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Berks County 2019 Proposed Budget

We are pleased to present the 2019 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 2018. The Commissioners have provided direction and guidance as we have dealt with operational and fiscal issues that impact 2019 and future years.

We believe this budget is responsive to the needs of the county taxpayers and the Commissioners' goal of a responsible budget that does not place an undue tax burden upon the citizens of Berks County. This budget specifically achieves the Commissioners' directive to present a budget: without a tax increase, that supports our anticipated core service levels, maintains long term financial stability and our Aa1 stable outlook bond rating, limits the growth of new discretionary county services, limits headcount growth, funds one-time capital expenditures with reserves, does not add new debt, and prioritizes capital expenditures for facility/bridge infrastructure and technology that enhances process improvement.

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

This budget does not include a property tax increase, but rather recommends we maintain the current tax rate of 7.657 mills. The total deficit for all funds is $14.7M, inclusive of capital expenditures. Consistent with prior years, we propose funding $13.8M of capital expenditures with general fund reserves. This will assuage the need for additional property tax in future years to fund net new debt service. When we exclude these one-time capital expenditures, there remains an operating deficit of $0.9M. This portion of the deficit is related to restricted funds. Our recommendation is to absorb this operating deficit with the restricted fund balance of those funds.

Our ability to achieve the 2019 budget is dependent upon: the financial performance of our pension assets, outcome of current collective bargaining (CBA) negotiations on wage rate growth, actual healthcare cost inflation and claims volume, renewal of federal and state funding for our human service operations, with CPI increases in 2019, continuation of the Federal/State IGT funding program for our nursing home, continuation of our ICE Family Shelter operation, and flat demand for human services and criminal justice activity.

Our forecast, as seen in Exhibit 1, predicts future deficits. This forecast includes the planned defeasance of our 2013 bond issue in 2020 and the retirement of a forward interest rate hedge and related debt refinancing of our 2010C bonds. The total deficit in 2020 is much higher than 2019 as a result of the estimated 2013 bond defeasance expenditure of $12.9M. This defeasance will save $4.8M in interest expense through original maturity and reduce our annual debt service requirement by $1.3M per year through 2033. We anticipate the combined termination of our forward interest rate hedge and refinancing of our 2010C bonds will save an additional $4M through 2030. This forecast does not include any net new cost/debt to either build or lease a new Jail which is still under consideration. It also assumes we continue to own and operate Berks Heim.

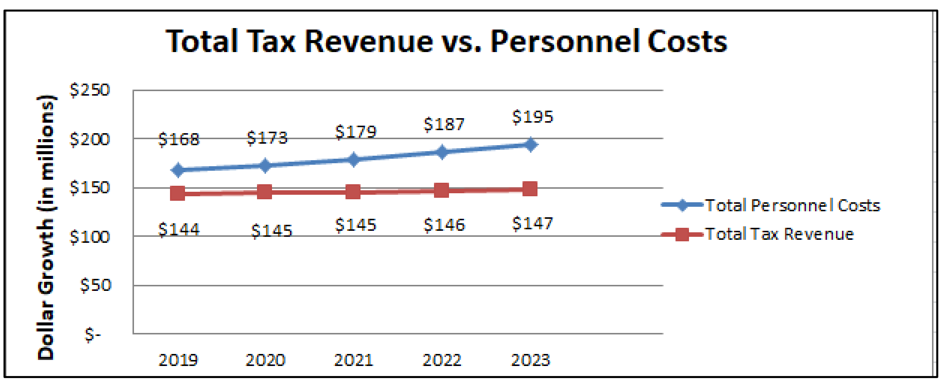
We continue to face structural budget challenges. The average rate of inflation in our personnel costs continues to outpace the rate of growth in our tax base and corresponding property tax revenue, as depicted in Exhibit 2.

EXHIBIT 1

	2020	2021	2022	2023
Total County Budget Surplus/(Deficit)	($17.8)	$1.7	($1.7)	($13.8)
Operating Surplus/(Deficit)	($1.2)	$2.7	($2.1)	($10.1)
Tax Equivalent %	0.88%	0.00%	1.65%	7.33%
Fund Balance - Unassigned	$104.5	$105.6	$102.0	$90.3

(Note: The tax equivalent percentage is what is necessary to balance each year assuming there is not a tax increase in the prior year)

EXHIBIT 2



The actual outcome for these future years is dependent upon the following factors: repeal of the Affordable Care Act Tax beginning in 2022, Medicaid and Medicare bed rate increases for Berks Heim, State Managed Care impact on future rate increases and actual Medicare bed utilization at Berks Heim, pension asset investment performance, wage, health and operating costs inflation, outcome of CBA negotiations, actual tax base growth, decision to build or lease a new County Jail facility, decision to retain or privatize Berks Heim, and renewal of the 911 Fee telecom fees in 2020.

