $226,000 by year-end, creating a shortfall of almost $224,000.

A significant concern for the City given its aging housing stock and vacant property rates is housing inspection frequency – currently on a three-year pace. The previous Act 47 Plan stipulated a two-year inspection program be established to more aggressively monitor and enforce housing standards. Since finalization of the previous Plan, the Division has made adjustments to inspections and the processing of violation notices to create a more efficient program by implementing the following:

- **Mobile technology:** the Division uses iPads in the field when performing housing inspections therefore reducing the documentation processing time and eliminating much of the previous paper-based system; PMIs are able to refer unsafe buildings immediately to the Fire Marshal's Office (FMO) via email, shortening the turnaround time for an immediate FMO inspection;

- **On-scene violation notices:** inspectors can now distribute violation and invoice notices associated with the inspection immediately by printing it remotely from the iPad-based program (Mobile Eyes) and handing it to the property owner on-scene at the time of the inspection;

- **Computerized deployment process:** the Information Technology Division created an automatic service request data pull from the Hansen system which captures all data related to the inspections process. The service requests pulled are prioritized to include properties in need of an initial inspection, and then those with follow up inspections (three days and 120 days) to create daily inspection sheets for PMIs. This data pull assigns properties to a single reviewer so as to not allow more than one inspector to inspect a particular property. It also exports addresses based on a geographic proximity to another property in order to reduce travel time between inspections.

Despite these efficiency gains and increases in staff over the last three years, the Division is unable to meet inspection demands to achieve the two-year review requirement discussed above. Currently, the Division is on a three year pace according to Division leadership. The Department does not track necessary performance data to determine the reasons for this shortfall, but Department managers believe it is in part, due to growth in the total number of properties requiring inspections and high levels of follow-up inspections which occur when properties have violations at the initial inspection and PMI's must revisit the property to be sure violations were remediated. Further examination of this backlog is required to build a plan for maintaining an inspection process that meets Division and City goals. One area to more closely monitor is the performance of inspectors per day and the distribution of new inspections and secondary or tertiary inspections per day.

Building & Trades Division

The mission of the Building and Trades (B&T) Division is to:

> *Ensure the safety of constituents, along with the safety of existing building structures, and new construction projects are in compliance with national and international construction codes; encourage and promote business growth and development through education and code compliance while conducting business with cooperation, communication and courtesy.*

The B&T Division complies with the Commonwealth of Pennsylvania's Uniform Construction Code (UCC), the International Building code (IBC), the International Residential Code (IRC), the International Existing Conservation Code (IECC), the International Existing Building Code (IEBC), the International Plumbing Code (IPC), the International Mechanical Code (IMC), and the National Electrical Code (NEC). The Division provides inspections and permits necessary for all construction and rehabilitation projects as well as use and occupancy certifications for all necessary properties in the City. They generally perform the following tasks:

- Building and systems permitting and inspections, including plan reviews
- Issuance of trade licenses for contractors or constructions trades workers
- Coordination of trades boards
- Emergency stabilization and demolition

According to the 2013 Strategic Operating Plan, the Division also provides technical assistance to the public relating to the construction, alteration, repair, and use of occupancy of existing structures via the website and through other means of communication (e.g., email and community meetings).

Staffing

In 2014, the Division has seven budgeted positions. Staffing increased by two positions in 2012: the City added a Residential Inspector to focus on growing residential rehabilitation property inspections and a

Chief Building Officer was transferred from the Administration Division. The Chief Building Officer is certified by the Pennsylvania Department of Labor and Industry as a Building Code Officer and is the final signatory on all use and occupancy certifications in the City of Reading. Since 2012, the total number of budgeted staff has not changed, but in 2014 the Division replaced the HVAC[10] Inspector position with a Mechanical Inspector to more appropriately reflect customer needs. An actual headcount per year for each title position is unavailable; however the Division shows one vacancy in 2013 and in the first half of 2014. The following tables represent budgeted and actual headcount annually.

Building & Trades Budgeted Headcount

Title	2010	2011	2012	2013	2014
Chief Building Official [11]	-	-	1	1	1
Secretary	1	1	1	1	1
Plumbing Inspector	1	1	1	1	1
Building Inspector	1	1	1	1	1
Electrical Inspector	1	1	1	1	1
HVAC Inspector	1	1	1	1	-
Mechanical Inspector	-	-	-	-	1
Residential Inspector	-	-	1	1	1
Clerk	-	-	1	-	-
Total Budgeted Positions	**5**	**5**	**8**	**7**	**7**

Since 2011, the B&T budget has grown by 57.6 percent and is budgeted to spend $726,362 in 2014. Personnel related spending makes up the majority of these expenses at 86.5 percent of the 2014 total budget.[12] Since 2011, personnel related expenditure growth (55.5 percent) has exceeded staffing growth (40 percent or two positions) by 15.5 percentage points, indicating personnel related expenditure growth is not completely attributable to staff increases alone. The Division's fringe benefits and pension costs combined have increased by 104 percent since 2011 while salaries grew by 39.5 percent. This suggests that the Division has experienced more rapid growth in benefits (health care and pension) than salaries. Benefit and pension costs are more thoroughly reviewed in the Workforce chapter.

Building & Trades Division – Expenditures

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-14
Salaries	299,183	405,364	381,056	417,436	39.5%
Active Employees' Benefits	65,002	97,662	76,422	107,023	64.6%
Pension	17,102	37,918	64,881	64,204	275.4%
Social Security	22,887	33,031	29,503	32,699	42.9%
Other Personnel	206	26,630	4,845	7,100	3349.6%
Training & Education	15,210	17,043	16,937	22,000	44.6%
Utilities	0	0	0	17,000	N/A

[10] HVAC refers to *heating, ventilation, and air conditioning* and encompasses the indoor technology used to provide thermal temperature control and indoor air quality
[11] Before 2012 the Chief Building Official position was part of the Administrative Division
[12] This includes salaries, employee benefits, temporary wages, overtime, pension, and social security

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-14
Equipment	19,549	2,600	0	19,200	-1.8%
Maintenance	9,003	0	0	0	-100.0%
Supplies & Postage	1,602	9,071	9,987	12,000	649.3%
Contract & Consulting Services	281	4,680	68,089	14,600	5099.4%
Miscellaneous	10,877	13,881	6,566	13,100	20.4%
Total Building and Trades	**460,901**	**647,880**	**658,285**	**726,362**	**57.6%**

The 2014 budgeted revenue for the B&T Division is 2.7 percent higher than 2012 actual revenues. As shown in the following table, the Division in 2014 is budgeted to receive $1.1 million in revenue generated from the issuance of various permits and licenses and more than fully recovers Division expenditures. The B&T Division also receives a portion of the Community Development Block Grant (CDBG) monies for demolition of eminently dangerous buildings, or for the salaries of trade professionals who work to remediate and suspend "conditions of deterioration" in targeted areas of the City – typically lower income areas as substantiated by HUD data standards. In Reading, the use of these funds is prioritized to leverage private funding for property remediation – property demolitions are targeted first based on levels of safety and then by properties with external or private investment interest. Funding from CDBG is not dedicated but instead, based upon an application and approval process by HUD for reimbursement of activities (demolitions for instance). This approval must occur prior to a property demolition in order to receive the CDBG funds. The 2014 funding is expected to be approximately $170,000. This is shown below as a Direct Reimbursement to Trades.

Building & Trades Division Revenue

Revenue Description	2011 Actual	2012 Actual	2013 Actual	2014 Budgeted	% Change 2011-2014
Remodeling Permits	288,291	242,765	473,937	320,000	11.00%
Direct Reimb Trades - CDBG	151,420	171,661	140,946	170,000	12.27%
Plumbing Permits	202,685	125,042	205,420	137,211	-32.30%
Electrical Permits	215,520	91,239	129,240	100,053	-53.58%
New Construction Permits	266,153	168,525	50,604	90,000	-66.18%
Trades Licenses	114,250	139,073	109,965	80,000	-29.98%
Heating Permits	42,456	58,892	28,659	68,646	61.69%
Revenue Fee (Accessibility)	0	12,646	21,287	28,183	N/A
Curb & Sidewalk Permit	2,505	3,280	17,060	20,000	698.40%
Examination Fees	17,065	19,175	11,580	20,000	17.20%
Land Development Fees	19,850	9,165	15,370	20,000	0.76%
B & T Plan Review Fee	0	0	11,250	15,000	N/A
Other Revenues	42,705	63,481	48,104	65,407	53.16%
Total	**1,362,900**	**1,104,940**	**1,263,422**	**1,134,500**	**-16.76%**

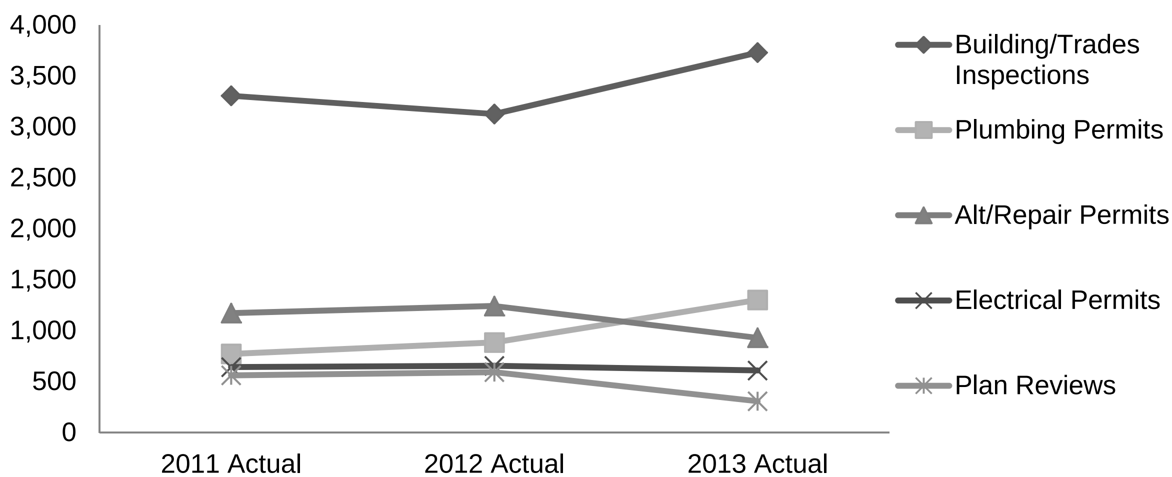
Buildings & Trades Assessment

The B&T Division is responsible for permits associated with all construction activities performed in commercial and residential properties throughout the City and issues licenses to trades people performing construction-related work. The Division is also involved in the certificate of occupancy process in cooperation and coordination with the Fire Marshal's Office. The chart below shows the distribution of activities for 2011 through 2013. From 2011 to 2013, the Division increased activities overall by 6.4 percent which coincided with a 14.3 percent revenue increase during this same time period. This suggests the additional position hired in 2013 helped to raise the activity and revenue levels of the Division.

	2011 Actual	2012 Actual	2013 Actual
Building/Trades Inspections	3,305	3,126	3,729
Plumbing Permits	772	884	1,302
Alt/Repair Permits	1,172	1,242	930
Electrical Permits	642	655	609
Plan Reviews	561	593	308
Mechanical Permits	115	181	140
Certificate of Occupancy	44	35	30
New Construction Permits	8	8	8
Demolition Permits	18	35	3
Total Activities	**6,637**	**6,759**	**7,059**
Total Revenues	**N/A**	**$1,104,940**	**$1,263,422**

The graph below represents an illustration of activity trends in the top five activities performed by the Division from 2011 through 2013. The graph reveals the slight uptick in activities in 2013 shown in the table above. This represents a 19.2 percent increase in 2013 in the top five activity categories.

Building & Trades Division – Top Five Activities, Annual Totals 2011 – 2013 [13]



Similarities between use of CDBG funds in B&T and in the PMD exist, whereas, the B&T Division fully recovers its costs annually with or without the inclusion of CDBG funding. As shown below, the Division is self-sufficient based on revenue and expenditure trends. Given City demands for CDBG funds, the Division should consider leveraging CDBG dollars differently in future decision-making.

[13] Building and Trades annual statistics report, 2007 - 2014

Building & Trades Division, Cost Recovery

	2011 Actual	2012 Actual	2013 Actual	2014 Budgeted
Cost Recovery	295.7%	170.5%	191.9%	156.2%
Cost Recovery, Less CDBG	262.9%	144.1%	163.8%	132.8%

Planning, Zoning, and Preservation

The Planning, Zoning, and Preservation units of the CDD are responsible for interpreting and implementing the City's Zoning Ordinance as enacted by City Council and the Mayor. The combined mission of this unit is to:

> *Promote a harmonious blend of restoration, adaptive reuse and sustainable new development through collaborative planning processes; to enforce the ordinances and change them when they no longer align with objectives; and develop partnerships to preserve and enhance the character of City neighborhoods.*

Together these units focus on innovation in land use planning to promote Reading as a place to live, invest and entertain. An overview of the three units and the services they provide are as follows:

- **Planning** provides technical and administrative assistance to the Planning Commission and the Reading Redevelopment Authority (RRA); administers the Subdivision and Land Development Ordinance (SALDO) and assists developers through subdivision and land development processes. Planning is also responsible for preparing and updating miscellaneous neighborhood and redevelopment plans, studies, reports, and maps; and disseminating census, demographic and flood plain information, and city-wide and neighborhood maps.

- **Zoning** interprets and enforces the zoning ordinance; reviews all building permits for compliance with the zoning ordinance; conducts research to verify the zoning classification for a given property, and responds to permit related zoning complaints

- **Historical Preservation** administers the Historic District Ordinance and assists citizens through the Historical Architectural Review Board (HARB) process; enforces the Historic District Ordinance, providing technical and administrative assistance to the HARB, issuing Certificates of Appropriateness, and administers the City's Façade Improvement Program; collaborates with other departments or agencies for technical assistance when undertaking projects involving Reading's historical structures.

Staffing

Frequent changes in budget designations for staff in these units make multi-year comparisons challenging. Despite these divisional transfers of positions, staffing has generally remained consistent and in the last two years all positions have been filled. The Historical Preservation function has one assigned staff person – a Historic Preservation Specialist, budgeted for in the CDD Administration Division. According to quarterly staffing reports, this position has always remained filled, but all budget related information is discussed in in the Economic Development chapter of the Recovery Plan.

Zoning & Planning Budgeted Headcount

Title	2010	2011	2012	2013	2014
Zoning Technician	1	1	1	1	1
Zoning Officer	1	1	-	-	-
Zoning Administrator[14]	-	-	1	1	1
Zoning Inspector	-	-	2	2	2
Planner III	1	1	1	1	1
Total Budgeted Positions	**3**	**3**	**5**	**5**	**5**

The following tables represent the expenditures and revenues for the Planning and Zoning Division. The 2014 expenditures budget is $540,500 – a 73.5 percent increase over 2011 actual spending. Personnel related expenditure make up the majority of this increase including a $135,000 increase in expenditures during this time period. Zoning revenue is budgeted at approximately $183,370 in 2014 – a decrease of 35.5 percent since 2011 actuals. The greatest losses were found in Zoning and Property Maintenance fees, as well as Miscellaneous fees. Zoning fees are charges for providing zoning permits required for any of the following instances:

- Increase in the number of dwelling units or boarding house units
- Erection, construction, movement, placement or expansion of a structure, building or sign
- Change of the type of use or expansion of the use of a structure or area of land
- Creation of a new use
- Demolition of a building
- Establishment of mineral extraction or an outdoor business storage area
- Construction or expansion of a vehicle parking area

Planning & Zoning Expenditures

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-14
Salaries	194,654	282,077	255,850	258,945	33.0%
Premium Pay	420	420	420	420	0.0%
Fringe Benefits	39,001	101,647	62,519	76,445	96.0%
Temporary Wages	28,047	33,884	22,654	45,400	61.9%
Pension	12,827	23,699	46,344	45,860	257.5%
Social Security	17,133	24,203	21,338	23,315	36.1%
Other Personnel	113	152	1,112	1,370	1109.4%
Contract & Consulting Services	5,882	7,955	7,395	74,080	1159.4%
Fees	13,265	18,147	13,328	11,440	-13.8%
Other Non-Personnel	197	50	2,465	3,324	1591.3%
Total Planning and Zoning	**311,539**	**492,234**	**433,424**	**540,599**	**73.5%**

[14] Before 2012 the Zoning Administrator was part of the Administrative Division

Zoning Revenues[15]

Revenue Description	2011 Actual	2012 Actual	2013 Actual	2014 Budgeted	% Change 2011-2014
Civil Complaint Judgments	0	-	-	11,000	N/A
Miscellaneous	46,635	214	-	-	N/A
Property Maintenance Fees	71,488	53,035	11,320	11,520	-83.89%
Zoning Fees	166,207	187,925	145,009	128,000	-22.99%
Zoning Housing Appeals	0	-	-	29,000	N/A
Zoning Inspector No Show	0	-	-	3,850	N/A
Total	**284,329**	**241,174**	**156,329**	**183,370**	**-35.51%**

Planning, Zoning, and Preservation Assessment

As previously stated, the Zoning unit is responsible for the interpretation and review of the City's zoning Ordinance. This includes reviewing any and all cases where property owners may dispute code violations generated from other units (e.g. Property Maintenance Inspectors during housing/rental inspections). These cases are referred to as "reconciliations." The Zoning unit has almost 2,700 properties that fall into this category, and with a limited number of staff to review cases, this has created a backlog of properties awaiting reconciliation.

It is the primary responsibility of the Zoning Administrator to review each file/case to determine whether a property is in violation of the zoning code. In order to dispute a violation, the property owner must show proof/documentation of the property's zoning status. According to CDD leadership, the majority (approximately 80 percent) of disputed cases is approved, but data to support this statement was not made available. In cases where the property owner can substantiate his/her claim(s), the violation is dismissed with no required payment and property information is hence updated in the City's records. Should a property owner fail to substantiate a case, the case is denied and the owner has the option to appeal the determination before the Zoning Hearing Board (ZHB).[16]

Initiatives

Since the previous Act 47 Plan, the Community Development Department has enhanced its tracking systems, more efficiently deployed staff, and streamlined some of its processes through technology advancements; however, Reading still experiences the challenges associated with its high rate of poverty - higher rates of older housing stock, less investment in property preservation resulting in unsafe or substandard living conditions for renters, and vacant property lots that require safeguarding. The initiatives developed in this section are intended to help the Department improve the investment climate for customers of government, enhance revenue generation, and better track progress towards Departmental goals.

CD01.	**Zoning Reconciliation Plan and Eliminate One Staff Position**	
	Target outcome:	Service efficiency
	Five year financial impact:	$163,000

[15] The Planning Division does not generate revenue.

[16] The Zoning Hearing Board hears property owner appeals for zoning variances; the ZHB works in accordance to the Pennsylvania Municipalities Planning Code, Act of 1968, P.L. 805, No. 247, as reenacted and amended, and the adopted City of Reading Comprehensive Plan

	Responsible party:	Zoning Division; Community Development; Zoning Review Board; City Council

As noted above, the Zoning Administrator is faced with a backlog of almost 2,700 reconciliation cases. Division leadership reports that many of these cases are an outcome of housing/rental inspections performed by the Property Maintenance Division – where disputes arise regarding the accurate number of allowable units in a property upon inspection. However, data relating to this backlog was not available at the time of this report. Community Development leadership is aware of this issue and is prioritizing the development of a plan for addressing this backlog.

The CDD in coordination with the Zoning Administrator and other related offices or agencies shall develop a plan to resolve the current backlog of reconciliation cases and address how future backlogs may be avoided. This plan shall be submitted to the Act 47 Coordinator within 60 days of the finalized Recovery Plan. Upon the Coordinator's approval of the Zoning Reconciliation Plan, the Zoning Administrator and the Community Development Director will supply quarterly reports presenting the monthly reduction of the backlog. In addition to the backlog reduction strategy and performance tracking, the City will monitor and report on newly reported cases beginning in 2015, and their remediation separate from the current backlog identified.

Since the City entered Act 47 oversight in 2010, it has increased its Zoning staff from two full-time staff (one Zoning Inspector and one Zoning Technician in 2010) to four full-time staff (one Zoning Administrator, one Zoning Technician, two Zoning Inspectors). One of the reasons given to the Coordinator for increasing the staff complement was to provide additional staff to resolve this backlog. The City has funded the Division at the higher staffing level for three years but the backlog persists, and there are other Recovery Plan initiatives that reduce the City's staff in other service areas back to 2010 levels because of the projected deficits.

The City needs to complete this critical task and reallocate its limited resources to other priorities. Therefore, the Recovery Plan gives the City until the end of 2016 to resolve the zoning backlog and then requires the City to eliminate the one position from the Division in 2017. For now the Recovery Plan assumes the City would eliminate one of the Zoning Technician position. If the City's financial condition improves and the Division is able to present a clear plan for using the higher staffing level for clearly defined, measurable outcomes, then the Coordinator and City can revisit the staffing reduction. The financial impact associated with the position reduction is shown below.

Financial Impact

2015	2016	2017	2018	2019	Total
$0	$0	$45,000	$58,000	$60,000	$163,000

CD02.	**Technology Solutions Plan Development**	
	Target outcome:	Improved service
	Five year financial impact:	N/A
	Responsible party:	Community Development; Office of Information Technology

Community Development is in the process of moving forward with its strategic plan; however, there is a missing piece - a clear technology strategy that reinforces the mission, vision, and objectives described in this plan. There are several technology ideas surrounding potential solutions to individual problems with current technology, but a more cohesive evaluation of how envisioned solutions may fit or work together is necessary before moving forward.

With that, the CDD shall build a technology solutions plan within 12 months of the City enacting the Amended Recovery Plan, which incorporates the larger vision for how CDD would like technology to support the strategic plan. This plan shall include a listing of all desired or known information technology needs. Where a need or a problem has been identified, this plan shall include current process designs (i.e. workflow or process maps) and a desirable re-engineered map. It is the responsibility of CDD to establish how the operation or data flow might occur. CDD shall also provide a listing of preferred features as part of the technology solutions plan (e.g., drop down menus for selecting a type of charge on a mobile billing application) so expectations are clear in the solution design.

Upon completion of this initial draft technology solutions plan, the Office of Information Technology (IT) shall provide a review of the plan for technical feasibility. This feasibility review shall incorporate into the technology solutions plan - a realistic implementation plan (including outside contract support if needed), schedule and estimated budget. This shall include any potential consolidation of solutions from the CDD provided list, as IT is perhaps better positioned to provide expert advice on technology design. IT may provide more than one implementation plan, schedule and budget for each technology solution project established in recognition that there may be more than one way to build a technology solution. For each solution provided, IT shall provide additional information regarding any solutions gap. For example, if in providing a credit card payment system for field employees to collect fees, a technology solution cannot provide for a desired feature such as a display of all other outstanding fees, then IT must note this gap. Proposed technology solutions may only solve 90 percent of a problem, in which case IT shall provide information regarding the technology solution disparity and any potential mitigation activities useful in closing the solution design gap.

In coordination with IT, CDD leadership will review the IT design options and select the preferred design solution. Upon completion of this plan, IT, the General Administration Director, and CDD leadership shall make recommendations for implementation based upon available funding.

CD03.	**Point of Service Payment Option**	
	Target outcome:	Improved services; revenue enhancement
	Five year financial impact:	N/A
	Responsible party:	Community Development; Finance Department; Office of Information Technology

The Property Maintenance Division is especially faced with challenges in revenue collections and especially for collections generated by work performed in the field. In part, the collections problem is driven by those who do not make timely payments on fees charged for service such as housing inspections. The Division is essentially leaving money on the table when these invoices go left unpaid. In order to combat some of these revenue trends, CDD has enlisted NRA to assist with the collections of amassed debt. While focusing on unpaid debt is an important step in recouping costs, increasing revenue on the front-end is an equally as valuable practice.

One way to increase collections is to take a more “retail” view of the Department and encourage payment at the point of sale, or in the case of the PMD, upon completion of the activity performed. Since the Department already uses iPads and Mobile Eyes technology while working in the field to provide immediate invoicing to customers in the Property Maintenance and B&T divisions, the Department shall institute a secure point-of-service (POS) payment system that accepts credit cards or bank ATM cards that is integrated with the City’s billing and revenue collections system(s). Hardware and software associated with this function already exist (e.g., Apple offers the “Square” which can provide the device and payment processing feature that encrypts financial data immediately and automatically deducts credit card fees from payment). However, the City will need to review all technology options to determine the best solution to integrate with back-end accounting and reporting systems. This technology solution should be prioritized among other revenue generating IT projects and made part of the CDD technology solutions plan described above. Implementation of this technology solution shall be completed within the five-year term of the Amended Recovery Plan.

By collecting revenue at the POS and in a manner businesses are accustomed to (use of credit cards), collection rates should increase for services that can be invoiced upon completion (e.g. an initial housing inspection or permit evaluation). Fees or charges associated with the credit card payment option will require further evaluation by the CDD and Finance Department, but credit card fees may be passed to the customer as a payment convenience fee.

In addition to collecting payment for services performed, the City should explore the option of field personnel accepting payment on other outstanding City debt – this relates to the consolidated billing system initiative mentioned below. Should billing consolidation occur, and invoices be itemized to the property or business owner, payment of other City-related invoices can be included in this system design.

Revenue enhancement estimates have not been provided, however, this system will allow customers to utilize more convenient payment methods and potentially settle other City debts more quickly, resulting in predicted higher collection rates and a more efficient and effective collection operation.

CD04.	**Consolidated Billing System**	
	Target outcome:	Improved service; revenue enhancement
	Five year financial impact:	N/A
	Responsible party:	Community Development; Information Technology Division; Managing Director's Office; Finance Department; Office of the Treasurer; City Auditor

For those owning, renting or rehabbing properties in Reading there can be numerous payments required throughout the year. Currently, there may be as many as 10 office visits and five payments required in obtaining a particular permit. With fewer, but more concentrated customer interactions, the City may be able to capture more of its outstanding revenue.

The City shall develop a consolidated billing system for Community Development that is linked to individual properties and can consolidate invoices for customer payments. This project shall appear in the technology solutions plan with an assigned implementation plan schedule beginning prior to the expiration of the five-year term of the Amended Recovery Plan. This system shall be able to process credit cards or bank ATM cards as a form of payment. The CDD and IT will need to consult with the Finance Department, Office of the Treasurer, and possibly the City Auditor as this program is built to ensure proper procedures and accounting practices are met. By forming a “one stop shop” for issuing permits and paying property-based bills, the City can capture more of its revenue than it otherwise does through its multiple customer interactions and duplicative collection processes. Current collection issues noted throughout this chapter allude to collection rate enhancement necessities, and billing consolidation is one way the City can achieve growing revenue goals.

Although not a required initiative, the City may also consider further exploration of how both property-based billing and individual-based billing may interact to achieve further revenue collection enhancements over time. For instance, when a property owner goes online to pay a housing permit, the billing system should be able to display any outstanding payments linked to the property and the property owner. The owner in this case, should be able to choose to pay one bill or all outstanding bills. The system should ultimately allow the City to determine the total universe of unresolved payments by property or by property owner so that when property owners or contractors pursue additional business they are incentivized and prompted to first settle old accounts.

CD05.	Consolidated permitting process	
	Target outcome:	Improved service
	Five year financial impact:	N/A
	Responsible party:	Community Development; Office of Information Technology; Managing Director's Office

The Community Development Department is in a unique position to streamline the permitting process for City customers. All permits related to zoning, construction and rehabilitation, housing/rentals, and food distribution fall under the Department's purview. The City's current permitting process is government-based rather than customer-based, forcing customers to comprehend and navigate the City's process instead of the City adjusting to customer needs. A community development system that involves user-friendly experiences and high-speed encounters helps to define the City as an inviting place to do business.

