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Berks County 2020 Proposed Budget

We are pleased to present the 2020 budget for consideration and adoption by the Board of Commissioners. This budget is the product of a highly collaborative effort with the Commissioners and each county department, which began in January 2019. The Commissioners have provided direction and guidance as we have dealt with operational and fiscal issues that impact 2020 and future years.

We believe this budget is responsive to the needs of the county taxpayers and the Commissioners' goal of a responsible budget that does not place an undue tax burden upon the citizens of Berks County. This budget specifically achieves the Commissioners' directive to present a budget: without a tax increase, that supports our anticipated core service levels, maintains long term financial stability and our Aaa stable outlook bond rating, limits the growth of new discretionary county services, limits headcount growth, funds one-time capital expenditures with reserves, does not add new debt, and prioritizes capital expenditures for facility/bridge infrastructure and technology that enhances process improvement.

In addition, this budget provides for the continued maintenance of our facilities and parks, maintains a commitment to agricultural land preservation, and funds our pension and debt service obligations. It also funds our formal sponsorship obligation with Reading Area Community College (RACC), economic development (GREP) and local transportation (SCTA/BARTA), library and park systems, drug and alcohol treatment (COCA), and diversionary court programming that reduces the size of our jail population.

This budget recommends we maintain the current tax rate of 7.657 mills. The total deficit for all funds is $32.6M which is $10.8M higher than 2019 of $21.8M. This increase is primarily due to the planned redemption of our 2013 bonds. Consistent with prior years, we propose funding one-time capital expenditures with general and restricted fund reserves and net assets of our Enterprise Funds. The payoff of our 2013 bonds will assuage the need for additional property tax in future years. When we exclude these one-time expenditures, there remains an operating deficit of $2.9M. This deficit is primarily attributable to the Jail operation, as more fully described in the Jail section of this message. Our recommendation is to absorb this operating deficit with the general fund reserves as we will realize a debt service reduction in 2021, as more fully described in the Debt section of this message.

The realization of the 2020 budget is dependent upon the outcome of the following factors as it relates to our budgetary assumptions: the financial performance of our pension assets, impact of current collective bargaining (CBA) negotiation on wage and benefit growth, actual health and worker compensation claim and inflation trend, renewal of federal and state funding for our human service operations with CPI increases in 2020, continuation of the Federal/State IGT funding program for our nursing home, Managed Care impact on bed utilization at our nursing home, continuation of our ICE Family Shelter operation, flat demand for human services and criminal justice activity, no new head count added before the 2021 budget and the timing of a decision to build or lease a new jail facility and related planning costs.

We assume for purposes of this budget: the State Managed Care program, which starts January 1, 2020, will not divert Medicaid beds away from Berks Heim to either other facilities or in-home care, we will not incur any planning, design or bond financing costs for a new jail facility and will not add any off-budget headcount for the Jail or facility security. The current jail facility consists of two primary units, one built in 1933 and the other in 1993. The current condition is such that investment in the 1933 portion of the jail is simply too expensive and building a new facility and trying to connect the infrastructure to the 1993 portion of the jail is not efficient or economically feasible when compared to the cost and operational benefits of an entirely new facility. A decision regarding the future of this facility is likely in 2020.

We continue to face structural budget challenges. The average rate of inflation in our personnel costs continues to outpace the rate of growth in our tax revenue and Medicaid rate increases for our nursing home.

The current Board of Commissioners are keenly aware of these risks and challenges and are supportive of the following initiatives, each with the potential to increase revenues or reduce operating costs:

- Tax incentives to attract commercial and industrial facility investment to enhance assessed value growth.
- Implementation of new technology and software solutions that enable process improvement and lower service costs.
- Elimination of the Affordable Care Act Tax.
- Utilization of reserves for capital to avoid net new debt service costs.
- Jail diversion plan for crimes resulting from mental health issues. This could lower future facility (i.e. new construction) and inmate medical and treatment costs.
- Maintenance of a fair and efficient property tax rate to maintain our financial strength and Aaa stable outlook bond rating.
- Limit head count growth to mandated services.

Budget Summary and Select Highlights

<u>Real Estate Taxes</u>
Taxable assessed value is expected to grow by 0.67% for the 2020 tax billing compared to the 2019 growth of 0.80%, the highest since 2007, This is attributable to a significant increase in commercial properties coming on-line in Q2 2019, in the Route 61 and 78 corridors. We anticipate continued development in these areas as well as other strategic locations in the county.