We assume for purposes of our forecast: the State Managed Care program will not divert Medicaid beds away from Berks Heim to lower cost facilities and in home care, the 911 Fee will be extended and not cut, solid waste fees will remain flat, and tax rate will be maintained at a level that ensures continued funding of regular capital requirements with reserves instead of new bond financings which would increase recurring debt services costs.

The Commissioners are keenly aware of these 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.
- Continuation of our Federal ICE Residential Center.
- Implementation of new technology and software solutions that enable process improvement and lower service costs.
- Elimination of the Affordable Care Act Tax.
- Refinancing and defeasance of debt in 2020 to reduce recurring debt service costs.
- Utilization of reserves for capital to avoid net new debt service costs.
- Privatization of service delivery where quality of service can be maintained at a cost savings.
- Jail diversion plan for crimes resulting from mental health issues. This will lower future facility (i.e. new construction) and inmate medical and treatment costs.

Budget Summary and Select Highlights

Taxable assessed value is expected to grow by 0.67% by December 31, 2019 compared to the prior year. This increase is due primarily to new commercial development.

	2019	2018
Millage Rate	7.657	7.657
Assessed Value	$19.010B	$18.883B
Percent Increase	0.67%	0.48%
Net Tax Billing	$139.0M	$138.0M
Interims	$0.6M	$0.5M
Net Tax Collections	$139.6M	$138.5M
Tax Claim Revenue	$4.1M	$4.2M
Total Tax Revenue	$143.7M	$142.7M

(Note: 2018 Net Tax Billing is the actual billings)

Revenue and Expenditures (In Millions)

General Fund:	2019	2018	Inc./(Dec.)	% change Inc./(Dec.)
Total Revenue	$230.2	$228.4	$1.8	0.79%
Total Expense	$233.0	$227.4	$5.6	2.46%
Less:Total Adjustments	$12.6	$12.9	($0.3)	
Net Surplus/(Deficit)	**($15.4)**	**($11.9)**	**($3.5)**	

All Funds:	2019	2018	Inc./(Dec.)	% change Inc./(Dec.)
Total Revenue	$534.4	$519.5	$14.9	2.87%
Total Expense	$548.3	$532.3	$16.0	3.01%
Less:Total Adjustments	$0.8	$1.0	($0.2)	
Net Surplus/(Deficit)	**($14.7)**	**($13.8)**	**($0.9)**	

(Note: Adjustments in the General Fund are for Human Services' match. Adjustments in All Funds are for depreciation expense net of capital expenditures for our Enterprise Funds.)

Revenues

The increase in the General Fund revenues of $1.8M, or 0.79%, is primarily due to projected higher real estate taxes of $1.1M. In addition, other increases include: Indirect Cost reimbursement of $0.3M, Solid Waste Tipping Fees of $0.6M, Controller's Office eVendor bank fee of $0.1M, and Interest Income of $0.1M. These increases are offset by revenue reductions of $0.2M for the Sheriff due to lower Tax Sale Fees pursuant to legislative change and $0.2M in Juvenile Probation due to placement savings and lower non-reoccurring grant revenue.

The increase in All Funds revenue is $14.9M or 2.87%. This increase is attributable not only to the previously noted General Fund increase but also to increases of $10.3M in Health Choices and $1.8M in Children & Youth (CYS) funding. In addition Berks Heim revenue increased $2.4M due to increases in Medical Assistance and IGT. These increases are offset by decreases in Human Services of $.1M due to state elimination of the Family Center and Reasonable Father funding and Liquid Fuels of $1.3M for less federal and state funded projects.

Expenditures

The General Fund expenditures increased by $5.6M when compared to the 2018 Adopted Budget. This increase is attributable to: $2.4M in personnel costs due to increases in wages, healthcare and pension costs, $2.2M in capital costs, $.3M in Assessment for maintenance on the Land Records System, $.3M in Facilities for Maintenance Contracts and Contracted Services, $.2M for the County Match for GREP, and $.2M in Debt.

The increase in All Funds expenditures is $16.0M when compared to the 2018 Adopted Budget. This increase is primarily attributable not only to the previously noted General Fund increase but also to: $10.3M in Health Choices, $1.1M in other funds personnel costs, Berks Heim $0.1M, Children & Youth Services $1.5M, Communications Center $0.2M due to increases in Debt and Maintenance Contracts, and Special Legislation $0.1M, offset by a reduction of $3.3M in capital, primarily for bridges and Emergency 911 Systems.

Debt Issues

The total debt service expenditure budget for all fund types is $28.6M, net of bond premium amortization of $0.1M. The County terminated two of its three derivative contracts in 2018 at a gain of $1.1M. The remaining derivative contract expires on November 15, 2020 and has an accretive market value of $1.7M as of October 31, 2018. The revenue budget includes federal Build America Bond subsidies of $1.1M. We do not anticipate any new debt issues in 2019. The current Moody's bond rating is Aa1 –Stable Outlook.