In partnership with IT, the CDD shall build a customer-based permitting process where only one point of contact exists for the customer. This effort shall be incorporated into the technology solutions plan as described in the related initiative. CDD shall be accountable for the process (i.e. workflow) and functionality design while IT is responsible for the back-end information systems design. This project plan shall be prioritized among other IT related projects in the technology solutions plan.

There are multiple ways to build this type of system, but consolidating the information stored in various databases is the goal. The two units must ensure that all known data regarding any and all property information is contained in one accessible place – or otherwise be integrated so customers have access to all pertinent information when seeking any type of permit. Once data is combined or otherwise assimilated, the CDD should work with IT to move towards a customer-based permitting process that allows the customers to choose how they interact with government – in person through a customer service representative, or virtually via a digital kiosk or online application.

The new system should help the City establish itself as a place motivated and incentivized to increase private investment for housing or commercial related improvement projects throughout Reading. As it becomes easier to do business with the City, increases in revenue and property improvement projects should result. However, the amount and timing of additional revenues is uncertain (as is the upfront cost of developing the system), so financial impacts are not presented. The City shall continue to monitor its progress in both respects by reviewing collection rates for the various permits, trends in requested or issued permits, and reductions in violations found during the inspections process.

CD06.	Performance monitoring enhancement	
	Target outcome:	Improved service; revenue enhancement
	Five year financial impact:	N/A
	Responsible party:	Community Development; Information Technology Division

CDD currently participates in the City's ReadiStat program (a tracking mechanism for various performance indicators relating to department services and activities) which provides ongoing intelligence relating to citizen complaints, department/division expenditures and revenues, and output measures (i.e.

number of permits issued) in comparison to the previous year. It also traces divisional goals such as the effort to achieve a two-year inspection cycle in the PMD for housing/rental inspections. Beyond these types of measurements the Department and divisions have not presented supplementary outcome goals with forthcoming measurable results. The Department has made a first step in moving towards a performance-driven department, by establishing the 2013 Operating Strategic Plan discussed previously. However, the plan focuses primarily on task-oriented goals involved with the functional responsibilities of the divisions (e.g. increase the number of permits issued by the department) and not outcome-based measures (e.g. increase in the percent of fully code compliant housing).

The Department's mission is "to improve the quality of Reading's neighborhoods while growing the prosperity of its communities." However, outcome goals relating to its mission do not currently exist (e.g. the City will increase housing/rental code compliance at the initial inspection by five percent in 2015). Outcome goals are better at measuring progress along an intended path.

CDD shall make further progress towards building a comprehensive performance system that measures Department and division outcome goals throughout the course of each year. As part of this initiative, the Information Technology Division shall assist in developing the tools to reinforce the Department's tracking efforts. In addition to establishing outcome goals, CDD shall coordinate with other departments to better appreciate the geographic distribution of division activities. Targeted deployment of staff may be done to achieve better outcomes for the City overall. This includes, for instance, mapping criminal behavior "hot spots"[17] with geographically concentrated code compliance problems to better target neighborhoods most in need of City services. By strategically directing and coordinating activities across departments, the City can improve its neighborhoods more cohesively.

An example of this type of performance-outcome monitoring is provided as follows:

Property Maintenance Division	
Department Outcome Goal 01: Increase collection rate by X% annually	
PMD Related Outcome Goal 01:	Increase Housing Inspections collection rate by X% in 2015
Related Program:	Housing inspection POS collection system
Program Performance Goal 01:	Decrease the number of days to collect initial housing inspection fee by X days in 2015
Program Measure 01:	Average number of days to collect initial housing inspection fee in 2015 (compared with 2014 number of days)

As mentioned previously in the chapter, the Department additionally requires further examination of its operations and shall begin tracking (at minimum) the following:

- **Quality of Life Violations**
  - Violations per property/parcel: this will allow the Division to better understand if code compliance is increasing over time at a property level;
  - Violations per inspector: variations in performance of duties may be discovered by comparing the monthly average of violations found per inspector; this assumes that Supervisors review work performed by inspectors to ensure inspectors are not arbitrarily increasing violations;
  - Revenue collection rate: the Division needs to ensure revenue collection rates are high and monitoring this rate monthly should allow the Division to see collection shortfalls sooner; this

[17] Areas with higher rates or densities of criminal activity

will also allow the Division to see the performance of any collection process changes (e.g. does a collection program at the point-of-service enhance the collection rate).

- **Housing Inspections**

  - Distribution of inspections (new, secondary, and tertiary inspections): this will allow the Division to better anticipate staffing priorities to achieve annual inspection goals;

  - Inspections per day per inspector: the Division should have an understanding of workload among its inspectors to ensure it is both evenly distributed and also to ensure inspectors are working at similar paces; this will allow the Division to run staffing analysis for achieving inspection goals;

  - Violations per property (upon initial, secondary and tertiary inspection): the Division should be focusing on whether or not violations are trending downward to monitor code compliance among properties; this will also allow the Division to better estimate annual housing inspection revenues.

- **Revenue collections:** Monthly revenue collection rates and totals compared with monthly budgeted collection rates and totals

CD07.	**Monitor revenue collection rates**	
	Target outcome:	Revenue enhancement
	Five year financial impact:	N/A
	Responsible party:	Community Development; Finance Department

Like all matters and activities of City government, if "it is not measured and monitored, it is not managed." This holds true for the revenue collections of the Community Development Department. Although collections are somewhat monitored through the ReadiStat program, regular monthly reports tracking collection trends and collections relative to budget are not. Currently there are shortfalls in major revenue streams such as housing/rental inspections, housing/rental permits and quality of life violation fees.

The Department shall track revenue collection rates on a monthly basis to monitor collections against the annual budgeted revenue target. A more frequent review of these revenues may help to identify and target problem areas within the collections process earlier in the year, to allow for adjustments to be made if necessary (i.e. adding staff for short periods of time to process invoices or increasing staff in particular service areas). Collection rates for each revenue source (in addition to any new or re-categorized revenues) shall be reported quarterly to the Act 47 Coordinator, inclusive of a monthly breakdown comparing prior year monthly totals for 2012, 2013 and 2014.

CD08.	**Housing/rental inspection plan**	
	Target outcome:	Improved service; revenue enhancement
	Five year financial impact:	N/A
	Responsible party:	Community Development; Property Maintenance Division

Housing inspections are the City's main defense against further deterioration of the housing stock and must be made a priority. Department and Division managers feel that, at current staffing levels, the previous Act 47 Plan's two-year permitting and inspection program is unachievable. Due to the data discrepancies described in the chapter, the Coordinator was unable to analyze the inspection backlog.

The Property Maintenance Division and CDD leadership shall produce an executable work plan that addresses the City's housing/rental inspection backlog to the Act 47 Coordinator no later than 45 days after the approval of this Amended Recovery Plan. Upon the Coordinator's approval of the plan, the Managing Director, Director of Community Development, and the Codes Manager will provide monthly reports regarding progress made in tackling the City's housing/rental inspections backlog.

Economic Development

The 2010 Recovery Plan required City government to improve the management and planning of economic development efforts and to grow cooperative efforts with other economic development entities that were already active in Reading. Though these efforts are a work in progress, since 2010 Reading has developed a clearer strategy for economic development and is working alongside the City's authorities and other economic development actors to further the City's economic development priorities.

This chapter has four sections:

- The first section describes the local economy.
- The second section describes the major players in economic development efforts in Reading.
- The third section presents the progress that the City and its partners have made in terms of economic development since the last recovery plan.
- The final section proposes a series of initiatives to support and grow Reading's existing economic development efforts.

Economic Environment

This section reviews some of the economic factors that drive City government's earned income tax and business privilege tax revenues. The Revenue chapter provides a similar overview of the factors most relevant to the City's real estate tax revenue. The earned income tax and real estate tax account for nearly half of the City's General Fund revenues, so their growth is crucial to City government's financial stability.

In September 2014 the *Reading Eagle Business Weekly* published a story describing how wealth is distributed in the tri-county area covering Berks County, Chester County and a portion of Lehigh County.[1] ESRI, a geographic information system (GIS) company, ranked 63 zip codes according to wealth in the three-county area using a list of criteria that includes household income, net worth and home value. The four zip codes that cover the majority of the City of Reading were the four lowest in the rankings.[2]

The US Census Bureau's American Community Survey reports that 40.6 percent of all Reading residents had income that fell below the poverty level during a 12-month period.[3] The majority of children in the City (55.8 percent) lived in families whose income fell below the poverty line. Comparing the concentration of poverty in Reading to the concentration in other places is complicated by the fact that the census bureau applies the same income threshold to all people, regardless of their place of residence. In 2013 that threshold was $23,624 for a family of four with two related children. But the number of City residents whose income falls below the "living wage" is even higher than the amounts noted above since the living wage is higher than the poverty threshold.

In addition to the many social and economic issues associated with this concentration of poverty, it also presents revenue generation challenges for City government. The City has to levy a higher tax rate on its residents to generate the same amount of revenue as a lower tax rate on more wealthy taxpayers. In 2013, the City received $180,000 in current year revenue per quarter from each 0.1 percent of EIT levied on residents versus $237,000 per quarter from the 0.1 percent of EIT levied on commuters, a 31.7 percent difference.

[1] "Berks zip code data shows where the wealth is." September 9, 2014.

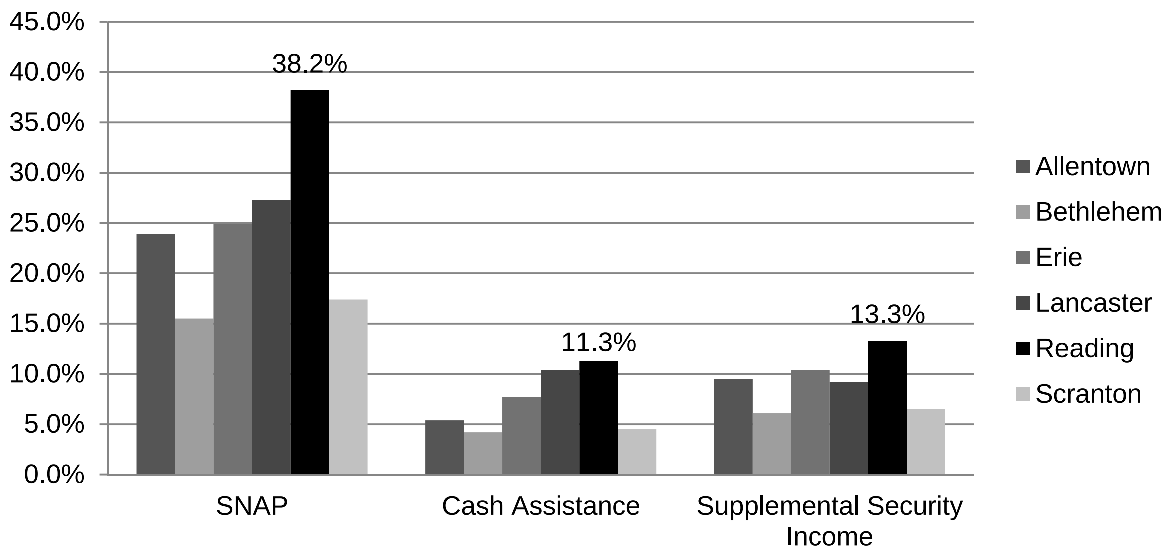
[2] Parts of Reading are grouped with other municipalities in the following zip codes: 19610 which includes Wyomissing ranked 13th; 19606 which includes Reiffton and Mount Penn ranks 36th; 19605 which includes Laureldale ranked 44th; and 19607 which includes Kenhorst and Shillington ranked 47th.

[3] US Census Bureau, 2011-2013 3-Year American Community Survey estimate

Non-earnings based income

Because of Reading's poverty level and unemployment rate, a sizable portion of the City's population is dependent on supplemental assistance. According to the most recent American Community Survey data, the population's reliance on supplemental programs including the Supplemental Nutrition Assistance Program (SNAP), Cash Public Assistance Income, and Supplemental Security Income (SSI) is higher than that of similar sized cities[4].

Supplemental Benefits Received by Reading Residents



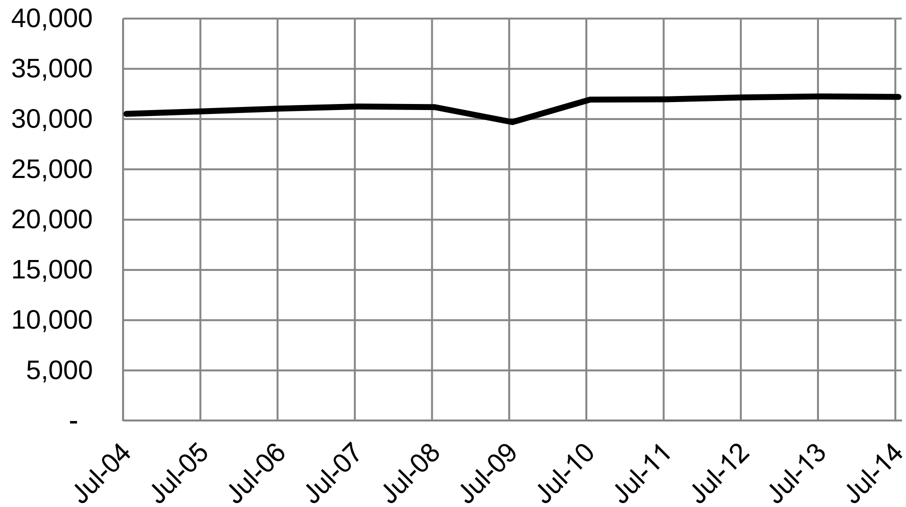
Source: U.S. Census Bureau, Selected Economic Statistics, 2012 American Community Survey, 5-Year Estimates

Number of jobs

The City of Reading's population has seen growth in total employment levels since the recent recession, increasing by 5.8 percent between July 2004 and July 2014 (most recent available data)[5]. However, the City's total population has also grown by nearly 9 percent[6] in the same time period, though a substantial portion of the increase in population is due to young people below twenty years old[7]. The chart below shows a slight upward trend over the ten-year period, except for a dip from 2008 to 2010.

[4] Source: U.S. Census Bureau, Selected Economic Statistics, 2012 American Community Survey, 5-Year Estimates
[5] Source: Bureau of Labor Statistics, Local Area Unemployment Statistics, City of Reading, Berks County, Pennsylvania Unemployment Rates, Not Seasonally Adjusted, July 2004-July 2014.
[6] Source: U.S. Census Bureau, Annual Estimates of Resident Population, 2004 and 2014 Estimates
[7] According to the Franklin and Marshall Report, Reading has the highest proportion of young people age 19 and younger in comparison to Berks County and among 19 comparison cities.

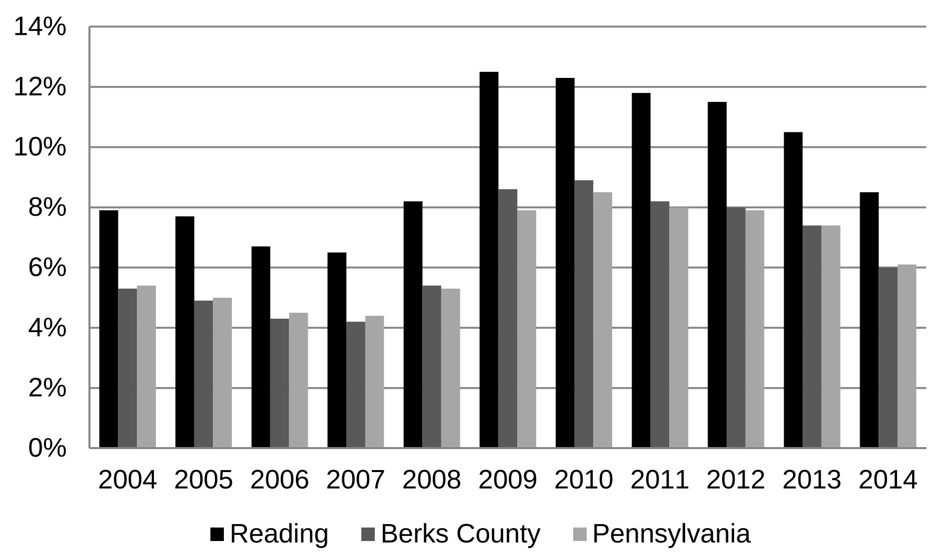
City of Reading Employment
2004-2014



Source: Bureau of Labor Statistics, Local Area Unemployment Statistics, City of Reading, Employment, Not Seasonally Adjusted, July 2004-July 2014.

In addition, Reading continues to see greater unemployment than the surrounding County and the State. Over the past ten years, the City's unemployment rate has been an average of 3 percent higher than Berks County and Pennsylvania. In July 2014 (most recent data available), unemployment in Reading was 8.5 percent, compared to 6 percent in Berks County and 6.1 percent in Pennsylvania.

Unemployment Rate Comparison
2004-2014



Source: Bureau of Labor Statistics, Local Area Unemployment Statistics, City of Reading, Berks County, Pennsylvania Unemployment Rates, Not Seasonally Adjusted, January 2004-July 2014.

Types of jobs and associated earnings

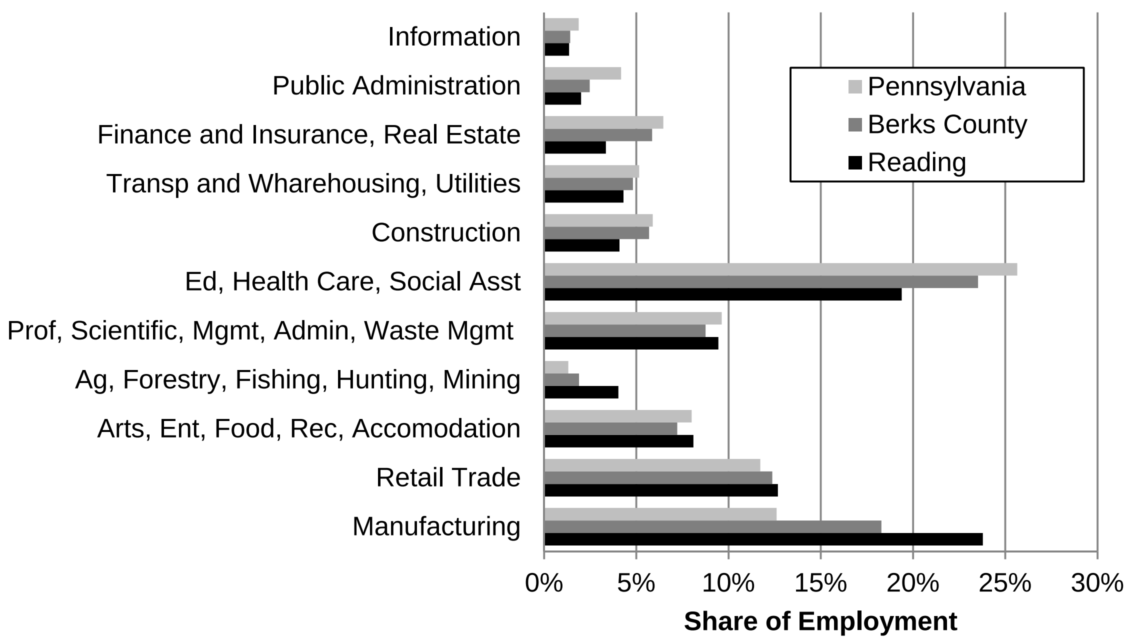
In June 2014, the Local Economy Center at Franklin and Marshall College published a report that described the types of jobs in Reading as compared to Berks County, the surrounding region and other Pennsylvania cities.[8] According to the data reviewed in that report, manufacturing provides the highest share of employment in Berks County and an even higher share in Reading at nearly 25 percent. Health care and retail trade were the other two sectors that accounted for at least 10 percent of employment in the City.

Given Reading's higher reliance on manufacturing employment, the report notes that the long-term decline in manufacturing employment has hit Reading especially hard.

> *Manufacturing has been in steady decline in the United States for decades. This decline poses significant economic challenges for factory hubs like Reading and York, and is the major driver of the negative economic environment experienced in these communities.*[9]

The report goes on to explain that the long-term decline in manufacturing employment correlates with a long-term decline in the share of Reading households with middle class incomes.[10] The percentage of Reading households that reached that threshold dropped from just under 50 percent in 1969 to just over 20 percent in 2010, a steeper decline than experienced in Berks County, Pennsylvania or the United States.[11]

Employment of Reading Residents by Industry



Source: 5-year estimates from the 2012 US Census American Community Survey, Industry by Occupation for the Civilian Employed Population 16 Years and Over.

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[8] Throughout this section, all Berks County data includes data from the City of Reading. The same is true for Pennsylvania's data (includes Berks County and Reading). The census data used here is not granular enough to separate Reading from Berks County or the County from the rest of the Commonwealth. Since Reading's relatively lower performance is incorporated in the County total, it is reasonable to assume that the difference between the City and the rest of the County is larger than shown here.

[9] Ibid. Page 4.

[10] The report defines "middle class income" as an income that is two to four times higher than the poverty line for a family of four.

[11] Ibid. Page 11.

The report also highlights Reading's challenges related to resident educational attainment. According to the ACS data, 36.1 percent of City residents lack a high school diploma, and another 36.7 percent have only a high school diploma or GED equivalent. Only 12.3 percent of City residents have a college degree, compared to 30.7 percent for the whole county and 35 percent for Pennsylvania. The educational attainment levels are lower in the City's growing Latino population.

Educational Attainment Levels

	Reading	Reading Latino Population	Berks County	PA
Less Than High School	36.1%	52%	14.7%	11.4%
High School Grad/GED Equiv	36.7%	27%	39%	37.2%
Some College, No Degree	14.8%	12%	15.6%	16.5%
Associate's Degree	4.0%	4%	7.6%	7.6%
Bachelor's Degree or Higher	8.3%	5%	23.1%	27.4%

Source: 3-year estimates from the 2012 US Census American Community Survey as reported by the Local Economy Center at Franklin & Marshall College. Amish population excluded.

The combination of these and other factors leads to Reading residents having lower earnings that grow more slowly than the earnings for all Berks County residents. From 2008 to 2012, the mean earnings of City residents grew by 1.4 percent annually compared to 2.0 percent for all County residents.

Mean Resident Earnings

	2008	2009	2010	2011	2012	Compound Annual Growth
Pennsylvania	$53,806	$53,539	$54,476	$56,286	$57,323	1.6%
Berks	$49,280	$49,208	$50,072	$52,030	$53,329	2.0%
Reading	$31,763	$31,383	$32,248	$33,031	$33,604	1.4%

Source: 5-year estimates from the American Community Survey for 2009-2012; 3-year estimate for 2008. All dollars are inflation adjusted. The Berks numbers include Reading residents and the Pennsylvania numbers include Berks and Reading residents.

Sales activity

Berks County's gross domestic product (GDP) and exports have seen some growth in recent years. However, this growth is not necessarily reflective of the City of Reading, as many of the larger businesses in Berks County are located outside of the City limits.

Berks County GDP

Reading MSA	2009	2010	2011	2012	2013
GDP (in $millions)	14,682	15,005	15,403	15,753	16,224

Source: Bureau of Economic Analysis, numbers retrieved on September 26th, 2014

Berks County Exports

Reading MSA	2009	2010	2011	2012
Exports (in $millions)	942.9	1,325.3	1,591.0	1,713.7

Source: International Trade Administration, Metro Area Reports

Looking forward

The most recent survey of professional forecasters produced by the Federal Reserve Bank of Philadelphia projects that the national GDP will grow by 2.1 percent in 2014, 3.1 percent in 2015, 2.9 percent in 2016 and 2.8 percent in 2017.[12] The national economy is generally stronger than Reading's economy, with projected national unemployment between 5.3 percent and 6.3 percent, versus Reading's current 8.5 percent rate.

In May 2014, the *Reading Eagle* and Kutztown University forecasted how gross domestic product (GDP) would grow in Berks County through 2016 for 11 different industries. For the manufacturing sector that makes up a quarter of the County's GDP, the forecasted growth rate was projected to drop from approximately 7.5 percent in 2012 to approximately 4 percent in 2016. Adjusting for inflation, the historical growth rate was a more modest 0.2 percent from 2001 to 2012. One of the report's primary authors wrote, "Our forecasting indicates that even though the current rate of growth will decline next year, it will stay positive."[13]

Wholesale and retail, which accounted for the next largest share of the County GDP in 2012, was projected to grow by 5 percent in 2014 and then drop to 0 in 2015 and 2016. GDP in the education and health industries was projected to grow by two to four percent at a slightly increasing rate through 2016.

Kutztown University also surveyed Berks County businesses and clients of the University's Small Business Development Center to gauge their opinions about the future performance of the national economy and their likely response to that performance. About 61 percent of the survey respondents said they expected their number of employees would remain the same in the next 12 months.[14] Fifty-two (52) percent said they expected their sales revenues to increase in the next 12 months while 43 percent said they expected their profitability to stay the same.

The Pennsylvania Department of Labor and Industry projects that employment in Berks County (not just in the City) will grow overall, with more substantial growth in the areas shown in the chart below. The second, third and fourth columns show the projected growth over a 10-year period. Subsequent columns show the projected annual increases in job opportunities due to new positions being created (change due to growth) due to retirements (change due to replace). For example, the Department projects that jobs for healthcare practitioners and technical occupations will increase from 9,750 in 2010 to 11,370 in 2020, an increase of 1,620 jobs or 16.6 percent. On an annual basis that translates to 162 new jobs being created each year (jobs due to growth). Another 199 jobs will open when the current position holder retires for 361 new job opportunities per year.

[12] Third Quarter 2014 Survey of Professional Forecasters released August 15, 2014.

[13] *Reading Eagle Business Weekly*. Industry Outlook: Manufacturing. May 6, 2014.

[14] *Reading Eagle Business Weekly.* Executive Pulse Survey Results. May 6, 2014.

Berks County Occupational Outlook[15]

Occupation	Est. 2010	Est. 2020	Percent Change	Est. Annual Change Due to Growth	Est. Annual Change Due to Replace	Total
Healthcare Practitioners & Technical Occupations	9,750	11,370	16.6%	162	199	361
Installation, Maintenance & Repair Occupations	7,830	8,800	12.4%	100	174	274
Personal Care & Service Occupations	6,250	7,160	14.6%	92	150	242
Construction & Extraction Occupations	6,570	7,560	15.1%	100	140	240
Healthcare Support Occupations	6,460	7,510	16.3%	107	91	198
Business Operations Specialists	3,680	4,070	10.6%	40	77	117
Architecture & Engineering Occupations	3,100	3,410	10.0%	34	70	104
Counselors, Social Workers & Other Community & Social Service Specialist	2,900	3,210	10.7%	31	65	96
Grounds Maintenance Workers	1,590	1,860	17.0%	27	28	55
Postsecondary Teachers	1,830	2,070	13.1%	25	29	54

Source: Pennsylvania Department of Labor and Industry, Center for Workforce Information & Analysis, Long Term Occupational Projections for Reading MSA (Berks County), 2010-2020

Please note that these projected job opportunities are for the entire County and residents of outlying counties who could commute to Berks County, not just City residents. Several of the job opportunities require postsecondary higher education or vocational training while less than 30 percent of the City's residents have education beyond a high school diploma or GED.

Economic Development Entities

While all parts of City government can contribute to economic development, the City's **Community Development Department** (CDD) has primary responsibility for the day-to-day activities directly targeted at growing employment and property values in the City.