Real Estate Tax Comparison (Millions)

	2020	2019
Millage Rate	7.657	7.657
Assessed Value -Billions	$19.162B	$19.035B
Percent Increase	0.67%	0.80%
Net Tax Billing - Millions	$140.0	$139.0
Interims	$0.7	$0.6
Net Tax Collections	$140.7	$139.6
Tax Claim Revenue	$4.2	$4.1
Total Tax Revenue	$144.9	$143.7

(Note: 2019 Net Tax Billing is the actual billings)

Revenue and Expenditures (Millions)

General Fund:	2020	2019	Inc./(Dec.)	% Change Inc./(Dec.)
Total Revenue	$236.8	$230.6	$6.2	2.69%
Total Expense	$256.6	$236.8	$19.8	8.36%
Plus (Less)Total Adjustments	($17.4)	($13.5)	($3.9)	
Net Surplus/(Deficit)	**($37.2)**	**($19.7)**	**($17.5)**	

All Funds:	2020	2019	Inc./(Dec.)	% Change Inc./(Dec.)
Total Revenue	$541.3	$535.4	$5.9	1.10%
Total Expense	$577.4	$556.3	$21.1	3.79%
Plus (Less)Total Adjustments	$3.5	($0.9)	$4.4	
Net Surplus/(Deficit)	**($32.6)**	**($21.8)**	**($10.8)**	

(Note: Adjustments in the General Fund are for Human Services' federal and state grant local match and contribution to the 911 fund for debt and capital. Adjustments in All Funds are for depreciation expense net of capital expenditures for our Enterprise Funds.)

Revenues

The increase in the General Fund revenues of $6.2M, or 2.69%, is primarily higher due to: higher real estate taxes of $1.2M, interest income of $.9M, nursing home net asset transfer for IGT payment of $0.9M and indirect cost reimbursement $5.2M. This is partially offset by: a reduction of $1.0M in net jail revenue, lower IRS interest subsidies resulting from the refinancing of the 2009B and 2010C bonds of $0.5M and decrease in election services federal HAVA grant $0.4M. As previously noted, the real estate tax increase is derived from an increase in taxable assessed values. The increase in interest income is due to continuation of favorable interest rate yields on investment of our operating cash reserves. The decrease in jail revenue is due to the termination of our inmate housing agreement by the State Department of Corrections in 2019, due to budgetary constraints and available bed space in state correction facilities.

The increase in All Funds revenue is $5.9M or 1.1%. This includes increases in: General Fund of $6.2M, additional Berks Heim Medical Assistance revenue from County participation in the State IGT program of $0.9M and increase in Community Development Block Grant of $1.4M. This is offset by: a decrease in liquid fuels bridge funding of $2.2M, due to completion of bridge renovation projects, and a $0.5M decrease in children services funding due to lower out of home placements and IT Grant funding due to completion of automation projects.

Expenditures

The increase in the General Fund expenditures of $19.8M, or 8.36%, is primarily due to increases in: a one-time debt service payment of $12.6M, wages $0.9M, net fringe benefit costs $0.5M, IGT contribution of $0.9M, contingency expense of $1.2M, and increase in indirect expenses of $4.3M. The debt service increase is to redeem the 2013 bonds, as more fully described in the Debt section. If not for the one-time debt payment and increase in IGT payment which generates additional revenue for our nursing home, the annual increase would have been 2.66%, higher than the September 12-month CPI rate of 1.7%. The difference is due to the additional of 20.5 FTEs in the 2020 budget as described in the Personnel/Staffing section of this document.

The increase in All Funds expenditures is $21.1M or 3.79%. This includes increases in: the General Fund of $19.8M, other fund increases for wages $0.8M, fringe benefit costs $0.5M, Berk Heim $0.9M net asset transfer to the general fund for its IGT contribution and additional Community Development Block Grant expenditures for the pass through to BCRA of the previously noted revenue increase of $1.4M. These increases are partially offset by a reduction of $2.8M in capital, primarily liquid fuel bridges and maintenance. If not for the one-time debt payment and increase in net asset IGT transfer, the annual expenditures would have increased by 1.37%, beating the September 12-month CPI rate of 1.7%. This difference can be attributable to the decline in liquid fuel expenditures between years and flat funding in the Health Choices program.