Fund Balance

The total general fund and unassigned fund balance is projected to be $131.5M and $109.0M, respectively, at December 31, 2019. 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. At December 31, 2018 our commitment of General Fund balance of $5.0M, for the Route 222 Widening Project, expires. Beginning in 2019 we recommend a new commitment of General Fund balance equal to the planned 2020 defeasance of our 2013 bond issue in the amount of $12.9M. Please see our budget book for more detail regarding specific restrictions, commitments and assignments of fund balance.

Personnel/Staffing

The 2019 Personnel Cost Budget is $167.8M compared to $164.3M for 2018, an increase of $3.5M or 2.13%. This increase is lower than the September trailing 12 month CPI for All Urban Cities of 2.3% as measured by the Bureau of Labor and Statistics. The dollar and percentage increase is primarily attributable wages of $3.0M or 2.69%, healthcare costs of $0.4M or 1.49%, and $0.1M or 1.27% pension. The majority of our wage increase is pursuant to CBA's expiring primarily in 2019 and 2020. The healthcare increase is the lowest in years as a result of smaller rate increases by medical facilities, physician and prescription drug "Rx" costs and favorable claim trend supported by our healthy life style initiatives. In addition, we made a decision to change our Rx carrier relationship effective January 1, 2019 generating an anticipated annual cost savings of $0.6M.

Funded Full-time Equivalent Positions have decreased 4.5 positions for a total 2,168.5 in 2019 from 2,173.0 in 2018. Due to the shifting organizational needs and service level demands, a number of changes have been made and are recommended since the adoption of the 2018 budget. Increases in positions include: 4 Jail Correction Officers to increase coverage in the kitchen, 1 second shift Jail Booking Sergeant to provide more hours of direct supervision, 2 Domestic Relations Clerical Staff to cover higher demand for services in the Intake Unit, 2 Adult Probation Assistant Chiefs to accelerate the rollout of treatment-based supervision to lower the recidivism rate and jail population. Decreases in positions include: 5 BCRC Shelter Care Counselors due to lower bed utilization, 3 Prothonotary Office Support Clerks due to continuing leverage of automation and decline in filings, 1 Law Clerk and 1 Judicial Coordinator due to a decrease of Senior Judges, 2 Controller and 1 Purchasing positions due to re-organization of each department.

Children and Youth Services

In spite of higher personnel costs, the required county contribution for CYS in 2019 is $7.4M compared to $7.5M in 2018, a decrease of $0.1M. The decrease is attributable to an 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.

Berks Heim

For 2019, the county will once again participate in the State IGT Program. The General Fund will make a contribution of $7.5M to the State and in return Berks Heim will receive $11.7M in IGT Revenue. Of the total IGT Revenue received by Berks Heim, $7.5M will be returned to the General Fund as a net asset transfer.

The 2019 Berks Heim net income is $1.6M which is an increase of $1.7M when compared to the 2018 budgeted net loss of $0.1M. This is primarily attributable to a net increase in IGT of $1.7M, which includes a one-time increase of $0.6M. Our revenue budget includes Private Pay rate increase which is anticipated to generate an additional $0.3M. In addition, a 1% increase in the Medicaid (MA) Rate will result in an additional $0.3M. This is the first MA Rate increase awarded by the State since July 1, 2014. These revenue increases are offset by an increase in personnel costs of $0.6M.

Capital Program

The 2019 Capital Expenditure Plan is $22.3M. The projects are funded by restricted/special revenue fund balances of $3.6M, grants of $4.9M and General Fund reserves of $13.8M. Highlights of the 2019 plan are as follows:

2019 Summary Capital Plan			
County Bridges	$5.9M	Jail Roof Replacement	$1.0M
Land Records System	$3.1M	Steam Plant Decentralization	$1.0M
WWTP Renovations	$2.5M	Lighting Control System	$0.8M
Ag Center Renovations	$1.9M	Parking Lot Improvements	$0.7M
CYS Case Management System	$1.3M	Vehicle Replacements	$0.6M
Ag Land Preservation	$1.0M	Other Projects	$2.5M
		Total Capital	**$22.3M**

This plan does not yet include the State mandated replacement of our voting machines which requires a voter verifiable paper trail. The preliminary cost estimate is $4 - $4.5M for the voting machines which is anticipated to be added by the time we adopt the 2019 budget. We are recommending funding this project with General Fund reserves.

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 continue to contribute $3.1M in general fund tax dollars to the countywide public library system which includes our contractual commitment of $0.9M to the Reading Public Library.

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 $0.6M for capital projects.
- GREP – economic development support of $0.3M base funding, with county match potential of up to $0.2M for non-governmental support.

Closing Remarks

The budget is presented today as the first step in the public review process. The Proposed Budget will be available for public inspection 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 20, 2018.

Respectfully Submitted,

Robert J. Patrizio, Chief Financial Officer
Date: November 15, 2018