The CDD is responsible for reviewing proposed development activity to determine compliance with City regulations, including property maintenance codes, historic preservation standards, urban planning documents, and zoning ordinances. The Community Development chapter of this Plan has more information on those operations. The Department is also responsible for encouraging, facilitating and supporting economic growth by administering the City's tax incentive and loan programs, managing relevant federal and state grants, and proactively working to retain existing businesses and attract new ones.

[15] Occupations Projected to Experience Largest Growth 2010-2020

The economic development arm of CDD is primarily supported by staff in the two units shown in the table below, and by a Planner, referenced in the Community Development chapter. Federal funding from the US Department of Housing and Urban Development (HUD) supports the positions listed in the HUD subtotal.

Budgeted Headcount, 2010 - 2014[16]

	2010	2011	2012	2013	2014
Department Director	0	0	0	0	0
Deputy Director	0	1	1	1	1
Historic Preservation Specialist	1	1	1	1	1
CD Specialist Manager	0	0	0	0	0
Confidential Secretary	0	0	0	0	0
Other positions	2	3	0	0	0
Administration subtotal	**3**	**5**	**2**	**2**	**2**
Department Director	1	1	1	1	1
Deputy Director	0	0	0	0	0
Fiscal Officer	1	1	1	1	1
Rehabilitation Specialist	1	1	1	0	0
CD Specialist Manager	1	1	1	1	1
CD Specialist	1	1	2	2	2
CD Specialist III	1	1	1	1	1
Confidential Secretary	1	1	1	1	1
HUD subtotal	**7**	**7**	**8**	**7**	**7**
Total	**10**	**12**	**10**	**9**	**9**

The table below shows the City's spending from the General Fund on CD Administrative functions from 2011 (actual) through 2014 (budget). Total spending dropped by 39.1 percent over this period because of the headcount changes noted in the prior chart. Spending supported by the federal Community Development Block Grants (CDBG), including salaries for employees covered by the grants, is not reported in the City's General Fund. The Department's budget outside of Administration is detailed further in the Community Development chapter.

CD Administration Expenditures, 2011 - 2014

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-14
Salaries	205,415	60,044	62,183	77,183	-62.4%
Active Employees' Benefits	36,257	16,341	13,680	30,578	-15.7%
Retirees' Benefits	0	8,170	6,840	15,289	N/A
Temporary Wages	7,970	4,252	3,630	0	-100.0%
Pension	17,102	9,479	27,806	18,344	7.3%
Social Security	16,399	4,994	5,110	5,943	-63.8%

[16] The City's budget did not distinguish full-time from part-time positions until 2013, so the chart lists all budgeted positions, full-time and part-time. See the Community Development chapter for more information on the Department's other units.

	2011 Actual	2012 Actual	2013 Actual	2014 Budget	% Change 2011-14
Other Personnel	1,015	1,017	1,020	950	-6.4%
Contract & Consulting Services	8,467	0	7,693	30,000	254.3%
Miscellaneous	0	0	0	60	N/A
Total Administration	**292,625**	**104,296**	**127,962**	**178,347**	**-39.1%**

The Administration Division's budget was $178,000 in 2014 compared to $128,000 in 2013 actual expenditures. The increase was primarily due to growth in personnel costs, which make up approximately 83 percent of the total operating budget, and a one-time increase in the contract and consulting expenses. The City will match or supplement a Pennsylvania Historical and Museum Commission (PAHMC) grant received in both 2013 and 2014. The City used CDBG funds, which are not covered in the General Fund, to meet the matching requirement in 2013 but anticipates that General Fund money will be needed in 2014.

In addition to CDD, there are several authorities that are separate from, but related to, City government and whose primary mission includes economic development. These are described below.

The **Reading Redevelopment Authority (RRA)** is administered by a five-member board appointed by the Mayor. The RRA has two staff members, the Executive Director and an Executive Assistant. It underwrites proposals for housing and economic development, assists developers in packaging debt and financing for projects through low-interest loans and tax incentives, acquires and conveys vacant and underutilized real estate to developers, prepares and markets sites for mixed-use developments, and provides information to small businesses and for affordable housing. RRA project funding usually comes from intergovernmental grants and tax-exempt bond financing for infrastructure development.

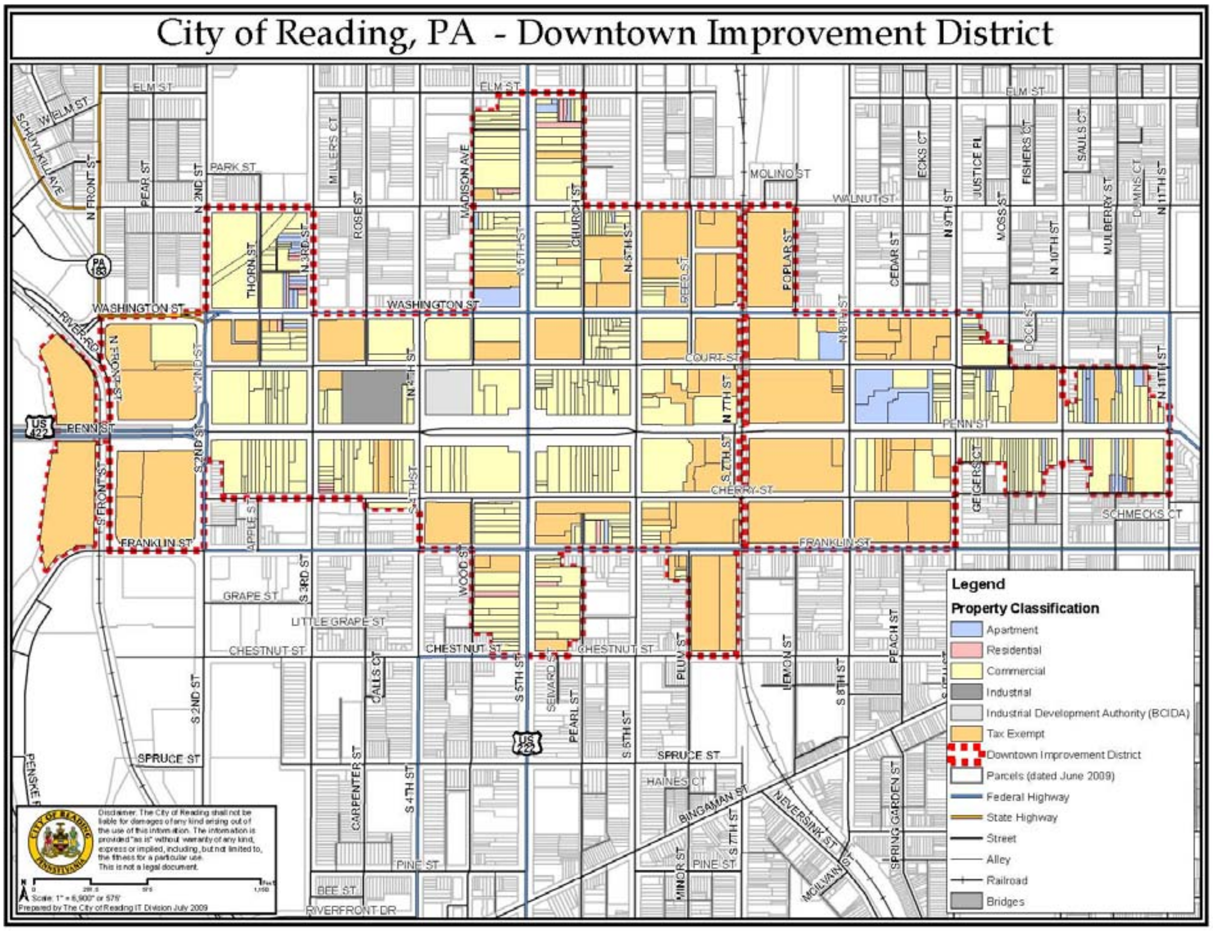
The RRA explores funding opportunities for property acquisition, demolition and development throughout the City. It currently owns the site of the Doubletree Hotel under construction across from the Santander Arena and the 50-acre Riverview Industrial Park (Dana South). In total, the RRA owns approximately 100 properties in Reading as of August 2014. These include vacant lots as well as buildings, and span approximately 60 acres.

In addition, the RRA is aligned with CORE (Community Reinvestment), a partnership between the City and area realtors to support the sale of abandoned properties by offering special tax incentives to those who purchase CORE-designated properties. The RRA is also engaged in a joint venture with the Reading Housing Authority (RHA), developing affordable housing on the 1000 block of Penn Street.

The **Reading Downtown Improvement District (DID)** helps City government ensure the Downtown area is safe and clean for businesses located there and their patrons, so that it is more attractive for potential development.

The DID employs "street ambassadors" who patrol parking authority properties, perform business checks, and provide safety escorts for visitors and Downtown employees. The DID also provides cleaning services (e.g. weeding, trash removal and leaf removal) and snow removal from curb ramps in the District. Without the DID, these activities and their associated expenditures would be the responsibility of the City's Public Works Department or not be performed at all. The DID is funded by a 4.754 mill levy on properties in the District.

The DID holds events throughout the year focused on bringing people downtown, including eight "Midday Cafés" in the summer months, a holiday event, and a downtown treasure hunt. The DID is up for reauthorization at the end of 2015. Reauthorization will require the DID to develop an updated plan, Council to approve a renewal ordinance, and property owners currently in the District to vote to continue the DID's existence.



Other municipal authorities also complement economic development efforts in the performance of their functions:

- The Reading Housing Authority (RHA) is focused on providing affordable rents for income-eligible individuals and families through 1,600 public housing apartments and townhouses throughout the City. In addition, they provide more than 600 residents with assistance in paying their rent through the Housing Choice Voucher (Section 8) programs, and provide support to individuals and families in purchasing a home through short and long-term assistance with budgeting and rent/mortgage payments. The RHA also has two privately owned, non-subsidized properties which are available to individuals or families with moderate incomes.

- The Reading Parking Authority (RPA) manages a system of 7,100 parking spaces, including 9 garages, 6 surface lots and 1,100 on-street parking spots, which it leases from the City.

- The Reading Area Water Authority (RAWA) operates the water filtration plants, trunk lines and distribution systems according to a lease agreement with the City.

The City and these three authorities[17] recently formed a Community Development Corporation (CDC) called **ReDesign Reading** to identify opportunities for cooperation and operational efficiency. ReDesign Reading, which also works in coordination with the DID and RRA, is focused on efforts to make the City

[17] Initial start-up funding came from the Reading Housing Authority, Reading Parking Authority and Reading Area Water Authority.

more attractive to current and potential residents and businesses. One of ReDesign Reading's goals is to "create buzz" around the City through initiatives like "pop-up" businesses and art installations, installing wifi access at 6th and Penn Streets, and establishing a City bike program. In addition, the Director is working to connect current residents to existing economic development opportunities. For example, ReDesign Reading is developing a "community ambassador" program for local residents who are not seeking full-time, traditional employment but can still enrich the community by using their skills on a volunteer or part-time basis.

Outside of City government and the associated authorities, the City works with several regional non-profit organizations on economic development efforts, including but not limited to the Greater Berks Chamber of Commerce, the Greater Berks Development Fund, the Greater Reading Economic Partnership, the Berks County Community Foundation, and the Wyomissing Foundation.

There are four institutions of higher learning in or adjacent to the City: Albright College, Alvernia University, Penn State Berks, and Reading Area Community College; these entities share some of the City's economic development goals and partner with the City on specific initiatives. Kutztown University also has its Small Business Development Center (SBDC) and newly formed business incubator on Court Street. Finally, the City also works with federal, state and county government agencies on specific initiatives.

Beyond this network of public and non-profit organizations, the City must work cooperatively with the businesses and self-employed individuals located or doing business in the City. Understanding these businesses, especially the number and types of jobs available and the level of compensation they offer, is critical to understanding City government's opportunities and challenges for supporting economic development.

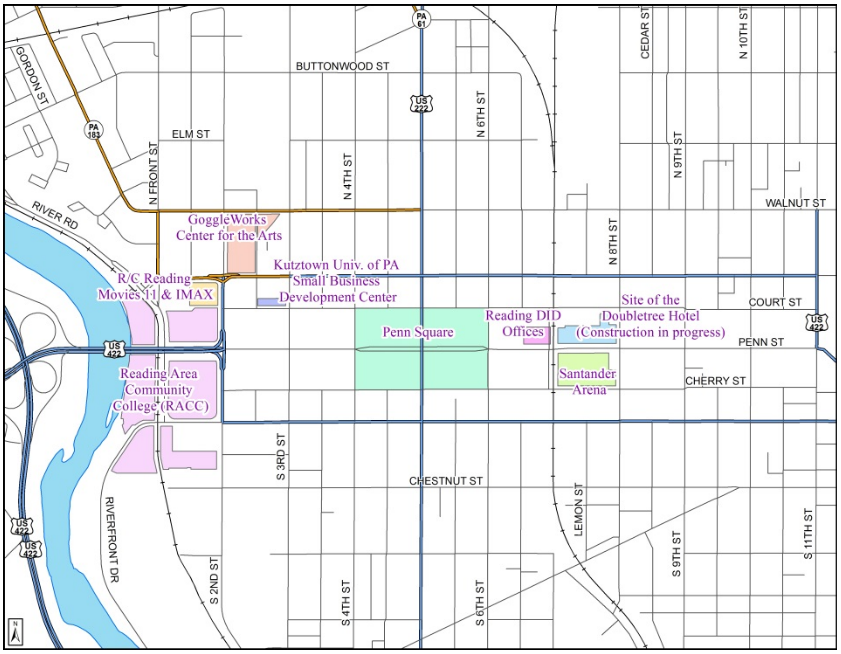
Economic Development Progress since 2010

The Spencer Administration has emphasized the importance of improving downtown as a place to work, live, and relax. When the Act 47 Coordinator met with economic development stakeholders outside of City Hall, including private sector and non-profit leaders, they often shared the view that the City should focus on making downtown cleaner, safer[18] and more vibrant.

The development of the Doubletree Hotel aims to stimulate downtown's growth and, though it took a long time to get all the financing in place, construction is now underway. A marketing study completed prior to the hotel's construction concluded that Greater Reading needed 1,100 hotel rooms, and the existing supply of hotel rooms in the region was only about half of that total. Financing and funding for the $62 million construction project comes from a number of sources, including but not limited to: a $13 million leveraged loan, an Our City Reading loan, a Brownfields Economic Development Initiative (BEDI) grant, Building PA funds, HUD 108 funds, and an additional $18 million in funding over 20 years for upkeep from the Pennsylvania Infrastructure Improvement Program (IFIP). The City's economic development community is hopeful that the Doubletree Hotel will not only accommodate out of town guests for programs at Santander Arena, but that it will also be a draw for events such as corporate meetings, parties, and weddings, acting as a catalyst for economic activity in the City, particularly in the downtown area.

[18] Some leaders noted safety itself has improved but the perception of safety needs to follow.

Downtown Reading



The original Recovery Plan required the City to develop an economic development strategy that articulates priorities and specific actions in support of those priorities over one-year, three-year and five-year horizons. The former and current Administrations worked with external consultants who drafted a document describing a broader housing improvement and economic development strategy that extends beyond downtown.[19] City Council formally endorsed the housing portion of the document[20] and the Administration has been working on implementing elements of both sections from the November 2011 version of the document. The following are updates provided by the City and its partners on the progress made on each element since the document was published:

Develop a more supportive business environment:	CDD has been improving internal processes to make them faster including permitting, plan review, property maintenance and zoning.
	The City has established a revolving loan fund for small businesses which has already provided loans to 15 businesses and will continue to expand, with the aforementioned new microloan program.
	The City is working with local foundations to fund ambassador positions which will act as liaisons to help new or growing businesses navigate the process in City Hall.
	A pilot program targeting Hispanic entrepreneurs, particularly those interested in opening businesses in the Downtown area has been implemented in partnership with the Latino Business Resource Center.

[19] City of Reading Economic Development Strategy prepared by John Kromer, Eric D. Weiss and James E. Hartling

[20] Please see the Community Development chapter for more discussion of the housing strategy.

Draw interest from the region and beyond:	The DID, through funding support from the Wyomissing Foundation is hiring a communications/marketing coordinator to enhance their efforts to better market the Downtown area and the efforts of the DID.
	The RRA is developing the Doubletree Hotel across from Santander Arena.
	The Gateway Area has been enhanced through improved signage, streetscaping, and more pedestrian friendly traffic patterns. Though there is still work to be done, these changes will help make the Reading Area Community College (RACC) campus more walkable, and should help to encourage students to spend more time on the campus and in Downtown, rather than just driving in and out of campus parking lots.
Expand/Strengthen primary health care services:	A local health center has been established.
Strengthen school-to-work continuum and workforce development:	Early efforts to pilot school-to-work programs have been tested through the Reading Area Community College (RACC). However, there will need to be ongoing conversations about how to increase the number of programs and the utility of the programs while simultaneously balancing cost.
Expand community-serving retail to capture resident purchases within Reading and to strengthen neighborhoods:	The Wyomissing Foundation, in tandem with the City has been working closely with the College Heights neighborhood around Albright College to encourage people to locate or keep their residence in that community through efforts to make it more pedestrian friendly and tackle parking issues.
	The DID is bringing "cart" vendors in to Downtown on certain days, both to promote the Downtown area, but also to diversify the supply of goods available in the Downtown area.
Expand Reading's industrial and office employment and tax base/Revitalize Penn Square:	The RRA, with support of an outside funder, purchased the 50-acre Riverview Industrial Site (Dana South). The RRA ensured that the site was cleared by the Department of Environmental Protection and the RRA's Executive Director recently received Board approval to list the property with a national realtor to actively market it to developers or businesses and the RRA has been meeting with potential businesses and developers about the site.
	The City and its partners have begun conversations about office space in Downtown, including possible space consolidation or conversation opportunities in an effort to bring more businesses in to the area and to reduce office space vacancies. Currently, there is an approx. 98 percent occupancy rate in the first levels of downtown buildings. However, from the second level on up, the vacancy rate is approx. 90 percent. One major component of this effort will be focused on the City-owned properties on the 400-block of Penn Street.
	As part of the Main Street program, the Community Development (CDD) Department recently launched a pilot program to incentivize small businesses to open in Downtown Reading. The program will offer grants to qualifying businesses operating within the City and provide business owners financial and technical assistance for their business. The program is focused on small businesses that have operated for at least one year, with five or fewer employees, and are owned by a low or moderate income person. Grants range from $2,500-$30,000, with a special focus on the Penn Square area of Downtown. The program is also partnered with the Kutztown Small Business Development Center (SBDC) which has been contracted to provide business consultants to the grantees for one year.

The original Recovery Plan also called for City government to cooperate more with other economic development actors that were already active in Reading. To that end, the City's Community Development Department and DID staff led a collaborative effort to secure the Keystone Community designation from the Pennsylvania Department of Community and Economic Development in 2013. The designation includes establishing a Main Street program for the area around Penn Street. Main Street programs provide grants to support downtown economic development and revitalization efforts, and are coordinated through a full-time downtown coordinator.

To receive the designation, the City and the DID convened a team of business leaders and volunteers to complete the application process and assemble the beginnings of a five-year strategy to improve downtown Reading. The five-year strategy is driven by five committees:

- *Organization:* The Organization Committee secured funding from the Greater Berks Community Foundation to organize events downtown. The Committee also obtained a grant for DID through DCED to enhance its programs.

- *Economic Restructuring:* The Economic Restructuring Committee has created a new microloan program for the City that will target small downtown businesses. The funding for the program will come from un-programmed funds of the 2014 CDBG Microenterprise Loan Program. The City has partnered with the Kutztown Small Business Development Center (SBDC) to administer the program. In addition to the microloan program, the City has developed a partnership through the Community First Fund to provide technical assistance to businesses looking to locate in Reading.

- *Design:* The Design Committee has been focused on bringing new benches and trash cans in to downtown, as well as installing improved signage for pedestrians and vehicles.

- *Promotion:* The Promotions Committee put together an initial list of downtown businesses categorized by type of business and plans to launch a software application that will provide online and wireless access to basic information on each business, including services and products offered and hours of operation.

- *Safe, Clean and Green:* Safe, Clean and Green efforts have been consistent with DID activities, including downtown Ambassadors available to the public and local businesses for information and safety. The DID is also ensuring that the downtown area is clean and clear of trash.

Administration leaders admit that most of the progress has been "behind the scenes" and less visible to the public. While it is important to put the structures in place that will enable the City to make sustained progress beyond the impact of individual efforts, the City and its partners need to pivot from this internal focus (forming committees, securing funding, adopting bylaws) and improve downtown in ways that businesses, residents and visitors can more easily recognize – cleaner streets and sidewalks, better maintained public spaces, less loitering, more walk-in commercial activity, etc.

The Coordinator heard complaints from several stakeholders that City government has not articulated a cohesive downtown improvement strategy. From the Coordinator's perspective, it is less important for the City government to have a single comprehensive plan that incorporates all possible methods for improving downtown, particularly since plans will change as opportunities and circumstances do. But the City government and its partners need to move beyond discussions about strategies and vision, and develop the specific zoning changes and subject-specific plans and design documents that will help foster, attract, guide and facilitate private development.

Initiatives

In order for Reading to successfully exit Act 47 oversight, City government needs recurring General Fund expenditures to be balanced against recurring revenues. The City also has to achieve that balance while gradually eliminating the additional taxing authority provided through Act 47 that allows the City to tax commuter earnings. Therefore, to achieve and maintain long-term financial balance, the City needs resident earnings to grow. Rising employment levels and higher gross receipts at businesses located in the City will also help boost local services tax and business privilege tax revenues.[21]

City government alone will not drive this economic growth. Some contributing factors to economic growth, like workforce training or the quality of education at local schools, are outside of scope of City government. Other critical factors, like market demand for the goods produced by area manufacturers or the cost of key inputs, are well beyond the reach of local government. Even those tools that local government leaders often use to try to spur economic development – large scale infrastructure improvements, project financing incentives – are unlikely to be available to Reading City government in the short term, beyond the resources and programs that already exist.

But City government and its associated partners, like the municipal authorities, can still contribute to economic development. City government must be part of a broader effort to provide the right environment for existing businesses to grow and, where it can, reduce the obstacles for new businesses to locate and thrive in Reading. City government can also play a coordinating and convening role and organize resources from the public, private and non-profit sectors to advance agreed-upon priorities. In addition to the City's work on the recommendations in the November 2011 strategy document, these principles guide the following initiatives.

ED01.	**Execute five-year plan associated with Main Street designation**	
	Target outcome:	Grow downtown tax base
	Five Year Financial Impact:	N/A
	Responsible party:	Administration; City Council; Community Development Department; Downtown Improvement District and other authorities

City government leaders worked hard to complete the Main Street application process and receive the Keystone Communities designation, and key leaders from the private and non-profit sectors shared their desire to target resources for downtown improvements. As part of the Main Street application process, the City had to articulate a five-year strategy. Major elements of that strategy include:

- Secure a total of $3.4 million in funding, partnerships, and volunteers through grants and aid from local foundations throughout the five-year term
- Draft a Downtown Design Handbook
- Inventory the buildings in the Main Street target area
- Inventory all public spaces and install historic markers
- Establish a design for the Penn Square properties and carry out façade improvements
- Develop a database of local businesses
- Design programs for business recruitment and actively recruit at least 10 new businesses to downtown, including technical assistance for business owners
- Create a strategy to monitor the economic performance of the 50 most prominent businesses in the downtown commercial core

[21] Please see the Revenue Chapter for more discussion of these revenues.

- Promote the DID and its ambassadors
- Gather and coordinate information on downtown events and activities, develop online and hard copy materials to aid in cross-promotion, and schedule quarterly opportunities for community groups and local businesses and property owners to host activities in downtown
- Improve public furniture and fixtures, install uniform trash receptacles, install better pedestrian and vehicle signage downtown, conduct a tree-trimming and replacement assessment, assess street lighting with a focus on energy efficiency, renovate bus stops with support from BARTA and upgrade City parking garages with support from the RPA
- Review traffic patterns to assess flow during rush hour and present recommendations to the Planning Commission

To build on this progress, the City shall execute the strategy described in its Main Street application. It shall also address the following:

- **Zoning:** Several stakeholders expressed concern that Reading's downtown zoning and land use regulations are too permissive in their design and not adequately enforced. Specific complaints included not adequately preserving the downtown for commercial and complementary purposes and not adequately regulating the sidewalk vending community so that it enhances retail and dining foot traffic downtown. Zoning decisions are inherently difficult in that they can be made on the basis of who will benefit, instead of the best strategy for downtown improvement. Nevertheless, zoning is one of the major tools that City government has for shaping the downtown economy, and the City needs to use it more deliberately to support its downtown improvement strategy.

- **Safety:** Some stakeholders expressed concerns that the Penn Street area does not *feel* safe enough to encourage more foot traffic to the retail and dining options. Note that the concerns often relate to the *perception* of safety, as opposed to the actual incidence of crime downtown. While the City Police Department is understandably focused on reducing the incidence of major violent crimes throughout the City, and not just downtown, it is also important to reduce the incidence and perception of "public disorder" crimes, like vandalism, drunkenness, vagrancy or disorderly conduct, that occur downtown. Safety is part of the DID's mission but Authority staff members do not have the same powers that Reading Police officers do. City officials, including the Police Chief and DID Director, shall continue to discuss options to enhance the perception of safety downtown.

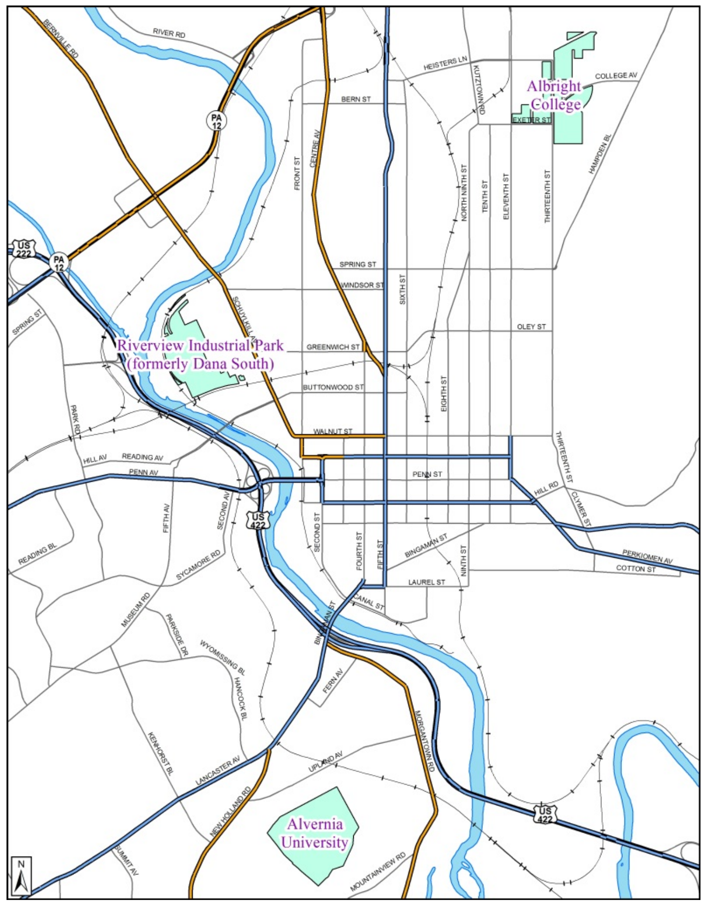
- **"Clean and green":** Some City Council members expressed frustration with the level of cleanliness downtown, citing litter in the streets, graffiti on vacant buildings, exposed dumpsters, overfilled garbage cans on the sidewalks, and weeds in planters. Measuring downtown cleanliness is difficult. But, if the City government is primarily reliant on the DID for "clean and green" activities, then the upcoming discussions about renewing the DID provide an opportunity for the City's elected leaders to provide direction on the types, frequency and quality of cleaning and property maintenance services that the DID should provide and to define desired outcomes.