Debt

The total debt service expenditure budget for all fund types, net of bond premium amortization, is $40.2M compared to $28.6M for 2019, an increase of $11.6M. The increase is due to the planned redemption of our 2013 bond on November 20, 2020 with a $12.6M payment, offset by lower interest as principal is amortized and paid each year. This 2013 redemption will save $4.8M in interest expense and reduces annual debt service by $1.3M per year through 2033.

Our current Moody's bond rating is Aaa –Stable Outlook, which is the highest rating a public entity can attain and represents an upgrade from our rating on January 1, 2019 of Aa1. We are only one of four counties in Pennsylvania with this rating and in the top 5% of all counties in the United States. This is quite an accomplishment and validates the fiscal discipline we have been executing over the last 15 years. As a result, we were able to secure lower yields on the refinancing of our 2009B, 2010C, 2012, 2012A and 2014 bonds with our 2019, 2019A, and 2019B bond issues. When combined with the 2013 bond redemption, annual debt service savings is $2M, beginning in 2021. In addition, our 1993 and 2010D bonds will mature in 2020 resulting in additional budget savings in 2021 of $6.8M. Therefore, we expect our annual debt service budget to be $8.8M less in 2021 and is the reason why we are not recommending a tax increase in 2020.

We do not anticipate any new debt issues in 2020. However, looming on the horizon is the prospect of financing a new jail facility, which will be at a substantial cost and require a tax increase to cover some, or all, of the additional annual debt service or lease payment.

Fund Balance

The total general fund and unassigned fund balance is projected to be $120.4M and $110.6M, respectively, at December 31, 2020. Unassigned fund balance can be used for any general governmental purpose. The remaining fund balance is limited to use based upon liquidity, legal restrictions, formal action of the Board of Commissioners, and informal assignments. Please see our budget book for more detail regarding specific restrictions, commitments and assignments of fund balance.

Personnel/Staffing

The 2020 wage budget is $116.6M compared to $114.9M for 2019, an increase of $1.7M or 1.5%. This increase is lower than the September trailing 12-month Employment Cost Index for State and Local Governments (ECI) of 2.7% and, lower than normal due to the $2M net wage reduction at our nursing facility pursuant to new collective bargain labor agreements. If not for this reduction, the increase would have been 3.22%, which exceeds the ECI benchmark and is due to the addition of the new positions noted below.

Net employee benefits, inclusive of health care costs and pension, is $41.1M compared to $40.0M, an increase of $1.1M or 2.75%. This increase is lower than the ECI index for State and Local Governments of 3.5%. The increase is primarily attributable to increases in: Teamsters union health and welfare $0.5M for inflation and the addition of 20.5 new staff, and annual pension contribution $0.7M. The employee benefit percent increase out performs the ECI benchmark due to favorable healthcare claim trend, low provider inflation and higher Rx rebates, which flatlined the healthcare budget between years at $30.7M. Our active management of claims and healthy life styles programming continues to support our favorable claim trend. In addition, the decision we made to change our Rx carrier relationship effective January 1, 2019 is generating $1.1M in Rx rebates per year, much higher than the initial estimate of $0.6M for the 2019 budget.

Funded Full-time Equivalent Positions have increased by 20.5 positions for a total 2,186.5 due to the organizational needs and service level demands. The changes are summarized as follows:

Change in Full-time equivalent headcount

Status	2019	2020	Inc (Dec)	Explanation
Full Time	2011	2032	21	Added: Jail Treatment Counselor, Office Support III Sergeants, 18 CO's, Sergeant, Library - Tech Coordinator, Facilities - Project Manager. Eliminated: CYS CW. Zero Budgeted DRO Employment Counseling Specialist.
Part Time	155	154.5	(0.5)	Eliminated: Heim - 2 RN Staff Nurses, MHDD - Healthy Transition Mgr. - Grant ended, Assessment - PT Solicitor, added to professional fees (operating budget). Added: Heim Activity Therapist & RN Staff nurse, Agland Specialist
Total	**2166**	**2186.5**	**20.5**	

Note: The sergeant position was authorized and filled in 2019 but not counted.