City Council's committee structure provides an opportunity for the City's elected and appointed leaders to discuss these issues in a way that moves beyond general conversations about what should or could be done to specific discussions about what *will* be done, with regular reports on the impact of those actions. The business ambassador referenced in initiative ED03 should also be involved in these discussions.

The Administration and City Council shall also reach out to private developers that are not active in Reading but are working in similar cities or the surrounding region to get their perspective on how the City can address these issues and reduce the obstacles to more private development downtown. While the City has made an effort to connect with the non-profit organizations and local foundations, more needs to be done to engage the private sector (e.g. business owners, developers). The DID reauthorization process will provide a tangible discussion point for engaging downtown business owners. There is a separate discussion between the City and some local business leaders about public safety issues downtown and the City's Community Development Director shall take the lead on convening a similar group to address zoning.

ED02.	**Develop the Riverview Industrial Site**	
	Target outcome:	Develop former industrial space
	Five Year Financial Impact:	N/A
	Responsible party:	Community Development; Reading Redevelopment Authority

The City's economic development strategy included a recommendation that the City "identify one or more priority sites with 30+ acres that can be marketed at competitive rates as an industrial campus."[22]



To that end, the RRA purchased the 50-acre Riverview Industrial Site with support of an outside funder. The RRA ensured that the site was cleared by the Pennsylvania Department of Environmental Protection and moved clean soil from the Reading Hospital to the site to increase its acreage. In addition, the RRA's Executive Director recently received Board approval to list the property with a national realtor to actively market it to developers or businesses and the RRA has been meeting with potential businesses and developers about the site.

City government shall continue to support the RRA in efforts to return the site to productive use with priority given to industrial activities that will provide job opportunities to City residents. In addition, the City shall seek to work with outside partners who can bring resources to support this effort, including possible funding for development through the Greater Berks Development Fund and marketing support through the Greater Reading Economic Partnership.

ED03.	**Establish a business ambassador position**	
	Target outcome:	Improved outreach to existing and potential businesses with a focus on tax base growth
	Five Year Financial Impact:	N/A
	Responsible party:	Community Development; City Council

[22] City of Reading Economic Development Strategy. November 2011 Draft. Page 31.

The Community Development Director has requested that the City establish a new business ambassador position to help City government improve its outreach to existing businesses, give new business owners a single point of contact within City government and help market properties owned by the City or the RRA. One of the organizations that works with the City on economic development issues has expressed willingness to fund the ambassador position for a two- or three-year term. In one potential arrangement, the ambassador would report to the Community Development Director but work as an independent consultant under contract with the funding organization.

There is value in establishing this new position if the City can structure the position description tightly enough that there are clear responsibilities, priorities and performance measures associated with it. In the short term, the City can only afford this position if there is outside financial support. Once that external funding is exhausted, an alternative funding source will have to be identified, unless the demonstrated value of the position justifies spending limited City resources on this position instead of other needs.

The City shall establish the new Business Ambassador position (or, if this is an independent consultant, sign an agreement with the funding organization) provided there is a commitment from an external party to fund the position for at least two years and a position description that includes responsibilities, priorities and performance measures upon which the position can be evaluated periodically and at the expiration of the external funding arrangement. Based on these terms, there is no projected additional cost to City government during the Recovery Plan period.

ED04.	**Create an Economic Development Investment Application/Map**	
	Target outcome:	Improved collaboration with regional partners; increased marketing of available sites to grow the tax base
	Five Year Financial Impact:	N/A
	Responsible party:	Community Development Department, Redevelopment Authority, Regional Partners

Between the City and the RRA, there are a number of City-owned residential, commercial, and industrial properties that are available for sale or development. Other public and non-profit organizations also own properties throughout Reading that could be available for development, in addition to all the properties that are privately held with the intention of further development. The Community Development Director recommended that the City work with others to compile the list of available properties, map them and provide basic information to potential site purchasers/developers in a regularly updated, user-friendly online resource.

Other cities have begun to develop such apps. Governing Magazine recently detailed an application piloted in four Rhode Island municipalities and the City of Louisville, Kentucky. The application came out of a startup in Harvard's Innovation Lab and provides consolidated, standardized data on government-owned land. Users can click on maps to learn more about properties, such as square footage and assessed value.

In addition to the value that the resource itself would provide, assembling this resource will give City government a defined objective around which it can convene the RRA, ReDesign Reading, other governments, non-profit partners like the Greater Reading Chamber of Commerce and private actors like commercial realtors. Working through this process should strengthen communication between the City government and these partners, facilitating better coordination on larger economic development concerns. In addition, the already existing Reading Rebirth website http://www.readingrebirth.org/ may be a logical place to include a web-based version of the application, as it is already building on efforts between the CDD, RRA, ReDesign Reading, and regional partners.

Under the direction of the Community Development Director, the City shall work with the aforementioned parties to establish, share and maintain this resource. While the City can initially lead the effort to establish this resource, it should seek the ongoing involvement of other parties who are better suited to update it and market it.

ED05.	**Formalize collaboration with colleges and universities on economic development efforts**	
	Target outcome:	Increase economic development efforts by capitalizing on ways in which City resources and college/university resources can be shared
	Five Year Financial Impact:	N/A
	Responsible party:	Community Development Department, Alvernia University, Albright College, Reading Area Community College, Regional Partners

The City and its regional partners are already working with Alvernia University, Albright College, and the Reading Area Community College to address quality of life concerns where they are located. In addition, the City and these colleges and universities already have some partnerships regarding the use of and care for City-owned land. For example, Alvernia University has some maintenance responsibilities at Angelica Park, and invested in the renovation of the park's ball fields to meet NCAA standards.

The City shall establish an agenda with each of these colleges and universities to find additional ways to collaborate on shared goals and shall endeavor to meet regularly to define steps toward those goals and to monitor progress. Each agenda should include the identification of other opportunities for the colleges to be stewards of City-owned resources that are commonly used by their communities.

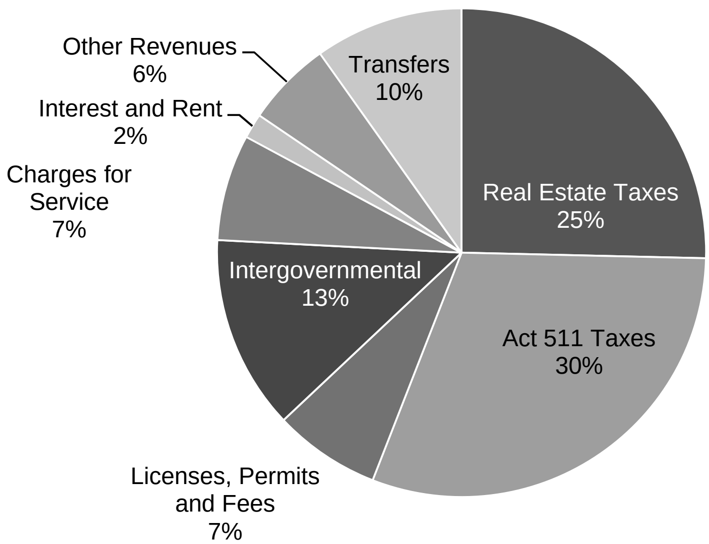
Other initiatives

Please see the Community Development and Capital Improvement chapters for more initiatives related to economic development.

Revenues

The City of Reading uses a mix of revenues to fund the services it provides, compensate its employees and pay its debt and other obligations. Locally generated taxes account for more than half of the revenue in the General Fund, which is the primary focus of the Amended Recovery Plan. Other funds, like the Wastewater Treatment Plant Fund or the Water Fund, rely more on service charges or interfund transfers. The chart below shows the major categories for the City's 2014 budgeted General Fund revenues.

2014 General Fund Budget - Revenues by Category



The amount of money that the City collects from revenues is partly a byproduct of the economy within which City government operates. The levels of unemployment, workers' earnings and business receipts, in and around the City, impact City government's ability to collect enough revenue to fund its operations and meet its obligations. The real estate market also impacts City government, though the real estate tax is less closely tied to the market because of assessment practices. Those environmental factors are reviewed in the Economic Development and Community Development chapters that should be reviewed along with this chapter.

The City's revenue collections are also a byproduct of other non-economic factors. Pennsylvania laws set legal limits on the kinds of taxes and service charges the City can use, whom the City can tax or charge and at what levels. There are timing issues related to when a tax or fee is charged and when the revenue is actually collected and available for use. There are practical challenges related to who collects revenue and how well they do so.[1] And there are policy considerations including without limitation questions of equity, regional competitiveness and the impact on existing business owners in the City and those who may consider locating there. Those factors mix with the economic environment and influence the City's revenue collections.

While taking account for those factors, Reading's City government must have a reliable, sustainable mix of revenues to fund its operations and meet its obligations, including making the increasing contribution to

[1] Please see the Administrative Services chapter for more information on the City's tax collection operations.

the employee pension funds and the necessary investments in the City's infrastructure, like roads, parks and public buildings.

This chapter discusses the City's recent revenue performance, describes the Amended Recovery Plan baseline projection of how much revenue the City will have absent any changes, and explains the initiatives to increase revenue.

Please note that the historical data presented in this chapter generally comes from the City's unaudited revenue results provided to the Coordinator by City Finance on a quarterly basis. As described in the Administrative Services chapter, the City has improved its financial record keeping since entering Act 47 oversight in 2010, including improvements to the timeliness and accuracy with which it records and reports its revenues. The Coordinator relies upon the City's quarterly financial data instead of the year-end results presented in the City's independent audit because the quarterly data is more quickly available for analysis, and allows the Coordinator to consider the City's 2013 and mid-year 2014 performance. At the time that this analysis was performed,[2] the 2013 audit was not yet complete. The quarterly financial data also provides more detail than is provided in the published audit report and better accounts for cyclical factors that are not as relevant in a year-end audit (i.e. certain taxes are mostly collected early in the year so the mid-year results provide a reasonable basis for projecting year-end performance).

General Fund Revenues, 2011 - 2014

	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget
Real Estate Taxes	19,530,526	18,563,997	20,735,249	21,083,297
Act 511 Taxes	16,953,993	22,690,997	25,381,183	25,415,795
Earned Income Tax	11,534,142	16,824,024	19,396,538	19,602,820
Business Privilege Tax	1,408,444	2,048,382	1,483,238	2,100,000
Real Estate Transfer Tax	2,227,730	1,972,840	2,825,536	1,982,975
Local Services Tax	1,301,080	1,315,032	1,204,472	1,100,000
Admissions Fee/Tax	411,108	459,675	409,628	425,000
Per Capita Tax	71,489	71,043	61,771	205,000
Licenses, Permits and Fees	5,252,834	5,402,783	5,638,546	5,865,796
Intergovernmental	11,470,446	9,315,453	10,169,222	10,681,789
Charges for Service	4,248,228	4,938,601	4,958,321	5,844,771
Interest and Rent	6,369,350	823,481	1,417,771	1,365,000
Other Revenues	9,295,390	7,607,945	5,789,261	4,718,593
Transfers	7,262,000	7,620,000	7,970,000	8,170,000
TOTAL REVENUES	**80,382,768**	**76,963,257**	**82,059,554**	**83,145,041**

Real Estate Tax

Real estate tax is the City's largest revenue source and represents about a quarter of the City's budgeted 2014 General Fund revenues. The tax is charged against the assessed value of taxable real property in the City of Reading. In 2014 the City levied a 15.689 mill tax on the assessed value of land and buildings. The Reading School District levied 16.92 mills and Berks County 7.372 mills.

[2] Much of the analysis presented here was completed in August through early September 2014. The 2014 audit was released in late September 2014.

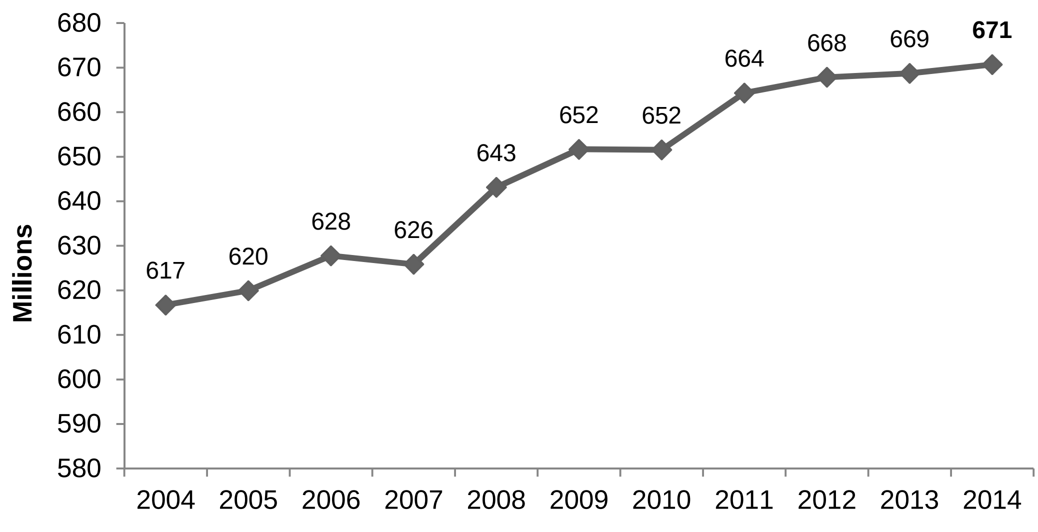
The majority of the property parcels in the City are residential (85.7 percent). The table below shows the distribution of property parcels in 2014.

	Number of Property Parcels	Percentage of Property Parcels
Residential	22,926	85.7%
Commercial	2,637	9.9%
Exempt	830	3.1%
Industrial	224	0.8%
Apartments	48	0.2%
Utility Exempt	43	0.2%
Utility Taxable	27	0.1%
Industrial Development Authority	2	0.0%
Farm	1	0.0%
Total Property Parcels	**26,738**	**100.0%**

The Berks County Tax Assessment office is responsible for determining the value of land and buildings on each parcel in the City of Reading based on County wide assessments, the last of which was conducted in 1994. The City's total assessed value of real estate was $2.1 billion in 2014, of which $1.4 billion was taxable and $671 million was non-taxable. Generally non-taxable parcels are owned by governments or other tax-exempt institutions, such as colleges, hospitals and religious institutions.

The total assessed value of real estate in Reading increased by 1.2 percent over the ten-year period from 2004 to 2014 but that increase was driven by changes in the value of non-taxable properties, which grew by 8.8 percent as shown in the chart below.

Assessments of Non-Taxable Properties, 2004 – 2014



While non-taxable parcels account for less than five percent of the total number of parcels in 2014, those parcels accounted for almost a third of the total assessed value. Based on the Coordinator's review of tax-exempt parcels in April 2013, almost two thirds of the assessed value from non-taxable properties come from government owned parcels. Properties owned by the Reading School District accounted for $124.4 million in assessed value. City government owns more parcels but they have less cumulative value.

Government and Public Authority Owned Parcels and Assessed Value in 2013

Owner	2013 # Parcels	2013 AV	% of Govt/ Auth
Reading School District	44	124,446,100	28.9%
City Of Reading Sewer Dept	5	75,025,400	17.4%
Berks County	13	63,582,800	14.8%
Reading Housing Authority	32	42,089,000	9.8%
Reading Parking Authority	17	34,819,400	8.1%
City Of Reading	144	29,398,500	6.8%
Berks Co Convention Ctr Auth	4	22,510,100	5.2%
Other Government/ Authority	99	38,716,300	9.0%
Total Government/ Authority	358	430,587,600	100.0%

Properties owned by religious institutions have the next highest cumulative assessed value, though that amount has dropped over the last ten years. The value of properties owned by educational and medical institutions grew by 9.7 percent from 2004 to 2013.

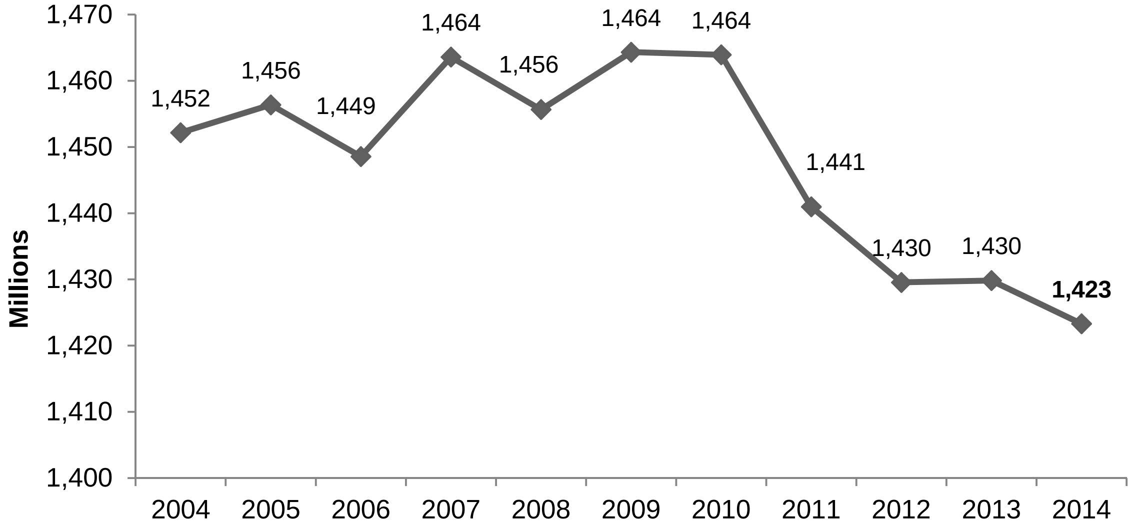
Changes in Assessed Value for Tax-Exempt Parcels by Category[3]

	2004	2013	Change ($)	Change (%)
Eds/ Meds	$73.4	$80.5	$7.1	9.7%
Govt/ Auth	$392.3	$430.6	$38.3	9.8%
Other	$55.1	$66.6	$11.5	20.8%
Religious	$86.6	$82.5	-$4.1	-4.7%
Grand Total	$607.5	$660.2	$52.7	8.7%

On the other hand, the total assessed value of taxable properties – those that are subject to the City's real estate tax -- dropped by 2.0 percent from $1.45 billion in 2004 to $1.42 billion in 2014. Causes include parcels changing ownership or status from taxable to non-taxable entities and appeals by taxable property owners that lowered the assessed value. The change in ownership or status from taxable to non-taxable entities was particularly evident in 2011 when assessments of taxable properties dropped by 1.6 percent from $1.46 billion in 2010 to $1.44 billion in 2011 while assessments of tax-exempt properties increased by 2.0 percent from $651 million to $664 million.

[3] The Coordinator's analysis excluded properties owned by utilities, so the "Grand Total" shown in this chart does not match the total assessed value of non-taxable properties shown in the earlier line graph.

Assessments of Taxable Properties, 2004 - 2014



The City budgeted $19.7 million in current year real estate taxes in 2013 and collected $19.2 million, an 8.6 percent increase compared to 2012. The increase was due to the 9.5 percent millage increase from 14.334 mills to 15.689 mills in 2013. The City's 2014 budget projects $19.8 million in current year real estate tax revenue, which would be 3.2 percent more than the City collected in 2013.

Through June 2014, the City received $17.2 million in current real estate revenues, 86.9 percent of the budgeted revenues. The table below shows the City's current real estate revenues through the second quarter from 2012 to 2014. [4]

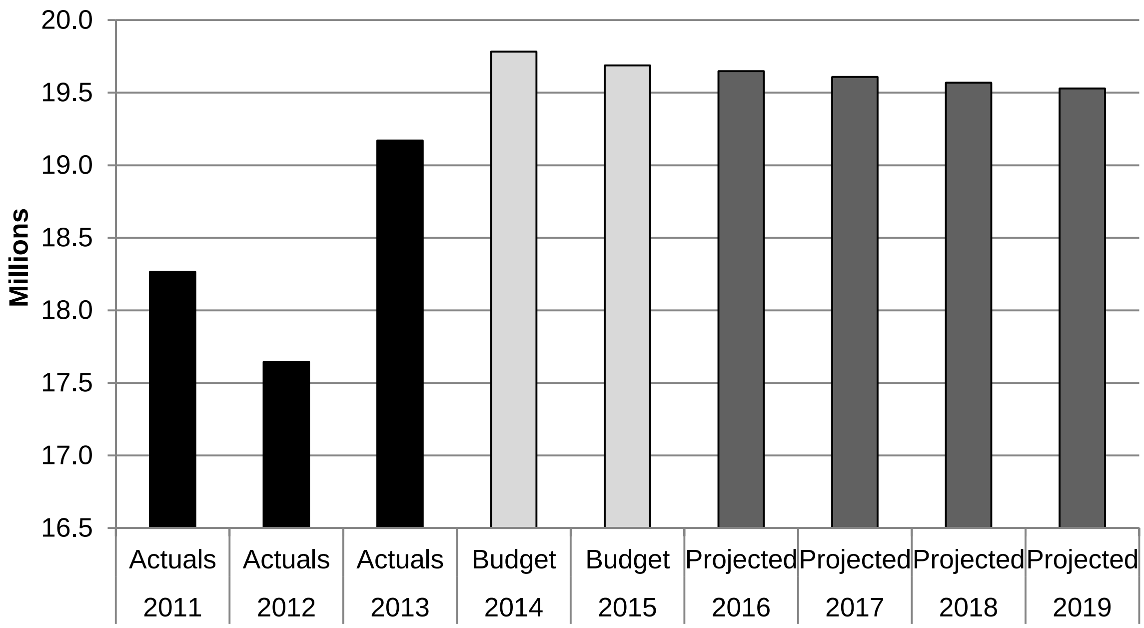
	2012	2013	2014
Q2 Current Year Real Estate Tax Revenue	15,419,086	16,708,280	17,194,906
Q4 Current Year Real Estate Tax Revenue	17,645,325	19,171,145	19,783,297
% of Mid-year Revenue Received	87.4%	87.2%	86.9%

City Finance anticipates that the total assessed value of taxable real estate will drop by 0.5 percent for 2015 because of continuation of the trends described earlier. The total assessed value of tax exempt real estate continues to grow as properties change hands. City Finance also lowered its collection rate from 90 percent assumed in the 2014 budget to 89.2 percent based on actual 2013 collections. The net impact of these changes is a small reduction from 2014 to 2015 in budgeted current year real estate tax revenues.

The Coordinator projects that current year real estate tax revenues will drop by 0.2 percent annually from 2016 to 2019. Reassessment is not assumed since there are no plans for that to occur during this period according to the Berks County Assessment Office. The baseline projection assumes taxable assessments drop by 0.2 percent annually, which was the average annual decrease from 2004 to 2014. According to the Berks County Assessment Office, the assessed value of taxable real estate for residential properties will likely drop in the next five years due to continued assessment appeals and the lack of community development in the area. The baseline projection also assumes that the millage rate will remain constant from 2015 to 2019.

[4] Q4 2014 is the budget target because Q4 2014 results were not available at the time this Plan was released

Current Real Estate Taxes, 2011 – 2019 ($ Millions)

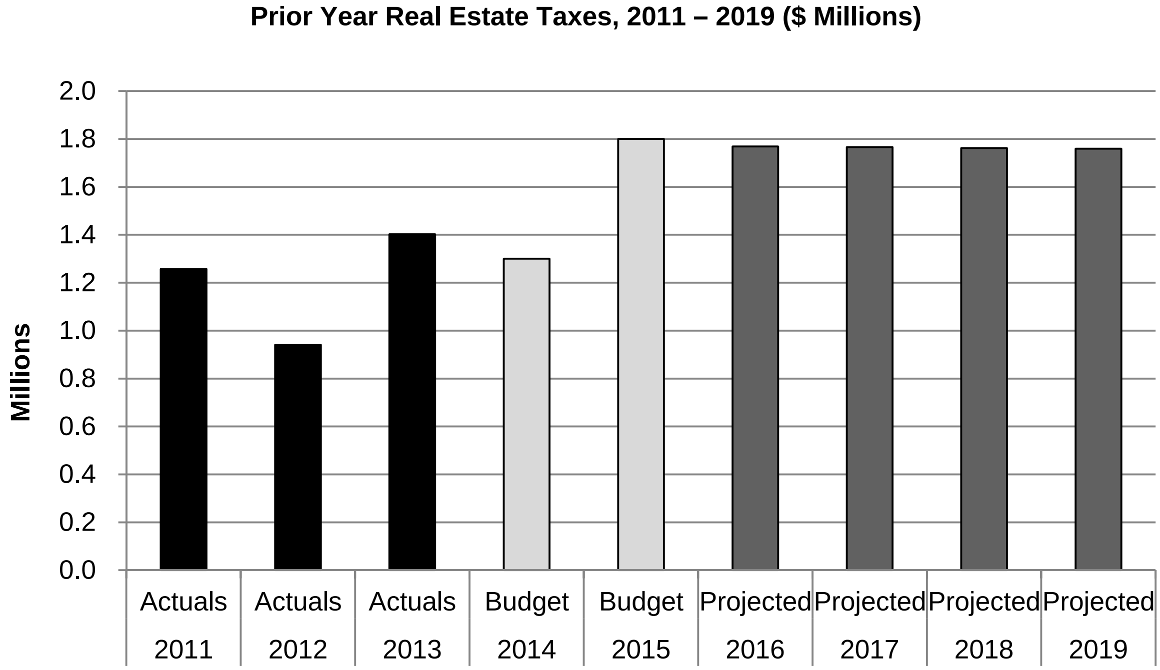


	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Real Estate Tax Rate	14.334	14.334	15.689	15.689	15.689	15.689	15.689	15.689	15.689
Current Real Estate Tax	18.3	17.6	19.2	19.8	19.7	19.6	19.6	19.6	19.5
% Growth	N/A	-3.4%	8.6%	3.2%	-0.5%	-0.2%	-0.2%	-0.2%	-0.2%

Prior Year Real Estate Tax

Prior year real estate tax revenues are the delinquent amounts collected each year from tax bills that were due for payment in prior years. Prior year real estate tax revenues dropped by 25.2 percent in 2012 and then increased by 49.0 percent in 2013 because the Berks County Tax Claim Bureau started collecting prior year real estate tax in 2012. The County uses a longer collection cycle than the City's prior tax collector. So the City received some prior year tax revenue initially anticipated to arrive in 2012 in early 2013 instead, driving the increase in prior year tax revenue collections in 2013.

Through June 2014, the City collected $1.1 million in prior year real estate tax, 82.6 percent of the $1.3 million budget target. The Coordinator projects that prior year real estate tax revenues will drop by 0.2 percent annually from 2017 to 2019 due to the 0.2 percent annual decrease in taxable assessment values in the baseline. The baseline projection also assumes that the millage rate will remain constant from 2015 to 2019.



	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Prior Year Real Estate	1.3	0.9	1.4	1.3	1.8	1.8	1.8	1.8	1.8
% Growth	N/A	-25.2%	49.0%	-7.3%	38.5%	-1.7%	-0.2%	-0.2%	-0.2%

Act 511 Taxes

Earned Income Tax

Like all Pennsylvania cities except Philadelphia, Reading uses the Local Tax Enabling Act (Act 511 of 1965) to levy taxes on City residents and commuters who work in Reading but live elsewhere.[5] The largest of these taxes is the earned income tax (EIT). Depending on the fourth quarter 2014 results, the EIT could surpass the real estate tax as the largest source of City government revenue in 2014.

When the City entered Act 47 oversight in 2010, it levied a 1.7 percent EIT on its residents. The Reading School District levies another 1.5 percent, bringing the total resident EIT to 3.2 percent, one of the highest rates in the Commonwealth. The original Recovery Plan added 0.4 percent to the City's levy, taking the City EIT to 2.1 percent and the total resident EIT to 3.6 percent where it remains in 2014. At that rate, Reading has the second highest resident earned income tax rate in the Commonwealth behind Philadelphia.

The original Recovery Plan also authorized the City to seek an additional 0.3 percent EIT on commuters. Since many Pennsylvania municipalities levy a 1.0 percent EIT on their residents, many Reading commuters pay a total EIT of 1.3 percent – 1.0 percent to their home municipality and 0.3 percent to the City of Reading. Under the terms of Act 47, the City can only levy the commuter EIT if the adopted

[5] Philadelphia receives similar taxing powers from the Sterling Act.

Recovery Plan authorizes the City to petition the Berks County Court of Common Pleas to do so.[6] City officials then must file an annual petition with the Court and testify in court that the City needs the commuter tax to balance its budget.

Aside from the higher tax rates, the other major EIT-related change came through Pennsylvania Act 32 of 2008, which changed how the EIT is collected across the entire Commonwealth. Before Act 32, EIT collection was fragmented with each municipality handling the duty differently, some collecting the tax with their own staff and others contracting with third party collectors. Some municipalities levied a commuter earned income tax, collected the money and then remitted it back to the person's home municipality. Others did not levy the commuter EIT since they could not keep most of the revenue or did not consistently remit the revenue back to the person's home municipality on a timely basis. The Pennsylvania Economy League estimated a statewide loss of $237 million per year due to problems with this fragmented system.

When Reading entered Act 47, the City government collected EIT from residents (for itself and the Reading School District) and non-residents, but it struggled to report its collections in a timely, accurate manner. Instead of reporting the actual amount of EIT collected and available to the City for use each month, the City reported the budgeted EIT revenues (annual total divided by 12). Reading also owed money to other governments, including the Reading School District, because it spent some of the money that it collected on their behalf.

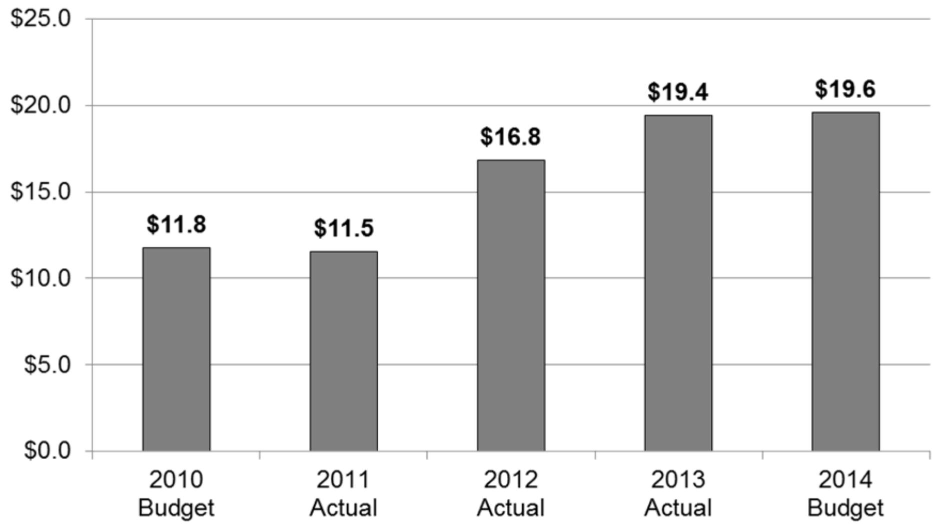
Act 32 required more uniform tax withholdings by employers and more timely tax collection and distribution by designated Tax Officers. The Act required all Berks County municipalities and school districts to move collection duties to one Tax Officer no later than January 2012.[7] The original Recovery Plan accelerated the transition for the City of Reading which moved its EIT collection duties to the external collector in 2011.

The combination of the higher resident tax rate, new commuter tax and better collection process has boosted EIT levels far beyond what they were in 2010. The City budgeted $11.8 million in EIT for 2010, the last year before these changes took effect. In 2011 the City would have received more than $13.0 million in EIT, but it had to repay $1.9 million due to other governments. The City's receipts were $16.8 million in 2012 and $19.4 million in 2013.

[6] In some communities, the Court must also approve any resident earned income tax above 1.0 percent. As a Home Rule municipality, the City of Reading has the authority outside of Act 47 to levy a higher resident EIT and does not need Court approval to do so.

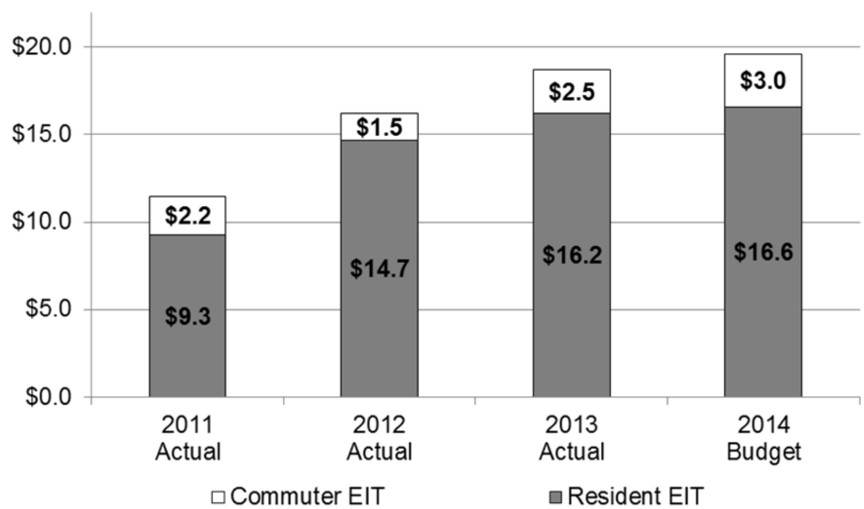
[7] Under Act 32, the tax-levying bodies formed a Tax Collection Committee that selected Berks EIT, Incorporated.

EIT Revenue (Millions)[8]



The Tax Officer provides monthly reports that separate resident EIT revenue from the commuter EIT revenue. While the resident EIT generates more total revenue, the commuter EIT generates more revenue for each 0.1 percent levied. This is not surprising given the distribution of wealth in the region as discussed in the Economic Development chapter.

Commuter and Resident EIT (Millions)[9]



[8] These are the gross receipts, not including the 2.0 percent collection fee that Berks EIT, Incorporated charges. They include revenues from current and prior years.

[9] The 2011-2013 figures come from the monthly reports provided by Berks EIT, Incorporated. They are gross receipts, not including the 2.0 percent collection charge. The City makes other accounting adjustments to these figures when it enters them in the general ledger so the numbers here will not match those in the prior chart.

While the higher EIT revenues have helped City government stabilize its finances, the City must eventually reduce the commuter EIT rate from 1.3 percent to 1.0 percent to exit Act 47 oversight. Nearly all of the revenue from that 1.0 percent commuter tax will return to the person's home municipality. In 2013 the commuter EIT generated $2.6 million (current plus prior years) but, absent the additional taxing authority provided under Act 47, it would have only generated $120,000.

In the original Recovery Plan, the commuter EIT dropped from 1.3 percent in 2011 to 1.1 percent in 2012, accounting for the drop in commuter EIT revenue that year, and then was supposed to drop to 1.0 percent in 2014. There were corresponding reductions in the resident EIT, which was intended to drop to 1.675 percent in 2014, a little lower than when the City entered Act 47. Because of financial pressures described elsewhere in this Plan, the City had to reverse the one-year rate reduction in 2013 and has not been able to reduce the rate again to date.

The Coordinator's baseline projections assume the following:

- The City must reduce the commuter EIT rate to 1.0 percent to exit Act 47. Pennsylvania Act 199 of 2014 limits the amount of time a municipality can remain in the current form of oversight. The baseline projection assumes the City will have to phase down the portion of the commuter tax that supports operations to 1.0 percent by 2019 and balance its budget without it in subsequent years.

- As a Home Rule municipality, Reading does not need to reduce its resident EIT to exit Act 47. However, for economic competitiveness and equity reasons, the City's elected leaders do not want to leave the resident rate at 3.6 percent. So the baseline assumes the City will reduce its resident EIT rate to fund operations in concert with the commuter EIT reduction, dropping it to 3.3 percent by 2019.

That results in the following EIT rates assumed in the baseline projection.

Baseline Resident EIT, 2014 – 2019

	General Fund	RSD Tax	Total Residents' EIT
2014	2.1%	1.5%	**3.6%**
2015	2.0%	1.5%	**3.5%**
2016	2.0%	1.5%	**3.5%**
2017	1.9%	1.5%	**3.4%**
2018	1.9%	1.5%	**3.4%**
2019	1.8%	1.5%	**3.3%**

Non-residents EIT, 2014 – 2019

	General Fund	Home Jurisdiction Tax	Total Non-residents' EIT
2014	0.3%	1.0%	**1.3%**
2015	0.2%	1.0%	**1.2%**
2016	0.2%	1.0%	**1.2%**
2017	0.1%	1.0%	**1.1%**
2018	0.1%	1.0%	**1.1%**
2019	0.0%	1.0%	**1.0%**

Separate from these tax rate changes, there is growth in the earned income tax base. According to the US Census Bureau's American Community Survey, mean earnings for City residents grew by 2.3 percent from 2009 to 2012. In May 2014 the *Reading Eagle* and Kutztown University forecasted how the gross domestic product would grow in Berks County through 2016 for 11 different industries. The forecast anticipated continued economic growth, but at a slower rate for key sectors such as manufacturing, which provides a large share of City resident jobs. Earnings are not tied directly to changes in the GDP, but the latter is a useful measure of changes in economic productivity which can result in changes in wages. Based on these factors and other economic indices discussed throughout this Plan, the baseline projection assumes resident earnings will grow by 2.0 percent per year.

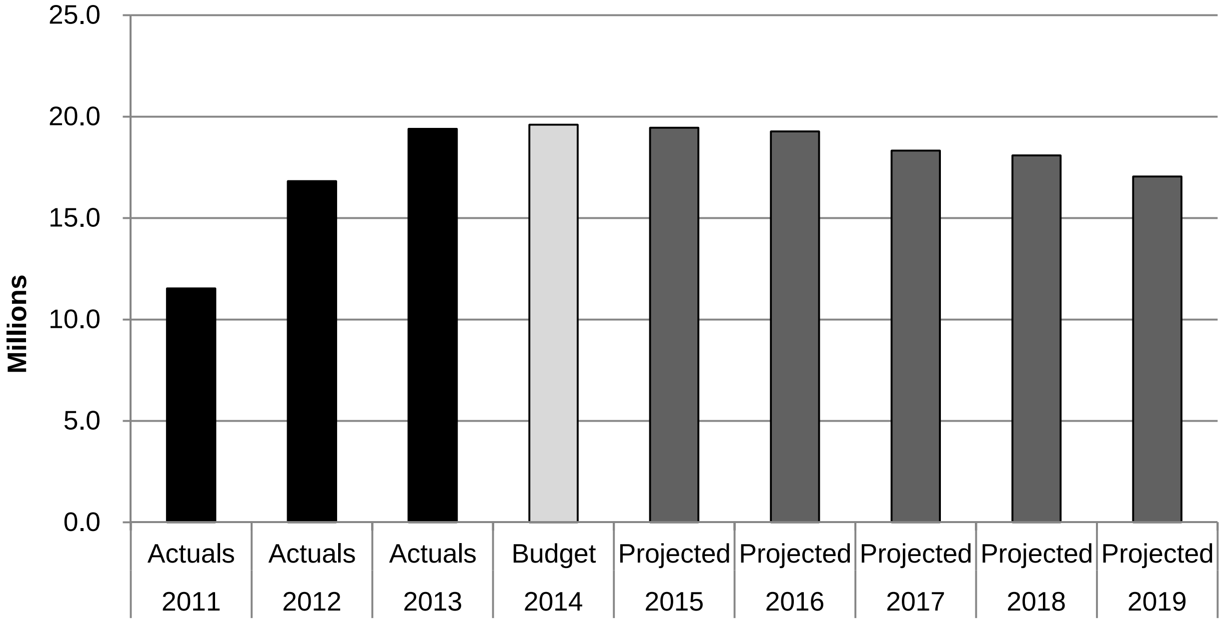
The tax base for the commuter EIT is more diffuse since people commuting into Reading may live in neighboring municipalities, outlying parts of Berks County or outside the County entirely. Using Berks County's data as a proxy for all commuters' place of residence, mean earnings for County residents (including City residents) grew by 2.7 percent from 2009 to 2012 according to the American Community Survey. The Bureau of Labor Statistics' (BLS) Quarterly Census of Employment and Wages shows 2.1 percent growth in average annual wages in Berks County from 2009 to 2012 and 1.9 percent from 2010 to 2013.[10] Bureau of Economic Analysis data shows 2.8 percent growth in earnings from wages and salaries for Berks County residents from 2009 to 2012. Based on this historical performance, and applying the assumption of more moderate growth as forecast in the *Reading Eagle*/Kutztown analysis, the baseline assumes commuter earnings will grow by 2.5 percent per year.

Please note these forecasts do not assume the occurrence of another recession during the projection period, though it is possible one will occur. Since World War II, the US economy has experienced a recession approximately once every six years and the longest time between recessions was 10 years. Since the last recession ended in June 2009, it is reasonable to assume that there could be another one before the end of 2019. The potential for a recession is another factor in favor of using a more moderate set of revenue growth projections.

A third key component of the EIT projections is the timing lag associated with the collection process. There is generally a one-quarter lag between when the City levies the EIT and when the City receives the EIT revenue from the third party collector. Therefore, when the City reduces its EIT rate in the first quarter of a given year, the City starts receiving revenue based on that lower tax rate in the second quarter of that year. With the lag, the City receives one quarter of revenue from the older, higher rate (Q1 revenue based on tax rate in Q4 of prior year) and three quarters of revenue at the new, lower rate (Q2, Q3 and Q4 based on rate effective in Q1). That timing lag is factored into the projections below.

[10] Please note these growth rates are based on the location of the employer, not the employees. Also, in some instances, the most recent data available at the time of analysis was through 2012 and in others it was through 2013.

Earned Income Tax, 2011 – 2019 ($Millions)



	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Resident EIT rate	2.1%	1.9%	2.1%	2.1%	2.0%	2.0%	1.9%	1.9%	1.8%
Resident EIT revenue	**N/A**	**N/A**	**N/A**	**N/A**	**17.1**	**17.2**	**16.9**	**17.0**	**16.7**
Non-resident EIT rate (Act 47)	0.3%	0.1%	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%	0.0%
Non-resident EIT revenue	**N/A**	**N/A**	**N/A**	**N/A**	**2.4**	**2.1**	**1.4**	**1.1**	**0.3**
Total EIT Revenue	**11.5**	**16.8**	**19.4**	**19.6**	**19.5**	**19.3**	**18.3**	**18.1**	**17.1**
% Growth	N/A	*45.9%*	*15.3%*	*1.1%*	*-0.7%*	*-0.9%*	*-4.9%*	*-1.3%*	*-5.7%*

Business Privilege Tax (BPT)

The BPT is levied on the gross receipts of all entities engaged in commercial activities for gain or profit within the City's borders. The tax is 0.5 mills on wholesale businesses, 0.75 mills on retail businesses and 1.5 on other businesses. The table below shows the City's current year and prior year BPT revenues since 2011. The City usually receives the majority of its current year BPT revenue in the first half of the year, and through the second quarter of 2014, the City received $1.3 million. Prior year receipts were $25,000 through June 2014.

BPT Revenues

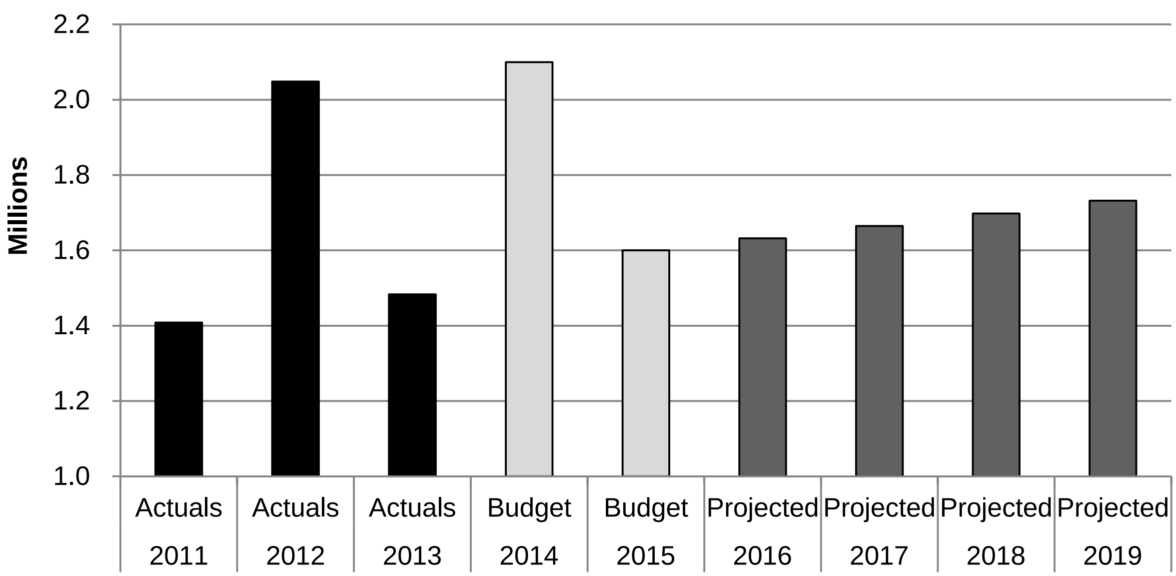
	2011	2012	2013
Current year	$1,326,539	$1,598,766	$1,380,434
Prior year	$81,906	$449,616	$102,804
Total	**$1,408,444**	**$2,048,382**	**$1,483,238**

The City offered a tax amnesty program in 2012 through which business owners with delinquent taxes could have the penalties and interest on their accounts waived if they paid the principal amount by a certain date. That program increased prior year revenues to $450,000 and may have also boosted current year collections to the level shown above, as businesses paid the delinquent and current amounts due simultaneously. The City reasonably hoped that the 2012 amnesty would have a recurring benefit as the taxpayers who participated in the program became part of the City's regular cycle of current year collections. But revenues have since dropped back to the levels before the tax amnesty program, including for current year taxes.

Leaders in the City's Department of Administrative Services note that the Citizen Service Center, which has responsibility for collecting BPT, lost three positions in the 2013 budget and had the Treasury Manager position vacant as of August 2014. With the lower staffing levels, CSC staff may be spending more time on activities other than tax collection. The Administrative Services chapter has an initiative that addresses this issue.

Unlike the earned income tax, there is less public information available for calculating how the BPT tax base is growing. Setting the 2012 amnesty-driven growth aside, current year BPT revenues grew by 2.0 percent per year from 2011 through 2013. The baseline projection applies this 2.0 percent annual growth pattern to the 2015 target that is reduced to account for the likely 2014 shortfall relative to budget.

Business Privilege Tax, 2011 – 2019 ($ Millions)



Business Privilege Tax, 2011 – 2019 ($000s)

	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Business Privilege Tax	1,327	1,599	1,380	1,850	1,500	1,530	1,561	1,592	1,624
Business Privilege Tax Prior	82	450	103	250	100	102	104	106	108
Total Business Privilege Tax	1,408	2,048	1,483	2,100	1,600	1,632	1,665	1,698	1,732
% Growth	N/A	20.5%	-13.7%	34.0%	-18.9%	2.0%	2.0%	2.0%	2.0%

Real Estate Transfer Tax

The City of Reading levies a 3.5 percent real estate transfer tax on the value of real estate transferred by deed, instrument, long-term lease or other writing. As a Home Rule municipality, Reading can levy a higher real estate transfer tax than the 1.0 percent maximum amount generally allowed to Pennsylvania municipalities. The Commonwealth adds another 1.0 percent and the Reading School District adds another 0.5 percent for a 5.0 percent total real estate transfer tax. The City collected $2.2 million from this source in 2011, $2.0 million in 2012 and $2.8 million in 2013. The 2013 increase was partly due to transactions involving large commercial parcels downtown.

As noted earlier, the majority of property parcels in the City are residential. The Federal Housing Finance Agency tracks changes in single-family housing prices using a Housing Price Index (HPI). The one-year change in the HPI for all transactions in Berks County was +2.24 percent at the end of 2013. The longer term trend for Berks County was -8.51 percent over the last five years.[11]

The website Zillow maintains an online database of residential real estate listings that can be used to measure and compare changes in local and regional real estate markets. Zillow's Home Value Index for Reading had a slight 0.5 percent increase from 2012 to 2013 and a 2.6 percent annual decline from 2009 to 2013. Zillow also provides periodic predictions of how home values will change in the next 12 months. In mid-August 2014, Zillow's one-year prediction for growth in Reading home values was +2.2 percent.[12]

With the recognition that the presence or absence of large commercial real estate transactions can boost or reduce real estate transfer tax revenues, the baseline assumes 2.0 percent annual growth, close to the short-term historical and Zillow-projected performance.

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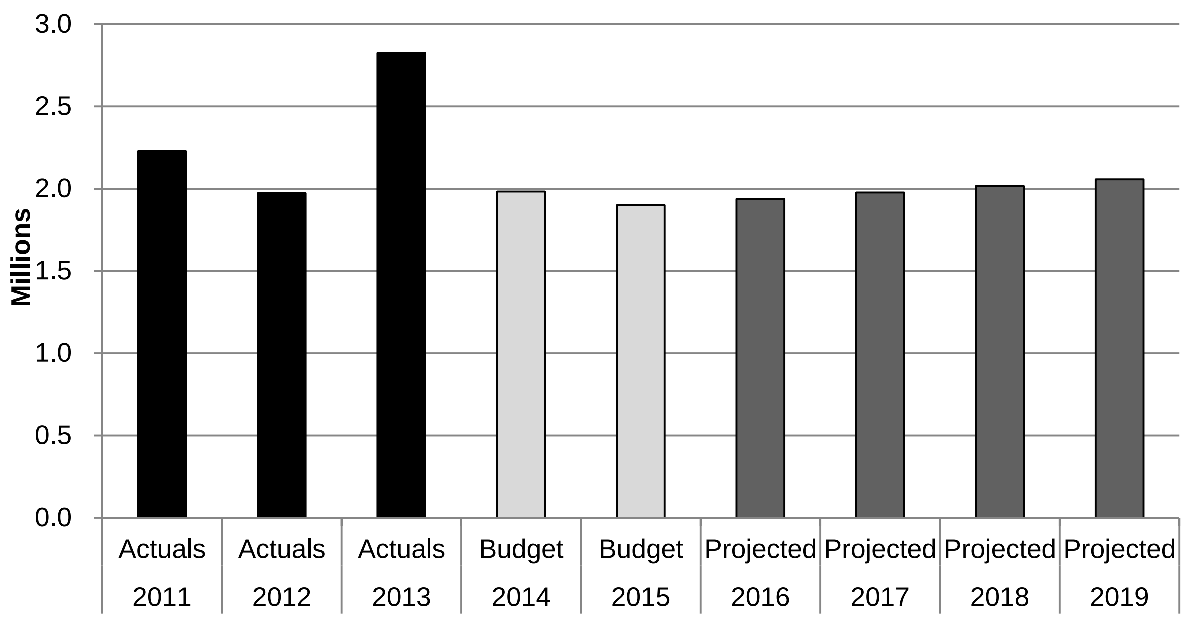
Real Estate Transfer Tax, 2011 – 2019 ($ Millions)



[11] Fourth quarter/December 2013 HPI release. Data includes all transactions (purchases and refinancings).

[12] Zillow Home Value Index forecast for the City of Reading, retrieved on August 26, 2014

Real Estate Transfer Tax, 2011 – 2019 (in $000s)

	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Real Estate Transfer Tax	2,228	1,973	2,826	1,983	1,900	1,938	1,977	2,016	2,057
% Growth	N/A	-11.4%	43.2%	-29.8%	-4.2%	2.0%	2.0%	2.0%	2.0%

Local Services Tax (LST)

The LST is a weekly tax of $1 per employee working within the City of Reading for each employee who earns more than $12,000 per year. All employers are required to collect the LST from all employees who work in Reading, regardless of where the employee lives. So, unlike the earned income tax, the LST is always paid to the municipality where the employee works, regardless of the employee's residence.

According to the BLS' Local Area Unemployment Statistics, the number of employed City residents increased by 2.2 percent annually from 2009 to 2013, though much of that growth occurred in 2010. Annual growth since 2010 has been less than 1.0 percent.

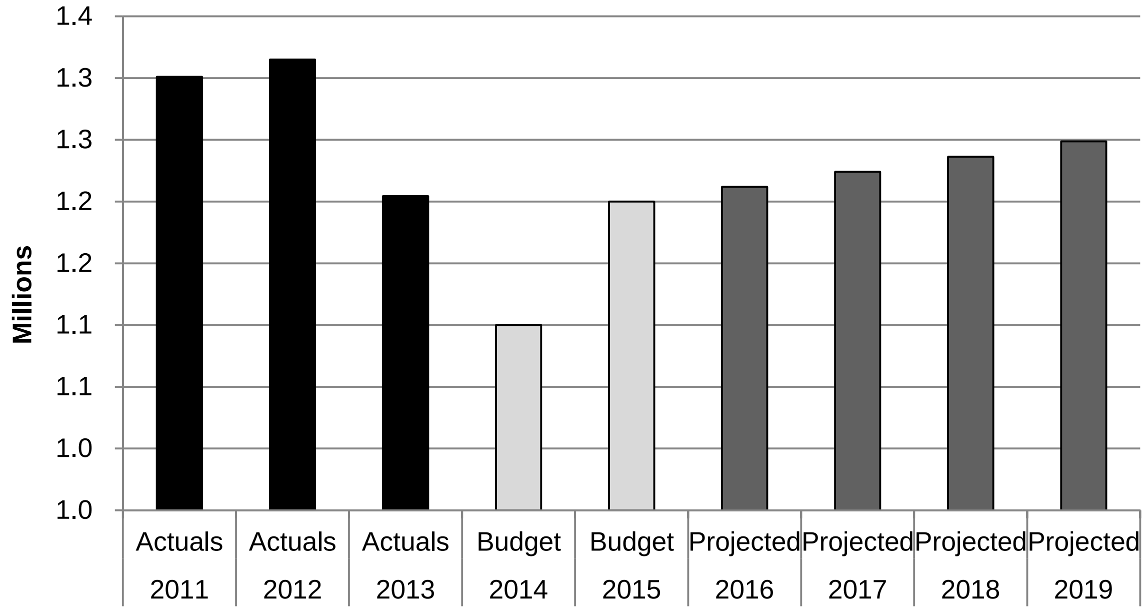
Reading City Employment

	2009	2010	2011	2012	2013
Employment	29,391	31,675	31,867	31,920	32,098
% Change	N/A	7.8%	0.6%	0.2%	0.6%

The BLS does not track employment levels for people who work in Reading but live elsewhere, but the annual growth rate for all Berks County residents was 0.6 percent from 2009 to 2013.[13] Given this historical performance, the baseline assumes 1.0 percent annual growth in the LST revenues after 2015. There is an increase of $100,000 in prior local services tax in the 2015 budget that is driven by higher collections in the 2014. Through June 2014, the City already exceeded its 2014 budget target and collected $215,000 in prior year LST compared to $197,000 through June 2013 and $83,000 through June 2012.