Jail

The 2020 net cost of county jail operations, inclusive of its reentry program, is $42.2M, an increase of $2.4M, compared to 2019 of $39.8M. This increase is attributable to a decrease in revenue of $1.2M combined with the addition of 20 new staff and related wage and benefit costs of $1.2M. As previously noted, the State DOC terminated its agreement to house inmates in our jail and a local county is no longer in need of overflow beds. To assuage the impact in the 2020 budget, we recommended closing the CRC facility in November 2019, which the Commissioners approved. This reduces the net cost by $0.7M for 2020.

Children and Youth Services

Despite higher personnel costs, the required county contribution for CYS in 2020 is $7.2M compared to $7.4M in 2019, a decrease of $0.2M. The decrease is attributable to a decrease in out of home placements, increase in funding that requires a lower county match, such as Independent Living and Evidence Based Programing, as well as a decline in utilization of the Information Technology Grant, which requires the highest percentage of county contribution. These changes offset the match increase for growth in personnel costs between years.

Berks Heim

For 2019 the county will once again participate in the State IGT Program. The General Fund will contribute $8.5M to the State and in return Berks Heim will receive $12.6M in MA Revenue. Of the total IGT Revenue received by Berks Heim, $8.5M will be returned to the General Fund as a net asset transfer. The net income benefit remains the same as 2019 at $4.1M.

The 2020 Berks Heim net income is $3.2M, which is an increase of $2.9M compared to the 2019 budgeted net income of $0.3M. The improvement is due, in large part, to the new labor agreements with UFCW and SEI, which include wage concessions of $2M per year, net of annual wage increases. In exchange, the County has agreed to not sell the nursing home through 2024. The additional improvement is the change in capital expenditures and related depreciation expense between years, partially offset by higher fringe benefit and indirect cost charges.

Capital Program

The 2020 Capital Expenditure Plan is $28.1M. The projects are funded by restricted/special revenue fund balances and grants of $10.1M and General Fund reserves of $18.0M. Highlights of the 2020 plan are as follows:

2020 Summary Capital Plan (Millions)			
County Bridges	$3.3	911 Radio GPS Solution	$1.2
Facility Security Upgrade	$2.8	Facility NG Conversion	$4.1
WWTP Renovations	$2.3	Lighting Control System	$0.8
Ag Center Renovations	$1.9	Parking Lot Improvements	$0.9
IS Hardware Software Upgrades	$1.4	HRMS Payroll Software Phase 1	$2.6
Ag Land Preservation	$1.0	Other Projects	$5.8
		Total Capital	**$28.1**

This plan includes $7.6M of projects authorized in the 2019 budget that will not be completed in 2019, including the Waste Water Treatment Plant and Ag Center Renovations. This saved General Fund dollars in 2019 that will be used in 2020.

Agricultural Land Preservation

The County will continue its commitment to farmland preservation in the amount of $1M per year to leverage federal and state funds for new easement acquisitions.

Library System Support

The county will contribute $3.3M in general fund tax dollars to the countywide public library system, which includes our contractual commitment of $0.9M to the Reading Public Library. This represents an increase of $0.2M over the 2019 support of $3.1M due to increases in personnel cost including the addition of a new technology position dedicated to technology enhancements for member libraries.

Sponsorship Agreements

The County will continue its support with General Fund Tax Dollars as follows:

- RACC – $3.25M education operating stipend. In addition, the Berks County Redevelopment Authority will provide funding for 2020 capital projects.
- GREP – economic development support of $0.3M base funding, with county match potential of up to $0.2M for non-governmental support.
- SCT/BARTA – For the first time since 2014 the County is required under its sponsorship agreement with PADOT to make a matching contribution of $0.4M. This five-year elimination of local funding was an incentive by PADOT to consolidate BARTA with Red Rose Transit Authority of Lancaster County. This saved $2.4M, over five years, at the 2014 contribution rate, which was forecast to grow even higher at that time.

Closing Remarks

The budget is presented today as the first step in the public review process. The Proposed Budget will be available for public inspection on the county website, in the County Commissioners' Office, and in the Office of Budget and Finance. Final adoption of the budget is scheduled for Thursday, December 12, 2019.

Respectfully Submitted,

Robert J. Patrizio, Chief Financial Officer
Date: November 21, 2019