[13] The BLS reports the number of employed residents in the Reading Metropolitan Statistical Area (MSA), which covers Berks County.

Local Services Tax, 2011 – 2019 ($ Millions)

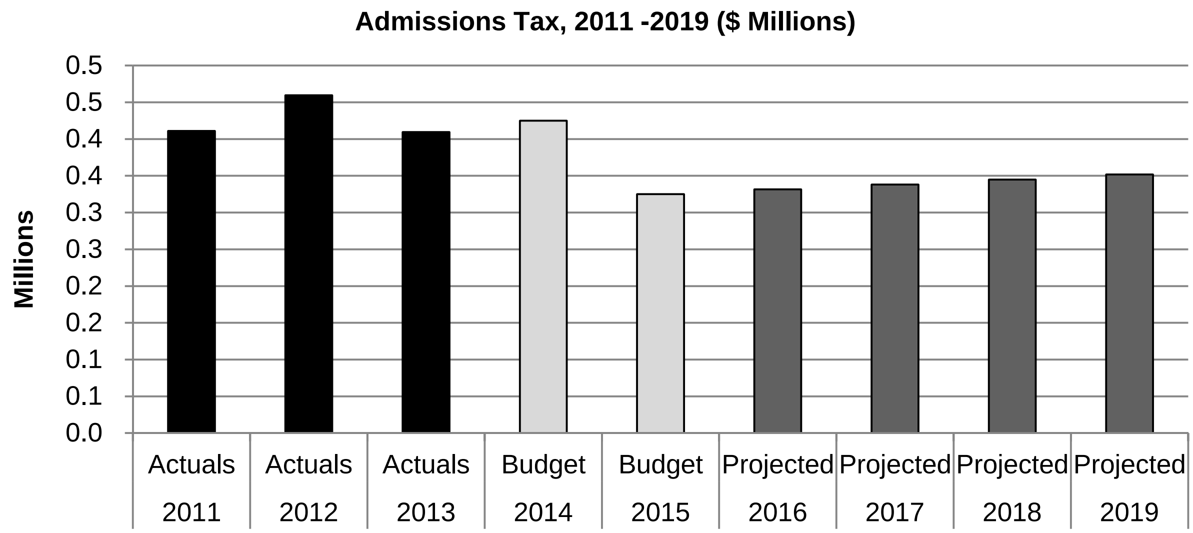


Local Services Tax, 2011 – 2019 ($000s)

	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Current Local Services Tax	925	1,132	1,011	1,000	1,000	1,010	1,020	1,030	1,041
Prior Local Services Tax	376	183	193	100	200	202	204	206	208
Total Local Services Tax	1,301	1,315	1,204	1,100	1,200	1,212	1,224	1,236	1,249
% Growth	N/A	1.1%	-8.4%	-8.7%	9.1%	1.0%	1.0%	1.0%	1.0%

Admissions Tax

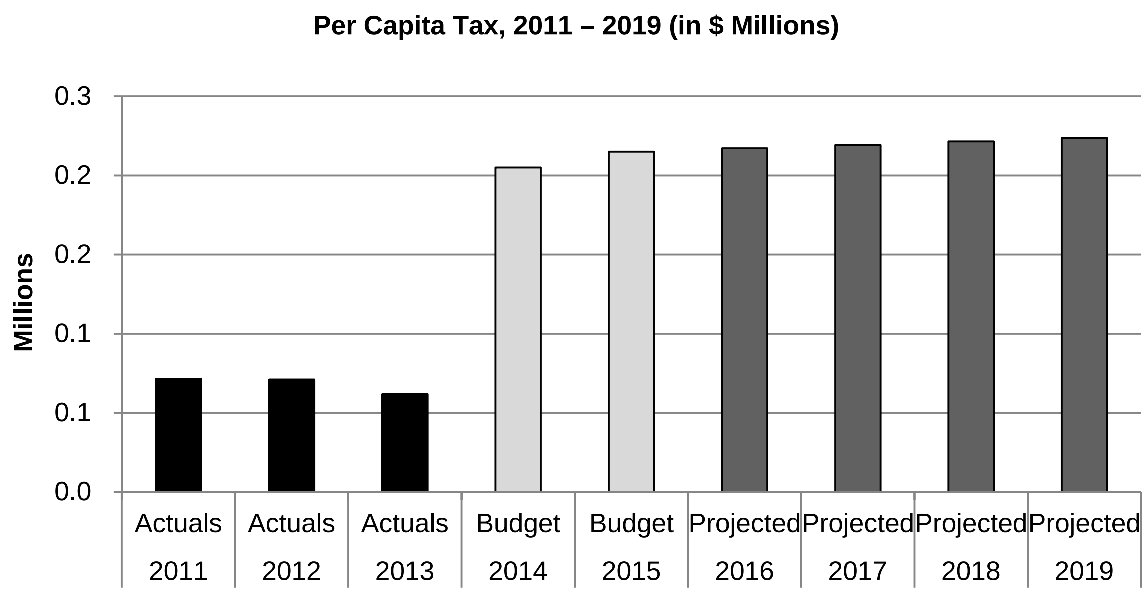
The City levies a 5.0 percent admissions tax on events at the Santander Arena, Santander Performing Arts Center and FirstEnergy Stadium. Revenue has fluctuated over the last three years with a 10.9 percent drop in 2013 following an 11.8 percent increase in 2012. Through June 2014, the City collected $146,000 in admissions tax, 34.4 percent of the budget target. The 2015 budget is lowered to $325,000 to reflect the slow collection in 2014 and the baseline projection assumes that tax revenues will grow at 2.0 percent per year.



	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Admissions Fee/Tax	411,108	459,675	409,628	425,000	325,000	331,500	338,130	344,893	351,790
Growth (%)	*N/A*	*11.8%*	*-10.9%*	*3.8%*	*-23.5%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*

Per Capita Tax

The City currently levies a $20 tax on each City resident who is at least 18 years old and the Reading School District adds another $10 for a total annual per capita tax of $30. The City increased its per capita tax levy from $5 to $20 in 2014, accounting for the significant increase in the 2014 budget over 2013 collections. It also shifted tax collection duties to a third party. The per capita tax is projected to grow at 1.0 percent per year from 2016 to 2019 based on the 0.8 percent average annual population growth from 2000 to 2010 according to decennial census data.



	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Per Capita Tax	66,115	56,460	54,383	200,000	200,000	202,000	204,020	206,060	208,121
Per Capita Tax Prior	5,374	14,583	7,387	5,000	15,000	15,150	15,302	15,455	15,609
Total Per Capita Tax	**71,489**	**71,043**	**61,771**	**205,000**	**215,000**	**217,150**	**219,322**	**221,515**	**223,730**
Tax Rate - City Share	$5	$5	$5	$20	$20	$20	$20	$20	$20
% Growth	*N/A*	*-0.6%*	*-13.1%*	*231.9%*	*4.9%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*

Licenses, Permits and Fees

The City's revenues from licenses, permits and fees totaled $5.9 million in its 2014 budget, representing 7.1 percent of the General Fund total. The largest source of revenue in this category is rental housing permits that were budgeted at $1.3 million in 2014. Other sources of revenue in this category are District Court summary offenses, franchise fees, new construction permits, traffic fines, business privilege licenses and quality of life permits.

According to the Bureau of Economic Analysis reports on GDP, the Berks County economy grew by 2.5 percent per year from 2009 to 2013. The most recent survey of professional forecasters produced by the Federal Reserve Bank of Philadelphia projects that the national GDP will grow by 3.1 percent in 2015, 2.9 percent in 2016 and 2.8 percent in 2017.[14] In August 2014 the Congressional Budget Office forecasted that federal inflation would be 1.9 percent each year from 2015 - 2017 and 2.0 percent from 2018 - 2024.[15] Please note that the national economy is generally stronger than Reading's economy with projected national unemployment between 5.3 percent and 6.3 percent, versus Reading's double-digit unemployment rate.

Based on these projections and the historical changes in local economic indices discussed throughout the Recovery Plan, the baseline projection assumes that most revenues in this category and most service charges will grow by 2.0 percent per year based on increased economic activity and adjustments in fee levels to account for cost inflation.

The City enacted a quality-of-life ticketing program in 2010 through which it fines residents and property owners for property-related violations. After collecting $375,000 in 2012, the City collected $330,000 in 2013 and mid-year 2014 results were $116,000.[16] Based on the declining revenues, the City projected $242,000 in the 2015 budget, which is close to twice the 2014 mid-year results. The baseline projections project quality of life fines to stay flat at that amount through 2019.

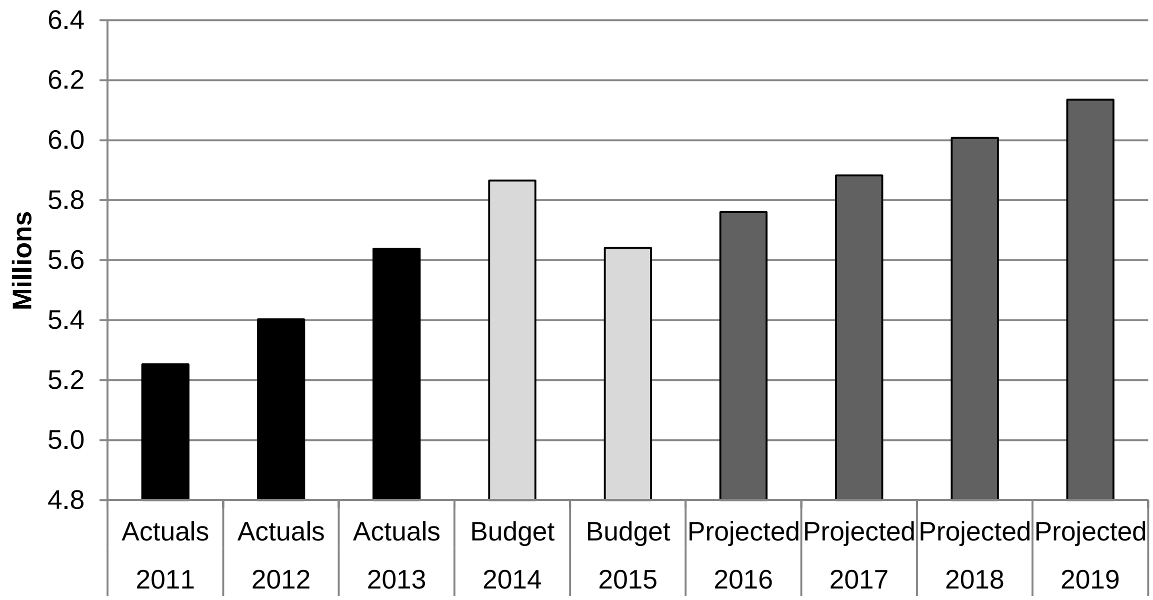
The baseline projection also does not assume any growth in revenues from new construction permits over the $20,000 in the 2015 budget. The City did not have any revenue from this source midway through June 2014 and the City's quarterly reports on the number of building plans reviewed shows little activity in this area.

Revenues from District Court summary offenses grew by 3.0 percent from 2012 to 2013 and 3.0 percent from Q2 2013 to Q2 2014. The baseline projection applies that growth rate to District Court summary offenses and traffic fines in future years, with the assumption that there will not be changes in the staffing levels for City employees who issue these citations.

[14] Third Quarter 2014 Survey of Professional Forecasters released August 15, 2014.
[15] *An Update to the Budget and Economic Outlook: August 2014.* This is the forecast for the consumer price index for all urban consumers.
[16] The Community Development Department is responsible for collecting quality-of-life fines. Please see that chapter for more information on this topic.

Overall, total revenues in this category are projected to grow at an annual rate of 2.1 percent from 2016 to 2019.

Licenses, Permits and Fees, 2011 – 2019 ($ Millions)



	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Licenses, Permits and Fees	5.3	5.4	5.6	5.9	5.6	5.8	5.9	6.0	6.1
% Growth	*N/A*	*2.9%*	*4.4%*	*4.0%*	*-3.8%*	*2.1%*	*2.1%*	*2.1%*	*2.1%*

Service charges

In addition to the revenues from licenses, permits and fines, the City has several other fees and service charges that are intended to recover most, if not all, of the cost associated with providing service to specific individuals or organizations. Any costs for providing these services that are not covered by the fee are then covered by tax or other revenues.

The largest item in this category is the emergency medical services (EMS) user fees budgeted at $3.5 million in 2014. Most of this revenue comes from payments that the City receives when the Reading Fire Department provides medical transport and the associated Advanced Life Support (ALS) care to people in the City. Before 2013 the City provided this service and collected this revenue through three ambulances. In late 2013 the City added a fourth medic unit.[17]

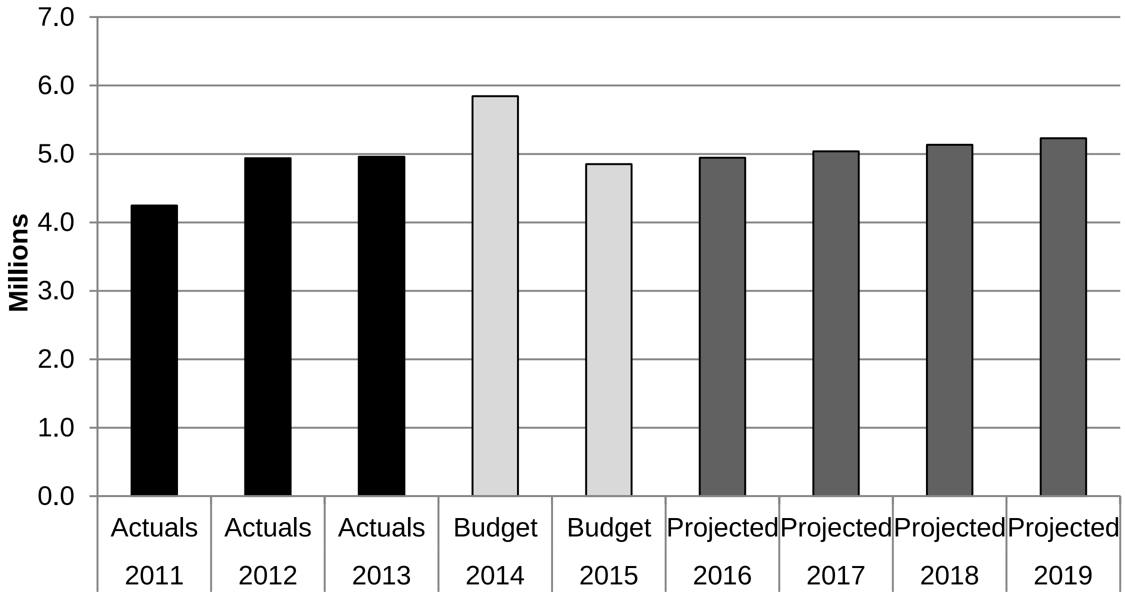
The City projects EMS revenue at $3.1 million in 2015. Like other service-based revenues, these user fees are projected to grow by 2.0 percent per year in the baseline.

Other service-based revenue includes the Kenhorst police contract, false fire alarm fee and police services/ copy service, which are the reimbursements for police overtime by private parties or other

[17] Please see the Fire Department chapter for more discussion of this issue.

governmental entities. These revenues are projected to grow by 2.0 percent per year in the baseline as well.

Services Charges, 2011 – 2019 ($ Millions)



	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Charges for Service	4.2	4.9	5.0	5.8	4.9	4.9	5.0	5.1	5.2
% Growth	*N/A*	*16.3%*	*0.4%*	*17.9%*	*-17.0%*	*1.9%*	*1.9%*	*1.9%*	*1.9%*

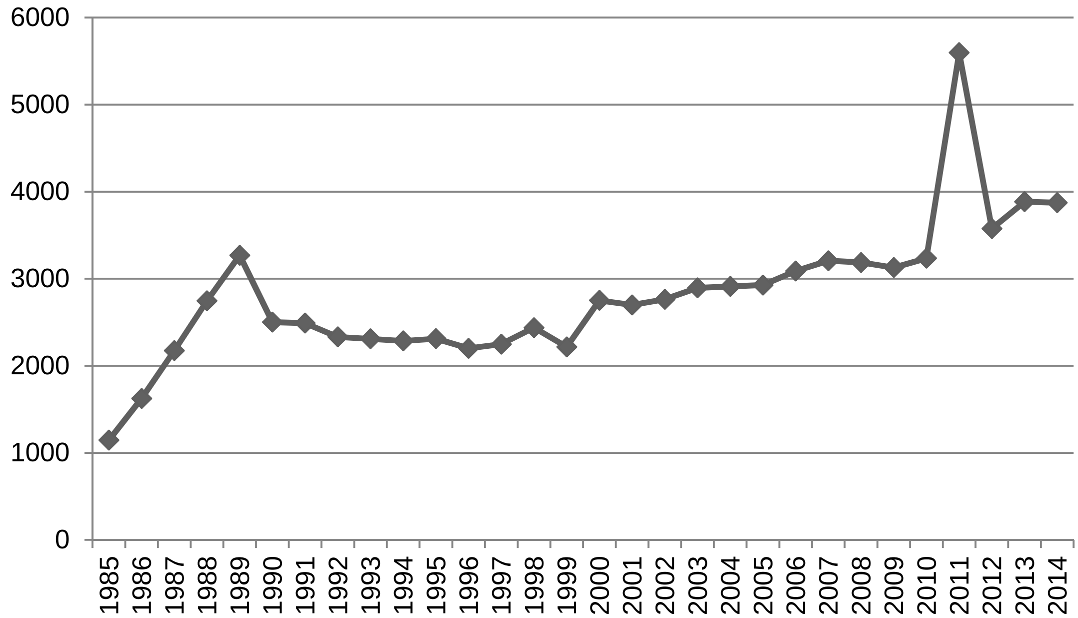
Intergovernmental

Intergovernmental revenues represent approximately 13 percent of the City's total revenues.

The largest item in this category is the Commonwealth pension aid, which increased from $2.7 million in 2012 to $3.2 million in the 2014 budget. The amount of pension aid that the City receives is a byproduct of its employee headcount and the amount of revenue that the Commonwealth collects from taxes on out-of-state insurance policies. State pension aid is projected to grow by 3.0 percent from 2016 to 2019, which is close to the 10-year average growth in the State Aid unit value[18] from 2004 to 2014. The chart below shows the State unit values from 1985 to 2014.

[18] This is the amount of State pension aid provided for each City employee with two units provided for each police officer or firefighter.

State Aid Unit Value, 1985 to 2014



<u>Water lease revenue</u>

This category also includes a portion of the revenue that the City receives from the Reading Area Water Authority (RAWA). Established in 1994, RAWA leases and operates the City's water filtration and distribution system from City government, and pays the City an agreed-upon amount under the terms of its lease arrangement. RAWA has also historically made additional payments to the City to support its General Fund expenditures. RAWA's additional payment amounts were sporadic until the original Recovery Plan provided a specific schedule through 2014.[19] RAWA also transfers $1.7 million to the City from a separate meter surcharge. The chart below shows RAWA's actual and budgeted payments to the City's General Fund since 2011, using the revenue line titles in the City's budget.

Water Lease Related Revenues

	2011 Actual	2012 Actual	2013 Actual	2014 Budget
Water Bureau Transfer	4,220,000	4,420,000	4,970,000	5,170,000
RAWA Act 47 Supplement	1,500,000	1,500,000	1,500,000	1,500,000
Meter Surcharge	1,700,00	1,699,992	1,700,000	1,700,000
Water Lease Total	**7,420,000**	**7,619,992**	**8,170,000**	**8,370,000**

In 2012 the Pennsylvania General Assembly passed a new law that prohibits municipal water or sewer authorities from having "any grant, loan or other expenditure for any purpose other than a service or

[19] The original Recovery Plan had two initiatives that increased RAWA's payment to the General Fund. Initiative RE02 on page 267 required the regular water transfer (i.e. lease payment) to increase by $200,000 per year from the $4.02 million in place when the City entered Act 47. Initiative PA01 on pages 220-221 had an additional payment of $1.5 million in 2011 and 2012 and $1.85 million in 2013 and 2014. The City annually recorded $1.5 million per year in the "Act 47" line and the other $350,000 for 2013 and 2014 in the Water Bureau Transfer line. The total amounts provided by RAWA comply with the original Recovery Plan.

project directly related to the mission or purpose of the authority."[20] This means RAWA can only make a lease payment to the City related to the water system, and not an additional contribution to support General Fund operations.

In 2014 Reading City Council and RAWA announced an amendment to the lease that sets RAWA's lease payment at $8 million per year through 2019. After 2019 RAWA's lease payment would increase by 2.5 percent per year or an inflationary index, whichever is greater. Further developments related to RAWA's lease payment are described in this chapter's initiative section.

Reading Parking Authority contribution

The Reading Parking Authority (RPA) pays the City $1.0 million a year to lease and operate the City's street parking meters. That $1.0 million payment is recorded in the sales and rental category discussed later. The RPA also contributes another $810,000 per year to support the City's General Fund operations and this contribution was increased to $5.3 million in the City's introduced 2015 budget on a one-time basis. The original Recovery Plan set the RPA contribution amount at $600,000 per year.[21] There is another $190,000 in miscellaneous General Fund revenue related to the parking system recorded in this category, bringing the total to $6.4 million -- $5.4 million recorded in this category and $1.0 million recorded in the Sales and Rental category.

The $5.3 million contribution drops back to $810,000 in 2016, which explains the significant drop in total intergovernmental revenues in 2016 as shown in the graph below.

Grants and Gifts

In 2014, grants and gifts totaled $1.9 million, the majority of which comes from the Staffing for Adequate Fire and Emergency Response (SAFER) grant administered by the US Department of Homeland Security. That grant provided $3.1 million in funding from 2013 to 2015 to support the salary and benefit costs associated with 21 firefighter positions added in 2013.[22] The grant expires in July 2015, so the projected revenue from this total drops down to $1.4 million in 2015 and to $433,000 in 2016. Most of that $433,000 grants revenue in 2016 comes from the Commonwealth's allocation to the Reading Police Department for the auto-theft taskforce.

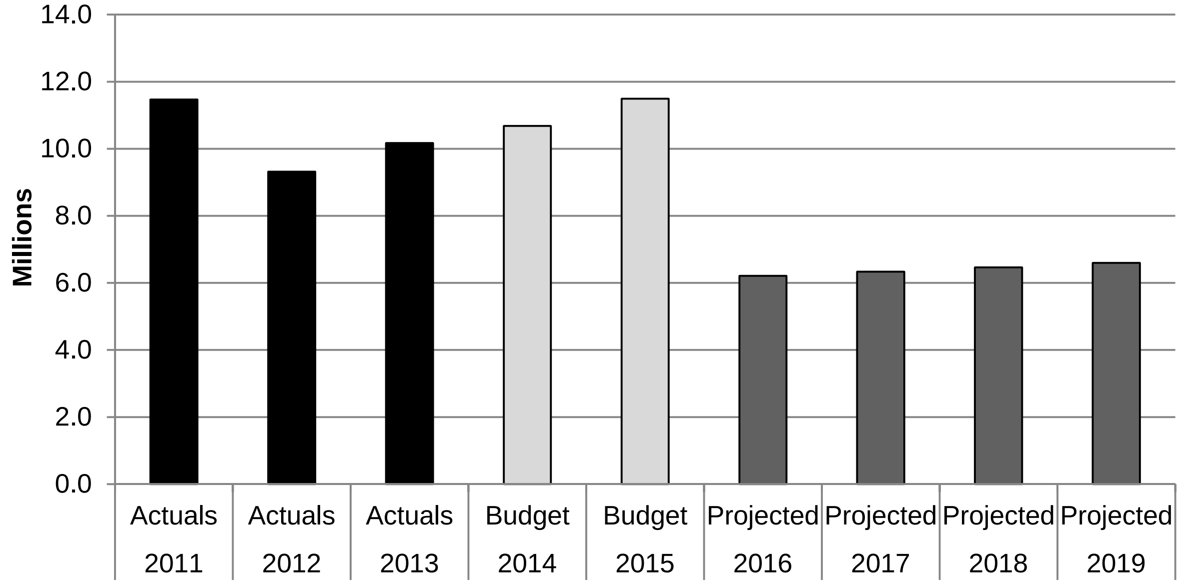
Intergovernmental revenues are projected to grow by 2.0 percent starting in 2017 after it drops to $6.2 million in 2016 when the SAFER grant expires and one-time RPA contribution is removed.

[20] Act 73 of 2012, approved on June 27, 2012

[21] Initiative PA02, page 221.

[22] Please see the Fire Department chapter for more information on the SAFER grant.

Intergovernmental Revenues, 2011 – 2019 ($ Millions)



	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Intergovernmental	11.5	9.3	10.2	10.7	11.5	6.2	6.3	6.5	6.6
% Growth	*N/A*	*-18.8%*	*9.2%*	*5.0%*	*7.6%*	*-45.9%*	*2.0%*	*2.0%*	*2.0%*

Interest and Rent

The City had $1.4 million in revenues from interest and rent, accounting for approximately two percent of its total revenues. Revenues in this category includes the $1.0 million rental payment from the Reading Parking Authority, which leases and operates the City's street parking meters, and a $300,000 annual payment from the Reading Fightin' Phils where $22,000 is for rent and the rest is to cover debt service on the City-owned FirstEnergy Stadium. These payments are fixed amounts that are not expected to change during the Recovery Plan period absent action by the parties involved.

	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Rental - Parking Authority	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Rental on Stadium	300,000	300,000	300,000	300,000	300,000	300,000
Rent Other Property Buildings	65,000	65,000	65,000	65,000	65,000	65,000
Total Interest and Rent	**1,365,000**	**1,365,000**	**1,365,000**	**1,365,000**	**1,365,000**	**1,365,000**
Growth (%)	N/A	0%	0%	0%	0%	0%

Transfers

The City has two transfers – one from the Water Fund and the other from the Wastewater Treatment Plant Fund. These two transfers totaled $11.0 million in the introduced version of the 2015 budget, representing 13 percent of the City's total budgeted revenues. The Water Fund transfer is part of the

RAWA lease payment described in the Intergovernmental Revenue section, even though the City records a portion of that payment as transfer revenue. The transfer from the Wastewater Treatment Plant Fund is limited to $3.0 million per year under a 2005 federal consent decree related to that facility.

RAWA Lease Payments, 2011 – 2019 (in $ Millions)[23]

	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
RAWA Lease Payment	4.2	4.4	5.0	5.2	8.0	8.0	8.0	8.0	8.0

Other Revenues

The largest single item in this category is the City employees' contributions to the cost of health insurance that budgeted at $1.5 million in 2014. According to changes made under the original Recovery Plan, the City's share of active employees' health insurance premiums grows by five percent per year except for FOP member hired prior to December 31, 2011. The projected growth in this revenue, therefore, includes any monthly premium cost increase in excess of that five-percent growth cap.

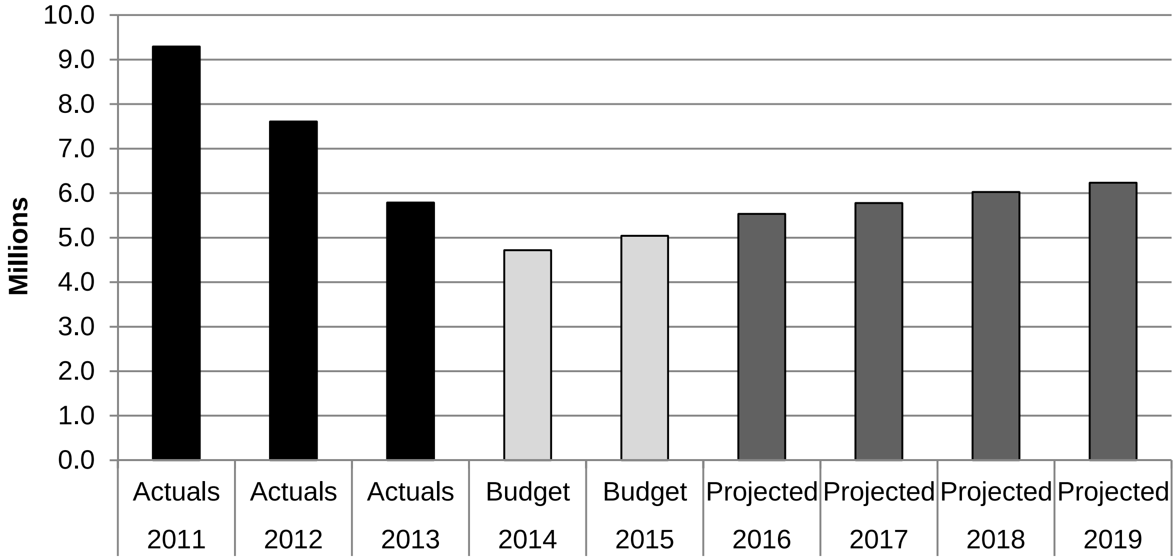
Indirect cost reimbursements

The other major source of revenue in the intergovernmental category is indirect cost reimbursements. The City uses resources budgeted in the General Fund to support activities budgeted outside the General Fund and then recovers those costs based on an indirect cost calculation by an external vendor. Historically the City has received these reimbursements from its enterprise funds (e.g. Sewer, Water, Trash). The overall level of indirect reimbursements declined from $2.7 million in 2012 to $2.5 million in 2013 to $1.7 million budgeted in 2014. One reason for the drop is that the City has stopped providing some services to the enterprise funds and is not eligible for the reimbursements. For example, RAWA has assumed more responsibility for customer service and billing, so the City is not eligible for as large a reimbursement from the water fund. Since the City also shifted the employees in the Water Fund to RAWA, the indirect reimbursement from that fund should drop to a very small amount. The reimbursements that remain, such as sewer or trash, should grow as the City's costs of providing services do. So the baseline projection assumes an annual inflationary growth rate of 2.0 percent for the sewer, community development and trash fund reimbursements.

The chart below shows the City's other revenues from 2011 to 2019. The $7.6 million in other revenues in 2012 was due to a $2.3 million early repayment of debt from the Greater Berks Development Fund.

[23] Please see the initiative section for developments that could change this contribution amount.

Other Revenues, 2011 – 2019 ($Millions)



	2011 Actuals	2012 Actuals	2013 Actuals	2014 Budget	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Other Revenues	9.3	7.6	5.8	4.7	5.0	5.5	5.8	6.0	6.2
Growth (%)	*N/A*	*-18.2%*	*-23.9%*	*-18.5%*	*6.8%*	*9.8%*	*4.4%*	*4.3%*	*3.5%*

Amended Recovery Plan Baseline Projections

Act 47 requires the Recovery Coordinator to provide "projections of revenues and expenditures for the current year and the next three years, both assuming the continuation of present operations and as impacted by the measures in the [Recovery Plan]." This Plan has a five year baseline projection of revenue and expenditures, just as was done in the 2010 Recovery Plan.

The table below shows the Amended Recovery Plan's baseline revenue projection through 2019. Please note that this projection describes a status quo situation in which there are no changes collection processes or external factors such as relevant federal and Commonwealth laws.

	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Real Estate Taxes	**21,083,297**	**21,487,933**	**22,540,150**	**22,551,446**	**23,689,822**	**23,697,277**
Act 511 Taxes	**25,415,795**	**25,656,028**	**25,249,216**	**23,883,137**	**23,746,183**	**22,806,939**
Earned Income Tax	19,602,820	20,416,028	19,850,566	18,325,166	18,091,186	17,053,181
Business Privilege Tax	2,100,000	1,600,000	1,700,000	1,799,640	1,835,933	1,872,891
Real Estate Transfer Tax	1,982,975	1,900,000	1,938,000	1,976,760	2,016,295	2,056,621
Local Services Tax	1,100,000	1,200,000	1,212,000	1,224,120	1,236,361	1,248,725
Admissions Fee/Tax	425,000	325,000	331,500	338,130	344,893	351,790
Per Capita Tax	205,000	215,000	217,150	219,322	221,515	223,730
Licenses, Permits and Fees	**5,865,796**	**5,641,143**	**5,799,510**	**5,929,170**	**6,061,451**	**6,193,283**

	2014 Budget	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Intergovernmental	**10,681,789**	**12,503,098**	**8,174,625**	**8,299,626**	**8,428,112**	**8,560,183**
Charges for Service	**5,844,771**	**4,165,226**	**5,243,955**	**5,374,622**	**5,506,349**	**5,623,080**
Interest and Rent	**1,365,000**	**1,365,000**	**1,382,769**	**1,389,846**	**1,396,923**	**1,400,462**
Other Revenues	**4,718,593**	**5,041,639**	**5,666,286**	**6,218,107**	**6,541,812**	**6,787,189**
Transfers	**8,170,000**	**12,275,000**	**12,275,000**	**12,275,000**	**12,275,000**	**12,275,000**
TOTAL REVENUES	**83,145,041**	**88,135,067**	**86,331,510**	**85,920,954**	**87,645,652**	**87,343,413**

Initiatives

RV01.	**Freeze the EIT rates and designate a portion for capital project funding**	
	Target outcome:	Improved stewardship of capital assets; reducing reliance on commuter tax to facilitate exit from Act 47 oversight
	Five Year Financial Impact:	$4.0 million in General Fund; $13.2 million in Capital Improvement Fund
	Responsible party:	Administration; Council; Finance; Public Works

The City currently levies a 2.1 percent earned income tax levy on its residents and a 1.3 percent earned income tax on commuters who work in Reading but live elsewhere.[24] For commuters, the first 1.0 percent usually returns to their home municipality and the remaining 0.3 percent goes to the City of Reading.

To exit Act 47 oversight, the City must reduce the commuter EIT to 1.0 percent, and all of that revenue usually returns to the commuter's home municipality. As a Home Rule municipality, the City is not required to reduce its resident EIT to exit Act 47, but City leaders understandably want to do so since the 3.6 percent total EIT rate is one of the highest in Pennsylvania, putting the City at a competitive disadvantage for attracting and retaining residents and businesses.

While the City needs to reduce its dependence on the commuter EIT to fund operations, it also needs sufficient funding to invest in capital improvements that clearly benefit residents, commuters and any other visitors to the City. Having adequately paved roads, structurally sound bridges, ADA compliant sidewalks and safe, reliable public safety facilities benefits all people who spend time in Reading, regardless of their residency.

Therefore, the City shall maintain its resident EIT rate at 2.1 percent through 2019, keeping the total EIT levy at 3.6 percent assuming the School District levy does not change. In 2015 the City shall levy a 2.1 percent earned income tax on its residents with revenue from 0.1 percent of that tax designated to fund the following specific capital projects that are listed in the City's 2015 General Fund budget or other capital projects included in the 2015 General Fund budget:

- Making the annual payment for the 2014 information technology replacement project
- Funding a traffic engineering study
- Funding an engineering plan related to the required improvements under the Americans with Disability Act (ADA)

[24] City residents pay another 1.5 percent EIT to the Reading School District, taxing the total tax rate to 3.6 percent.

Starting in 2016, the City shall transfer the revenue generated by 0.1 percent of the EIT to a capital project account, separate from the General Fund, and exclusively designated to fund capital improvements. The capital-related portion of the resident EIT shall increase to 0.2 percent in 2017 and 0.3 percent in 2019 as shown in the chart below.

Earned Income Tax Rate – Residents

	City Tax for Operations	City Tax for Capital	RSD Tax	Total Tax
2014	2.1%	0.0%	1.5%	3.6%
2015	2.1%*[25]	0.0%	1.5%	3.6%
2016	2.0%	0.1%	1.5%	3.6%
2017	1.9%	0.2%	1.5%	3.6%
2018	1.9%	0.2%	1.5%	3.6%
2019	1.8%	0.3%	1.5%	3.6%

The City shall also petition the Court of Common Pleas of Berks County, pursuant to Section 141 of Act 47, to increase the rate of earned income taxation upon commuters by 0.3 percent in each year through 2019. The crediting provisions of Act 511 provide for the commuter's home jurisdiction to have first preference on the tax imposed on their residents up to their amount so imposed, which is usually 1.0 percent. The additional amount of tax revenue resulting from the City's commuter EIT rate shall not be subject to sharing with the Reading School District or any other governmental entity.

In 2015 the City shall levy a 1.3 percent earned income tax on commuters with revenue from 0.1 percent of that revenue designated to fund the capital projects listed above.

Starting in 2016, the City shall transfer the revenue generated by 0.1 percent of this levy to a capital project account, separate from the General Fund, and exclusively designated to fund capital improvements. The capital-related portion of the commuter EIT shall increase to 0.2 percent in 2017 and 0.3 percent in 2019 as shown in the chart below.

Earned Income Tax Rate – Commuter

	City Tax for Operations	City Tax for Capital	Home Jurisdiction Tax	Total Tax
2014	0.3%	0.0%	1.0%	1.3%
2015	0.3%[26]	0.0%	1.0%	1.3%
2016	0.2%	0.1%	1.0%	1.3%
2017	0.1%	0.2%	1.0%	1.3%

[25] Revenue from 0.1 percent of this amount must be designated for capital projects in the General Fund as described above.

[26] Revenue from 0.1 percent of this amount must be designated for capital projects in the General Fund as described above.

	City Tax for Operations	City Tax for Capital	Home Jurisdiction Tax	Total Tax
2018	0.1%	0.2%	1.0%	1.3%
2019	0.0%	0.3%	1.0%	1.3%

By the end of the Amended Recovery Plan period, the City will have no current year commuter EIT revenue available to support City operations, reducing the City's reliance on this tax. When the City is able to leave Act 47 oversight, the 0.3 percent commuter tax for capital projects will also be eliminated.

In 2015 the financial impact of this initiative is a gain of $960,000 in the General Fund relative to the Amended Recovery Plan baseline since the City will maintain the earned income tax rates at their current levels and designate a portion of the revenue for capital projects already in the General Fund budget.

For 2016 through 2018, the City shall use a portion of the capital project EIT to make the remaining annual payments (estimated at $900,000 per year) for the 2014 information technology replacement project, removing those costs from the General Fund. A portion of that savings is lost because the City will also have higher EIT collection expenses each year than projected in Amended Recovery Plan baseline. The EIT collection expenses are indexed to the City's EIT revenues, so a higher total EIT tax rate translates to higher collection expenses that are paid out of the General Fund. By 2019 there is a $103,000 loss in the General Fund associated with these higher collection expenses as the incremental revenue above the Amended Recovery Plan baseline flows to the capital project fund and the costs associated with collecting the higher EIT revenues are borne by the General Fund.

Projected Financial Impact (General Fund)

2015	2016	2017	2018	2019	Total
$960,000	$1,440,000	$837,000	$827,000	-$103,000	$3,961,000

The Coordinator projects that this initiative will generate an increasing amount of revenue to fund capital projects, as the City shifts a larger share of its total EIT levy to capital, the City starts to receive prior year revenues associated with this capital EIT, and the tax base grows.

Projected Financial Impact (Capital Fund Only)

2015	2016	2017	2018	2019	Total
$0	$1,311,000	$3,128,000	$3,657,000	$5,143,000	$13,240,000

RV02.	**Real estate tax increases**	
	Target outcome:	Maintain financial stability
	Five Year Financial Impact:	$22.6 million
	Responsible party:	Mayor's Office; City Council; Managing Director; Finance

As described in the Recovery Plan Introduction, the City faces a multi-million budget deficit in its General Fund each of the next five years. The introduced version of the City's 2015 budget provides a one-year response to that deficit in the form of an increased contribution from the Reading Parking Authority. Once that contribution is spent, the full deficit returns and grows, as other revenues expire (SAFER grant) or decline (General Fund portion of the earned income tax).

Like other Pennsylvania cities, Reading has very few options within the discretion of City government to generate a significant amount of recurring revenue to fund operations. As described above, the City can no longer rely on the commuter EIT to fund operations. In the short term that leaves the City with two options – increase the resident EIT beyond the 3.6 percent level in place or increase the real estate tax.

In the first version of the Amended Recovery Plan that was introduced in City Council in October 2014, the Plan closed the deficit with a 2.0 mill tax increase in 2016 and 1.0 mill in each year from 2017 through 2019. The larger increase in 2016 reflected the need to provide a recurring source of revenue after the short-term revenue sources expire in 2015. The revenue associated with that tax increase is shown in the chart below.

Projected Financial Impact – Initial Proposal

	2015	2016	2017	2018	2019
2 mill increase mills in 2016	0	2,255,000	2,362,000	2,471,000	2,465,000
1 mill increase in 2017	0	0	1,115,000	1,168,000	1,223,000
1 mill increase in 2018	0	0	0	1,099,000	1,152,000
1 mill increase in 2019	0	0	0	0	1,111,000
Total impact	**0**	**2,255,000**	**3,477,000**	**4,738,000**	**5,951,000**

The Spencer Administration and City Council leadership have subsequently approached the Reading Area Water Authority and Reading Parking Authority for increased contributions that would mitigate the need for future tax increases.

- RAWA contribution: The City has requested that RAWA increase its annual lease payment from $8.0 million as shown in the Mayor's introduced 2015 budget and in the Amended Recovery Plan baseline to $9,275,000 per year starting in 2015. The $9,275,000 figure comes from a report by Albright College's Center for Excellence in Local Government on the Fair Annual Rental Value of the system.[27]

  City leaders believe RAWA can continue to levy the meter surcharge that generated $1.7 million in previous years and relay that money to the City, versus the $0 shown in the Mayor's introduced 2015 budget and the Amended Recovery Plan baseline. The net effect of these changes would be an additional $2,975,000 per year.

- RPA contribution: The RPA pays the City $1.0 million a year to lease and operate the City's street parking meters and contributes another $810,000 per year to support the City's General Fund operations. The $0.8 million contribution was increased to $5.3 million in the City's introduced 2015 budget on a one-time basis. Following discussion with City Council, the Administration has revised its request to the RPA from $5.3 million down to $3.9 million in 2015 and then added

[27] Memorandum dated November 11, 2014

$500,000 contributions in 2016 – 2018. The net effect of these changes would an additional $625,000 over five years, but less money in 2015.

At the time of the Amended Recovery Plan's release, the arrangements with RAWA and RPA were not final, though the City and authorities were making progress toward that objective. The City shall continue to work with the authorities to finalize this contribution structure. The City shall also increase its real estate tax by 1.0 mill in 2016 and 1.0 mill in 2018. The net impact of these changes is shown in the chart below.

Projected Financial Impact – Administration/Council Proposal

	2015	2016	2017	2018	2019
Increased RAWA rental payment	1,275,000	1,275,000	1,275,000	1,275,000	1,275,000
Continuance of meter surcharge	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000
Increase in RPA contribution	(1,375,000)	500,000	500,000	500,000	500,000
1 mill increase in 2016	0	1,123,000	1,177,000	1,232,000	1,229,000
1 mill increase in 2018	0	0	0	1,127,000	1,180,000
Total impact	**1,600,000**	**4,598,000**	**4,652,000**	**5,834,000**	**5,884,000**

Revenue options under Act 199

Shortly before this Plan was released, the Pennsylvania General Assembly passed Act 199 of 2014 that amends Act 47 and sets a more firm deadline for the City to reduce its commuter EIT.[28] The City has to reduce the commuter EIT that supports General Fund operations to 1.0 by 2019 to meet the statutory deadline for exiting Act 47.[29] As noted above, nearly all of the revenue from that remaining 1.0 percent will return to the commuter's home municipality.

Early versions of the bill that eventually became Act 199 would have also changed the City's taxing powers in other ways. One version indicated the City could triple its local service tax (LST) rate from $52 per person to $156 per person[30] and keep the tax at this higher rate after it exited Act 47. According to the Commonwealth Department of Community and Economic Development (DCED), the final version of Act 199 does not allow the City to keep the higher LST rate after it leaves Act 47 oversight. The Coordinator's early assessment was that tripling the LST could replace revenue lost by eliminating the commuter EIT in the short term. In the long term the City may have lost money on the trade since the tax base for the LST (number of taxable jobs in Reading) grows more slowly than the tax base for the commuter EIT (earnings for commuters working in Reading). With the late change in the legislation that prohibits the City from keeping the higher LST after the City leaves Act 47, this particular element of Act 199 has less value to the City as an option for mitigating the real estate tax increases shown above.

Keeping the ultimate goal in sight: Structural balance

[28] Previously tracked as House Bill 1773, which was signed by Governor Corbett into law on October 31, 2014.

[29] Act 199 allows for a three year "exit plan" from Act 47 oversight but, assuming the City needs to have at least one year of balanced financial results without the commuter tax before it can exit Act 47, that would only change the 2019 deadline by a couple years at most.

[30] The City receives tax revenues from $47 of the $52 total tax rate. The revenue from the remaining $5 goes to the Reading School District.

The City may identify alternative sources of recurring, sustainable revenue or expenditure reductions to reduce the real estate tax increase provided in this initiative. Any alternative must result in recurring, sustainable revenue or expenditure reductions that are within the authority of City government to enact. The alternatives also must have quantifiable impact above the levels projected in the Amended Recovery Plan.

In considering alternatives to the real estate tax increase, the City's elected and appointed leaders need to keep the ultimate goal in sight: balancing recurring revenues against recurring expenditures.

As difficult as some Amended Recovery Plan provisions are, the level of tax increases or expenditure reductions would have been higher if the City had not built a substantial fund balance in recent years. The City will need to draw down that fund balance to meet its recurring operating expenditures since the recurring revenues are not expected to be sufficient to do so, even with the tax increases. Initiative AD01 discusses the importance of a fund balance in more detail, estimates how much of the fund balance the City will use before 2019 and sets a minimum fund balance level that the City shall maintain.

Beyond maintaining its fund balance above a particular number, the City also needs to balance its recurring revenues against recurring expenditures without relying on prior year reserves to successfully exit Commonwealth oversight,. The Amended Recovery Plan currently projects that the City will need some of its prior year reserves to meet its operating expenses in 2019, which means the City would not be ready to exit Commonwealth oversight in that scenario.

Therefore, if the City identifies alternative revenues that allow it to reduce the real estate tax increase in this initiative, the City shall also use a portion of those revenues to offset the anticipated reliance on fund balance. The City shall work with the Coordinator to determine the portion of revenue that should go toward each of these purposes (reducing the real estate tax increase and reducing the reliance on fund balance).

RV03.	**Generate additional revenue through Market Based Revenue Opportunities**	
	Target outcome:	Increased revenue
	Five Year Financial Impact:	$1.4 million
	Responsible party:	Finance

According to Initiative RE06 of the 2010 Recovery Plan, the City shall pursue a request for proposals (RFP) process to select a broker to help identify potential City assets for an MBRO program, assist with establishment of a policy framework, and market approved opportunities. To date the City has not implemented this initiative.

As a general target for this type of program, Reading should set a goal of having its MBRO program generate approximately one percent of General Fund revenues once it is fully implemented. For now the Coordinator uses a more conservative target of 1.0 percent of the City's 2015 budgeted tax revenues (10 percent of $46.1 million or $461,000). The projected financial impact estimates a mid-year start to the MBRO program in 2016 that is phased in over four years.

Projected Financial Impact

2015	2016	2017	2018	2019	Total
0	231,000	323,000	415,000	461,000	1,430,000

Please note there are other initiatives that impact the City's revenues in other sections of this Plan, including an initiative related to the City's business privilege tax in the Administrative Services chapter.

Appendix A: Baseline Projections

Act 133 of 2012 requires that an Act 47 recovery plan formulated by the Recovery Coordinator include "projections of revenues and expenditures for the current year and the next three years, both assuming the continuation of present operations [baseline] and as impacted by the measures in the plan." Act 133 requires the projections include an "itemization" of revenues and expenditures, though the items listed in the Act are not specifically defined, overlap with each other and are not parallel (i.e. some are specific and others general). In reference to the list in Act 133, the Recovery Coordinator provides this baseline projection of revenues and expenditures that covers all the items listed in Act 133 using the account names in the City's budget.

Baseline Revenue Projections

	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Real Estate Taxes	21,083,297	21,487,933	21,417,150	21,374,446	21,330,822	21,288,277
Act 511 Taxes	25,415,795	24,696,028	24,603,216	23,748,137	23,608,183	22,665,939
Earned Income Tax	19,602,820	19,456,028	19,272,566	18,325,166	18,091,186	17,053,181
Business Privilege Tax	2,100,000	1,600,000	1,632,000	1,664,640	1,697,933	1,731,891
Real Estate Transfer Tax	1,982,975	1,900,000	1,938,000	1,976,760	2,016,295	2,056,621
Local Services Tax	1,100,000	1,200,000	1,212,000	1,224,120	1,236,361	1,248,725
Admissions Fee/Tax	425,000	325,000	331,500	338,130	344,893	351,790
Per Capita Tax	205,000	215,000	217,150	219,322	221,515	223,730
Licenses, Permits and Fees	5,865,796	5,641,143	5,760,571	5,882,754	6,007,759	6,135,652
Intergovernmental	10,681,789	11,490,598	6,211,856	6,336,857	6,465,343	6,597,414
Charges for Service	5,844,771	4,852,726	4,944,585	5,038,268	5,133,810	5,231,249
Interest and Rent	1,365,000	1,365,000	1,365,000	1,365,000	1,365,000	1,365,000
Other Revenues	4,718,593	5,041,639	5,534,132	5,779,491	6,025,735	6,234,881
Transfers	8,170,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
TOTAL REVENUES	***83,145,041***	***85,575,067***	***80,836,510***	***80,524,954***	***80,936,652***	***80,518,413***

Baseline Expenditure Projections

	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Salaries, Wages and Holiday Pay	29,236,011	29,445,111	29,949,465	30,616,014	31,162,140	31,990,243
Overtime	2,497,300	2,599,385	3,149,141	3,296,745	3,621,619	3,870,130
Pensions	9,957,024	13,204,536	13,386,440	13,566,700	13,762,540	13,840,140
Fringe Benefits	10,946,924	11,952,733	12,846,723	13,735,313	14,557,665	15,410,675
Other Personnel	1,623,894	1,651,455	1,632,025	1,661,342	1,693,055	1,733,505
Debt Service	13,144,084	13,145,964	13,390,316	13,464,975	13,485,232	13,379,916
Operating Costs	11,663,877	13,894,176	11,756,322	11,931,121	12,166,167	11,506,330
Other Expenses	631,310	1,022,215	1,005,401	998,915	1,006,947	999,152
Contingencies	0	0	0	0	0	0
Interfund Transfer Expenses	2,541,695	1,715,498	2,541,695	2,541,695	2,541,695	2,541,695
TOTAL EXPENDITURES	***82,242,119***	***88,631,073***	***89,657,528***	***91,812,820***	***93,997,060***	***95,271,786***

Appendix B: Projections with Amended Recovery Plan Initiatives Applied

Act 133 of 2012 requires that an Act 47 recovery plan formulated by the Recovery Coordinator include "projections of revenues and expenditures for the current year and the next three years, both assuming the continuation of present operations [baseline] and as impacted by the measures in the plan." Act 133 requires the projections include an "itemization" of revenues and expenditures, though the items listed in the Act are not specifically defined, overlap with each other and are not parallel (i.e. some are specific and others general). In reference to the list in Act 133, the Recovery Coordinator provides this projection of revenues and expenditures that covers all the items listed in Act 133 using the account names in the City's budget, as impacted by the measures in this Plan.

Revenue Projections with Amended Recovery Plan Initiative Applied

	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Real Estate Taxes	21,083,297	21,487,933	22,540,150	22,551,446	23,689,822	23,697,277
Act 511 Taxes	25,415,795	25,656,028	25,249,216	23,883,137	23,746,183	22,806,939
Earned Income Tax	19,602,820	20,416,028	19,850,566	18,325,166	18,091,186	17,053,181
Business Privilege Tax	2,100,000	1,600,000	1,700,000	1,799,640	1,835,933	1,872,891
Real Estate Transfer Tax	1,982,975	1,900,000	1,938,000	1,976,760	2,016,295	2,056,621
Local Services Tax	1,100,000	1,200,000	1,212,000	1,224,120	1,236,361	1,248,725
Admissions Fee/Tax	425,000	325,000	331,500	338,130	344,893	351,790
Per Capita Tax	205,000	215,000	217,150	219,322	221,515	223,730
Licenses, Permits and Fees	5,865,796	5,641,143	5,799,510	5,929,170	6,061,451	6,193,283
Intergovernmental	10,681,789	12,503,098	8,174,625	8,299,626	8,428,112	8,560,183
Charges for Service	5,844,771	4,165,226	5,243,955	5,374,622	5,506,349	5,623,080
Interest and Rent	1,365,000	1,365,000	1,382,769	1,389,846	1,396,923	1,400,462
Other Revenues	4,718,593	5,041,639	5,666,286	6,218,107	6,541,812	6,787,189
Transfers	8,170,000	12,275,000	12,275,000	12,275,000	12,275,000	12,275,000
TOTAL REVENUES	***83,145,041***	***88,135,067***	***86,331,510***	***85,920,954***	***87,645,652***	***87,343,413***

Expenditure Projections with Amended Recovery Plan Initiative Applied

	2014 Budgeted	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Salaries, Wages and Holiday Pay	29,236,011	29,341,915	29,372,602	28,755,512	28,493,944	28,538,386
Overtime	2,497,300	2,599,385	3,084,141	3,229,745	3,553,619	3,800,130
Pensions	9,957,024	13,204,536	13,386,440	13,566,700	13,762,540	13,840,140
Fringe Benefits	10,946,924	11,952,733	12,846,723	13,735,313	14,557,665	15,410,675
Other Personnel	1,623,894	1,651,455	1,632,025	1,661,347	1,693,060	1,733,510
Debt Service	13,144,084	12,370,964	12,581,316	13,464,975	13,485,232	13,379,916
Operating Costs	11,663,877	13,894,176	10,892,732	11,080,031	11,320,077	11,575,240
Other Expenses	631,310	1,022,215	1,024,991	1,031,005	1,044,037	1,051,243
Contingencies	0	0	0	0	0	0
Interfund Transfer Expenses	2,541,695	1,715,498	2,541,695	2,541,695	2,541,695	2,541,695
TOTAL EXPENDITURES	***82,242,119***	***87,752,877***	***87,362,665***	***89,066,322***	***90,451,869***	***91,870,934***

Appendix C: Initiative List

Chapter	No.	Initiative	2015	2016	2017	2018	2019	Total
Debt	DS01	Refund 2006 Pension Obligation Bonds	400,000	600,000	0	0	0	1,000,000
Debt	DS02	Refund 2003 Redevelopment Authority's (RDA) Bonds and 2006 RDA Notes	200,000	200,000	0	0	0	400,000
Debt	DS03	Refund 2008 GO Notes	175,000	9,000	0	0	0	184,000
Debt	DS04	Avoid use of scoop refunding: require Coordinator approval of debt transactions	N/A	N/A	N/A	N/A	N/A	N/A
Workforce	WF01	Continue to use professional assistance for labor negotiations	N/A	N/A	N/A	N/A	N/A	N/A
Workforce	WF02	Ensure future collective bargaining agreements remain compliant with the Amended Recovery Plan	N/A	N/A	N/A	N/A	N/A	N/A
Workforce	WF03	Continue health insurance cost control provisions and apply City contribution cap to police officers hired before December 31, 2011	0	0	264,000	299,000	314,000	877,000
Workforce	WF04	Restructure City health care plans so that they do not trigger the ACA's "Cadillac Tax"	N/A	N/A	N/A	N/A	N/A	N/A
Workforce	WF05	Fraternal Order of Police bargaining unit expenditure limits	0	0	884,212	1,215,895	1,539,768	3,639,875
Workforce	WF06	International Association of Fire Fighters bargaining unit expenditure limits	0	255,249	547,550	779,150	978,968	2,560,917
Workforce	WF07	AFSCME 2763 bargaining unit expenditure limits	0	0	292,945	495,324	690,690	1,478,959

Chapter	No.	Initiative	2015	2016	2017	2018	2019	Total
Workforce	WF08	AFSCME 3799 bargaining unit expenditure limits	0	26,495	53,545	67,889	82,658	230,587
Workforce	WF09	Non-represented employees expenditure limits	126,007	242,238	346,502	403,259	461,657	1,579,663
Pension and OPEB	RB01	No COLAs for pension plans during the term of the Amended Recovery Plan	N/A	N/A	N/A	N/A	N/A	N/A
Pension and OPEB	RB02	No pension enhancements during the Amended Recovery Plan term	N/A	N/A	N/A	N/A	N/A	N/A
Pension and OPEB	RB03	Defined Contribution retirement Plan for new hire AFSCME and non-represented employees	N/A	N/A	N/A	N/A	N/A	N/A
Pension and OPEB	RB04	Raise the retirement age for normal retirement for police and fire employees hired after the expiration of the current collective bargaining agreements	N/A	N/A	N/A	N/A	N/A	N/A
Pension and OPEB	RB05	Retiree health care eligibility audit	N/A	N/A	N/A	N/A	N/A	N/A
Pension and OPEB	RB06	No retiree health care enhancements during the Amended Recovery Plan term	N/A	N/A	N/A	N/A	N/A	N/A
Pension and OPEB	RB07	Restructure police pension benefit for police officers hired before January 1, 2012, to comply with the Third Class City Code	N/A	N/A	N/A	N/A	N/A	N/A
Pension and OPEB	RB08	Eliminate overtime from the firefighter pension benefit calculation	N/A	N/A	N/A	N/A	N/A	N/A
Pension and OPEB	RB09	For current and future normal retirement police and fire retirees eligible for retiree health care benefits, require the retiree to reach age 53 to begin receiving City retiree health care benefits	1,452,000	1,482,000	1,452,000	1,226,000	1,099,000	6,712,000

Chapter	No.	Initiative	2015	2016	2017	2018	2019	Total
Pension and OPEB	RB10	Do not provide City-paid retiree health care for City retirees employed by Berks County during their County employment	307,000	252,000	268,000	284,000	298,000	1,409,000
Pension and OPEB	RB11	All current and future retirees eligible for and enrolling in City retiree health care shall be required to enroll in the City's least expensive health care plan	663,000	723,000	780,000	827,000	867,000	3,861,000
Administrative Services	AS01	Fund balance use and reserve levels	0	1,031,000	3,145,000	2,806,000	4,528,000	11,508,000
Administrative Services	AS02	Direct windfall proceeds to Recovery Plan priorities	N/A	N/A	N/A	N/A	N/A	N/A
Administrative Services	AS03	Asset monetization	N/A	N/A	N/A	N/A	N/A	N/A
Administrative Services	AS04	Resolve high priority recurring audit findings	N/A	N/A	N/A	N/A	N/A	N/A
Administrative Services	AS05	Develop annual budget document	N/A	N/A	N/A	N/A	N/A	N/A
Administrative Services	AS06	Priority financial policy adoption	N/A	N/A	N/A	N/A	N/A	N/A
Administrative Services	AS07	Restructure HR Division to provide more resources for strategic priorities	N/A	N/A	N/A	N/A	N/A	N/A
Administrative Services	AS08	Improve business privilege tax collection	0	68,000	135,000	138,000	141,000	482,000
Administrative Services	AS09	Integrate the Citizen Service Center with performance management	63,000	61,000	63,000	65,000	66,000	318,000
Elected and Executive Offices	EL01	Modify and revise City ordinances as necessary to implement Recovery Plan	N/A	N/A	N/A	N/A	N/A	N/A

Chapter	No.	Initiative	2015	2016	2017	2018	2019	Total
Elected and Executive Offices	EL02	Eliminate one of the Special Assistant positions in the Mayor's Office or achieve equal savings	54,000	70,000	72,000	73,000	75,000	344,000
Elected and Executive Offices	EL03	Priority financial policy adoption	N/A	N/A	N/A	N/A	N/A	N/A
Elected and Executive Offices	EL04	Resolve high priority recurring audit findings	N/A	N/A	N/A	N/A	N/A	N/A
Elected and Executive Offices	EL05	Improve performance management systems	N/A	N/A	N/A	N/A	N/A	N/A
Police Department	PD01	Cooperate with Berks County on emergency 911 dispatch functions	N/A	N/A	N/A	N/A	N/A	N/A
Police Department	PD02	Capture data electronically and automate data capture	N/A	N/A	N/A	N/A	N/A	N/A
Police Department	PD03	Create separate Object Codes for Reimbursable OT and for Reimbursement Revenues	N/A	N/A	N/A	N/A	N/A	N/A
Police Department	PD04	Increase cost recovery of special duty overtime	0	42,000	44,000	45,000	47,000	178,000
Police Department	PD05	Calculate overtime by minutes rather than quarter-hours	0	65,000	67,000	68,000	70,000	270,000
Police Department	PD06	Minimize unnecessary court appearances on overtime	40,000	164,000	173,000	183,000	191,000	751,000
Police Department	PD07	Reduce the minimum amount of overtime earned per court appearance	0	0	145,000	148,000	152,000	445,000
Police Department	PD08	Use shorter shifts for overtime replacements	0	0	62,000	64,000	67,000	193,000

Chapter	No.	Initiative	2015	2016	2017	2018	2019	Total
Police Department	PD09	Consider changing shift length when negotiating the next CBA	N/A	N/A	N/A	N/A	N/A	N/A
Fire Department	FD01	Establish Part-Time EMT/Paramedic Positions	0	102,000	104,000	107,000	109,000	422,000
Fire Department	FD02	Discontinue Non-Emergency Transport Program	0	N/A	N/A	N/A	N/A	N/A
Fire Department	FD03	Suspend Minimum Staffing Requirement Once Overtime Threshold Reached	N/A	N/A	N/A	N/A	N/A	N/A
Fire Department	FD04	Overtime Accounting	N/A	N/A	N/A	N/A	N/A	N/A
Fire Department	FD05	Deployment and Facility Analysis Study	N/A	N/A	N/A	N/A	N/A	N/A
Fire Department	FD06	Bi-annual Fire Safety Inspections	0	83,000	83,000	83,000	83,000	332,000
Fire Department	FD07	Residential Smoke Alarm Program	0	(18,000)	(18,000)	(18,000)	(18,000)	(72,000)
Fire Department	FD08	Five-Year Strategic Plan	N/A	N/A	N/A	N/A	N/A	N/A
Fire Department	FD09	Develop Department Performance Monitoring Program	N/A	N/A	N/A	N/A	N/A	N/A
Fire Department	FD10	Incentivized EMS Collections	N/A	N/A	N/A	N/A	N/A	N/A
Fire Department	FD11	Firefighter Hiring Requirement Change	N/A	N/A	N/A	N/A	N/A	N/A
Public Works	PW01	Address recycling fee and service model issues	N/A	N/A	N/A	N/A	N/A	N/A

Chapter	No.	Initiative	2015	2016	2017	2018	2019	Total
Public Works	PW02	Establish street light assessment	0	1,500,000	1,530,000	1,561,000	1,592,000	6,183,000
Public Works	PW03	Replace Yard Waste Collection with Yard Waste Drop-Off	N/A	N/A	N/A	N/A	N/A	N/A
Public Works	PW04	Continue to limit City financial contributions to the Recreation Commission	N/A	N/A	N/A	N/A	N/A	N/A
Public Works	PW05	Consolidate utility bill monitoring and payment	N/A	N/A	N/A	N/A	N/A	N/A
Public Works	PW06	Consolidate public works contracts	N/A	N/A	N/A	N/A	N/A	N/A
Public Works	PW07	Reduces discretionary projects and increase compliance with service charges	N/A	N/A	N/A	N/A	N/A	N/A
Public Works	PW08	Create public works "Labor Pool"	N/A	N/A	N/A	N/A	N/A	N/A
Public Works	PW09	Conduct a formal service identification and prioritization process	N/A	N/A	N/A	N/A	N/A	N/A
Public Works	PW10	Improve Public Works performance measurement	N/A	N/A	N/A	N/A	N/A	N/A
Capital Program	CP01	Perform asset condition assessment and implement asset management system	N/A	N/A	N/A	N/A	N/A	N/A
Capital Program	CP02	Designate a portion of the earned income tax for capital project funding (Capital Fund)	0	1,311,000	3,128,000	3,657,000	5,143,000	13,239,000
Capital Program	CP02	Designate a portion of the earned income tax for capital project funding (General Fund)	960,000	1,440,000	837,000	827,000	(103,000)	3,961,000

Chapter	No.	Initiative	2015	2016	2017	2018	2019	Total
Capital Program	CP03	Consolidate increasing City's use of Community Development Block Grant (CDBG) funds for capital	N/A	N/A	N/A	N/A	N/A	N/A
Capital Program	CP04	Continue to designate a portion of the Liquid Fuels allocation to street resurfacing	N/A	N/A	N/A	N/A	N/A	N/A
Capital Program	CP05	Share facility responsibilities with lessors	N/A	N/A	N/A	N/A	N/A	N/A
Capital Program	CP06	Coordinate paving projects with Sewer Fund, RAWA, and UGI	N/A	N/A	N/A	N/A	N/A	N/A
Capital Program	CP07	Document capital expenditures and projects in a Capital Budget and Plan	N/A	N/A	N/A	N/A	N/A	N/A
Community Development	CD01	Zoning Reconciliation Plan and Eliminate One Staff Position	0	0	45,000	58,000	60,000	163,000
Community Development	CD02	Technology Solutions Plan Development	N/A	N/A	N/A	N/A	N/A	N/A
Community Development	CD03	Point of Service Payment Option	N/A	N/A	N/A	N/A	N/A	N/A
Community Development	CD04	Consolidated Billing System	N/A	N/A	N/A	N/A	N/A	N/A
Community Development	CD05	Consolidated permitting process	N/A	N/A	N/A	N/A	N/A	N/A
Community Development	CD06	Performance monitoring enhancement	N/A	N/A	N/A	N/A	N/A	N/A
Community Development	CD07	Monitor revenue collection rates	N/A	N/A	N/A	N/A	N/A	N/A

Chapter	No.	Initiative	2015	2016	2017	2018	2019	Total
Community Development	CD08	Housing/rental inspection plan	N/A	N/A	N/A	N/A	N/A	N/A
Economic Development	ED01	Execute five-year plan associated with Main Street designation	N/A	N/A	N/A	N/A	N/A	N/A
Economic Development	ED02	Develop the Riverview Industrial Site	N/A	N/A	N/A	N/A	N/A	N/A
Economic Development	ED03	Establish a business ambassador position	N/A	N/A	N/A	N/A	N/A	N/A
Economic Development	ED04	Create an Economic Development Investment Application/Map	N/A	N/A	N/A	N/A	N/A	N/A
Economic Development	ED05	Formalize collaboration with colleges and universities on economic development efforts	N/A	N/A	N/A	N/A	N/A	N/A
Revenues	RV01	Freeze the EIT rates and designate a portion for capital project funding	960,000	1,440,000	837,000	827,000	(103,000)	3,961,000
Revenues	RV02	Real estate tax increases	1,600,000	4,598,000	4,652,000	5,834,000	5,884,000	22,568,000
Revenues	RV03	Generate additional revenue through Market Based Revenue Opportunities	0	231,000	323,000	415,000	461,000	1,430,000

Appendix D – City Retiree Health Care Benefits

The following information provides the reader with an understanding of the complexity and the variation in the retiree health care benefits offered by the City. Given that eligibility for plan type and employee contribution (if required) depends upon the employee's retirement or DROP date and bargaining unit, it is not possible to neatly display all of this information in one or two charts. Consequently, we have provided the following narrative taken nearly verbatim from pages 13-22 of the City's 2012 OPEB valuation. As one can plainly see, the multiple plans and eligibility provisions for them make it very difficult for the City to administer.

Health Care

Capital Blue Cross Health Insurance Benefit Plans: All health insurance plans are self-insured and administered through Capital Blue Cross. Pharmacy benefits are provided through Caremark. Health plans vary by employee type and date of retirement/DROP and include PPO plans and traditional plans. These plans are summarized below.

a) AFSCME First Level PPO Plan (PPOS3): In-network benefits include a deductible of $200 for an individual and $400 for family with $20 co-pay for office visits. Deductible and coinsurance increase for out-of-network providers. Applies to AFSCME first level supervisors and non- represented members who retire prior to January 1, 2011.

b) Police and AFSCME Rank and File PPO Plan (PPOS2 and PPOS8): In-network benefits include a deductible of $200 for an individual and $400 for family with $15 co-pay for office visits. Deductible and coinsurance increase for out-of- network providers. Applies to AFSCME rank and file members who retire prior to January 1, 2012 and is an option for police who retire/DROP on or after January 1, 2007.

c) Preferred Plus PPO Plan (PPOS5): In-network benefits include a deductible of $200 for an individual and $400 for family with office visit co-pays varying from $0 to $25. Deductible and coinsurance increase for out-of-network providers. There is also an annual out-of-pocket maximum of $1,000 per individual and $2,000 for family. Applies to AFSCME first level and non-represented members who retire on or after January 1, 2011, firefighters who retire/DROP on or after June 1, 2011, and AFSCME rank and file who retire on or after January 1, 2012.

d) Preferred PPO Plan (PPOS6): In-network benefits include a deductible of $500 for an individual and $1,000 for family with office visit co-pays varying from $0 to $30. Deductible and coinsurance increase for out-of-network providers. There is also an annual out-of-pocket maximum of $2,000 per individual and $4,000 for family. Applies to AFSCME first level and non- represented members who retire on or after January 1, 2011, firefighters who retire/DROP on or after June 1, 2011, AFSCME rank and file who retire on or after January 1, 2012, and police who retire/DROP on or after January 1, 2013.

e) Premier PPO Plan (PPOS7): In-network benefits include a deductible of $1,500 for an individual and $3,000 for family with office visit coinsurance percentages varying from 0% to 10%. Deductible and coinsurance increase for out-of-network providers. There is also an annual out-of-pocket maximum of $2,500 per individual and $5,000 for family. Applies to AFSCME first level and non-represented members who retire on or after January 1, 2011, firefighters who retire/DROP on or after June 1, 2011, AFSCME rank and file who retire on or after January 1, 2012, and police who retire/DROP on or after January 1, 2013.

f) Fire and Police Retiree Traditional Plan (TRAS2 and TRAS3): Benefits include a deductible of $100 for an individual and $300 for family with office visit coinsurance percentages of 20% (routine exam is not covered). There is also an annual out-of-pocket maximum of $380 per individual and $1,140 for family. Applies to firefighters who retired or entered DROP prior to June 1, 2011 and police who retire/DROP prior to January 1, 2013.

Prescription

Caremark Pharmacy: Members enrolled in the health plans above will receive pharmacy benefits through CVS/Caremark. All AFSCME first level supervisors, and AFSCME rank and file employees who retire prior to January 1, 2008, do not receive pharmacy coverage. Co-pays vary by employee group and retirement date. These plans are summarized below.

Group	Retail (30 day supply)	Mail Order (90 day supply)
- Non-represented who retired before 1/1/2011 - AFSCME Rank and File who retired on/after 1/1/2008 and before 1/1/2012	$10/$20/$35	$20/$30/$60
- Non-represented who retire on/after 1/1/2011 - Fire who retire/DROP on/after 6/1/2011 - AFSCME Rank and File who retire on/after 1/1/2012 - Police who retire/DROP on/after 1/1/13	$10/$25/$40	$20/$50/$80
- Police who retired/DROP on/after 1/1/2007 and before 1/1/2013	$5	$0
- Police who retired/DROP on/after 1/1/2002 and before 1/1/2007 - Fire who retired/DROP on/after 1/1/2002 and before 6/1/2011	$1	$0
- Police who retired before 1/1/2002 - Fire who retired before 1/1/2002	20%	20%

Eligibility and Premium Cost Sharing

AFSCME First Level and Non-represented Employees

a) Covered Groups: Full-time AFSCME Local 3799 First Level Supervisors and non-represented employees and their spouses are covered. No other dependents are covered.

b) Eligibility: Satisfaction of either of the following eligibility requirements:

- (1) Unreduced Retirement: Attainment of the following conditions:
  - a) If hired on or after June 11, 2010 for First Level Supervisors or June 21, 2010 for non-represented employees, coverage is not available.
  - b) If hired on or after January 1, 1988 and prior to June 11, 2010 for First Level Supervisors or June 21, 2010 for non-represented employees, later of attainment of age 65 and completion of 10 years of service.
  - c) If hired prior to January 1, 1988, later of attainment of age 55 and completion of 20 years of service.
- (2) Reduced Retirement:
  - a) If hired on or after January 1, 1988, later of attainment of age 55 and completion of 10 years of service. No coverage is available for these members.
  - b) If hired prior to January 1, 1988, there is no reduced retirement.
- (3) Vested Termination: Coverage is not available to these members.
- (4) Active Death: Coverage is not available to these surviving spouses.
- (5) Disability: Attainment of the following conditions:
  - a) If hired on or after June 11, 2010 for First Level Supervisors or June 21, 2010 for non-represented employees, coverage is not available.
  - b) If hired on or after January 1, 1988 and prior to June 11, 2010 for First Level Supervisors or June 21, 2010 for non-represented employees, there is no service requirement.
  - c) If hired prior to January 1, 1988, completion of 15 years of service.

c) Premium Cost Sharing:

(1) There is no cost sharing for members who retire prior to January 1, 2007.

(2) AFSCME first level supervisors who retire on or after January 1, 2007 and prior to June 11, 2010 contribute a fixed dollar amount based on year of retirement. For members retiring during 2007, contributions are $26.00 per month for single coverage and $50.00 per month for employee/spouse coverage. These amounts increase $5 per year for members retiring between 2008 and 2010.

(3) Non-represented members who retire on or after January 1, 2007 and prior to January 1, 2011 contribute $15.32 for single coverage and $37.70 for employee/spouse coverage.

(4) For members retiring on or after June 11, 2010 for First Level Supervisors or January 1, 2011 for non-represented employees, retirees will contribute the difference between the premium equivalence for that calendar year and a fixed amount based on year of retirement. The fixed amount applies to medical and pharmacy coverage combined. Since AFSCME first level supervisors only receive medical coverage upon retirement, the fixed amounts are adjusted based on the premium equivalents. This adjustment is 81% for 2013 and is assumed to remain constant thereafter.

d) Benefit Duration: Retiree coverage is provided until the earlier of death or age 65 and qualifies for Medicare. Spouse coverage is provided until the earlier of death, retiree's death, age 65 and qualifies for Medicare or retiree coverage ends.

e) Life Insurance: None.

AFSCME Rank and File Employees

a) Covered Groups: Full-time AFSCME Local 2763 rank and file employees and their spouses are covered. No other dependents are covered.

b) Eligibility: Satisfaction of either of the following eligibility requirements:

(1) Unreduced Retirement: Attainment of the following conditions: a) If hired on or after January 1, 2012, no coverage is available. b) If hired on or after January 1, 1988 and before January 1, 2012, later of attainment of age 65 and completion of 10 years of service. c) If hired prior to January 1, 1988, later of attainment of age 55 and completion of 20 years of service.

(2) Reduced Retirement:

- a) If hired on or after January 1, 1988, later of attainment of age 55 and completion of 10 years of service. No coverage is available for these members.
- b) If hired prior to January 1, 1988, there is no reduced retirement.

(3) Vested Termination: Coverage is not available to these members.

(4) Active Death: Coverage is not available to these surviving spouses.

(5) Disability: Attainment of the following conditions:

- a) If hired on or after January 1, 2012, no coverage is available.
- b) If hired on or after January 1, 1988 and prior to January 1, 2012, there is no service requirement.
- c) If hired prior to January 1,1988, completion of 15 years of service.

c) Premium Cost Sharing:

1) There is no cost sharing for members who retire prior to July 1, 2005.

2) AFSCME rank and file employees who retire on or after July 1, 2005 and before January 1, 2008 contribute a fixed dollar amount based on year of retirement. For members retiring during 2005, effective September 1, 2005, contributions are $26.00 per month for single coverage and $40.00 per month for employee/spouse coverage. These amounts increase $5 per year for members retiring between 2006 and 2007.

3) AFSCME rank and file employees who retire on or after January 1, 2008 and before January 1, 2012 contribute 2% of salary at time of retirement.

4) For members retiring on or after January 1, 2012, retirees will contribute the difference between the premium equivalence for that calendar year and a fixed amount based on year of retirement.

d) Benefit Duration: Retiree coverage is provided until the earlier of death or age 65 and qualifies for Medicare. Spouse coverage is provided until the earlier of death, retiree's death, age 65 and qualifies for Medicare or retiree coverage ends.

e) Life Insurance: None.

Police Officers

a) Covered Groups: Full-time FOP Lodge #9 employees and their spouses are covered. Dependents are also covered until age 23 (increased to 26 due to PPACA). Effective January 1, 2013, dependents are not covered upon retirement.

b) Eligibility: Satisfaction of either of the following eligibility requirements:

(1) Unreduced/DROP Retirement: Attainment of the following conditions: a) If hired on or after January 1, 2012, no coverage is available. b) If hired before January 1, 2012, completion of 20 years of service.

(2) Reduced Retirement: Not applicable.

(3) Vested Termination: Coverage is not available to these members.

(4) Active Death: Attainment of the following conditions: a) If hired on or after January 1, 2012, no coverage is available. b) If hired before January 1, 2012, coverage continues to surviving spouses.
(5) Disability: Attainment of the following conditions: a) If hired on or after January 1, 2012, no coverage is available. b) If hired before January 1, 2012, there is no service requirement.

c) Premium Cost Sharing:
(1) There is no cost sharing for members who retire/DROP prior to January 1, 2007.
(2) Members who retire/DROP on or after January 1, 2007 and prior to January 1, 2013 contribute a fixed dollar amount of $36.00 per month for single coverage and $62.00 per month for family coverage.
(3) Members who retire/DROP on or after January 1, 2013 contribute a percentage of the premium equivalence based on the health care contribution being made by the active employees hired on or before December 31, 2011. Currently, this amount is: a) Premier PPO Plan 5%; b) Preferred PPO Plan 10%; c) Police PPO Plan 15%

d) Benefit Duration: Retiree coverage is provided until the earlier of death or age 65 and qualifies for Medicare. Spouse coverage is provided until the earlier of death, age 65 and qualifies for Medicare or retiree coverage ends.

e) Life Insurance: None.

Firefighters

a) Covered Groups: Full-time IAFF Local 1803 employees and their spouses are covered. No other dependents are covered.

b) Eligibility: Satisfaction of either of the following eligibility requirements:
(1) Unreduced/DROP Retirement: Attainment of the following conditions:
a) If hired on or after January 1, 2011, coverage is not available.
b) If hired prior to January 1, 2011, later of attainment of age 50 and completion of 20 years of service.
(2) Reduced Retirement: Not applicable.
(3) Vested Termination: Coverage is not available to these members.
(4) Active Death: Coverage continues to surviving spouses.
(5) Disability: Attainment of the following conditions:
a) If hired on or after January 1, 2011, coverage is not available.
b) If hired prior to January 1, 2011, there is no service requirement for in the line-of-duty disability and completion of 5 years for ordinary disability.

c) Premium Cost Sharing:
(1) There is no cost sharing for members who retire/DROP prior to January 1, 2011.
(2) For members retiring/DROPing on or after January 1, 2011, retirees will contribute the difference between the premium equivalence for that calendar year and a fixed amount based on year of retirement.

d) Benefit Duration: Retiree coverage is provided until the earlier of death or age 65 and qualifies for Medicare. Spouse coverage is provided until the earlier of death, age 65 and qualifies for Medicare or retiree coverage ends.

e) Life Insurance: Benefits are provided as follows: (1) For members hired after January 1, 2011, no life insurance is available. (2) For members hired before January 1, 2011 and retire on or after January 1, 2002, $50,000 up to age 70. (3) For members retired before January 1, 2002, $10,000 up to age 70.

Appendix E

Commonwealth of Pennsylvania
Department of Community & Economic Development
Reading Act 47 Funding Requests

In conjunction with the City of Reading's Act 47 Plan, the Coordinator requests that DCED consider the following high priority requests to meet critical short- and mid-term needs.

Police Department

- **$50,000 in 2016:** The Coordinator requests funding to hire a police schedule subject matter expert who can advise the Police Department management and Fraternal Order of Police representatives on the advantages of using a different shift schedule than the one currently in place. The City and its police officers may benefit from using a 10-hour instead of the current 8-hour schedule, though the two parties should consider and discuss the benefits and costs of changing the schedule before making any substantial changes.

Fire and Rescue Services Department (RFSD)

- ***$150,000 in 2015:*** The Coordinator requests funding to support a deployment and facility analysis study for the RFSD. This study is necessary to examine the Department's deployment model in recognition of changing City demands and fire risk. Additionally, based upon population shifts and response demands, the RFSD requires a further evaluation of station locations to ensure response time goals are realistic for both fire suppression and emergency medical services (EMS). In coordination with these assessment efforts, the Department requires a facility condition assessment that identifies, prioritizes and estimates the costs of the City's fire stations. The envisioned study would also make recommendations as to whether any existing fire stations should be replaced and or otherwise consolidated to achieve additional efficiencies or effectiveness in service provision.

Facility and Fleet Management and Capital Planning

- **$50,000 in 2015**: The Coordinator requests funding for a capital asset management system to track information about its capital assets and their conditions, track and schedule work order information and project costs, and facilitate the production and analysis of performance measurement data. If possible, the system will include fleet management functions and pavement management functions. Integration with the City's GIS data should be considered, as well as the ability to track a variety of related asset information like insurance and lease information. The system shall have the capacity to be used remotely by Public Works employees using tablets or smart phones. This request is for the one-time costs to purchase, install, and populate the system and train users. It is also intended to include licensing fees for the first year.

- **$270,000 over Two Years**: The Coordinator requests funding for a comprehensive facilities condition assessment. The assessment will result in both data to populate the capital asset management system referenced above and a report to be used for the prioritization of capital needs; it shall serve as a baseline that City personnel will be responsible for maintaining and updating going forward. The assessment shall include all facilities that are the responsibility of the General Fund and report apparent facility conditions and document specific deficiencies with narrative and photographs. The assessment shall estimate remaining useful lives of assets and systems; report deficiencies that are likely to need addressing within 10 years, describe the work required to correct the deficiencies, and estimate the costs of correcting deficiencies. The assessment shall categorize all recommendations in terms of relative urgency; propose a sequence and timeline for implementing recommendations, and provide summaries by facility and a summary for all facilities.