COUNTY OF BERKS, PENNSYLVANIA
Office of Budget & Finance

Services Center, 13th Floor
633 Court Street
Reading, PA 19601

Phone: 610.478.6190
Fax: 610.478.6206

Berks County 2023 Proposed Budget

We are pleased to present the 2023 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. The Commissioners have provided direction and guidance as we have dealt with operational and fiscal issues that impact 2023, including navigating a tight labor market and related impacts on staffing and wages.

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, limits the growth of new discretionary county services, limits new headcount to service level growth, funds one-time capital expenditures with reserves, does not add new debt, prioritizes capital expenditures for facility/bridge infrastructure, and utilizes technology that enhances process improvement.

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 funds our formal sponsorship obligations with Reading Area Community College (RACC) and local transportation (SCTA/BARTA). It also maintains our commitment to economic development, libraries, park system, drug and alcohol treatment (COCA), and diversionary court programming that reduces the size of our Jail population.

For the first time our budget includes the recognition of American Rescue Plan (ARP) revenues and expenditures of $29.7M and $29.7M, respectively. In addition, the budget includes $3.2M for continued implementation of the Imagine Berks Strategic Plan, which was adopted in 2022. This will encourage commercial, industrial, and residential property development in locations deemed to be most attractive for job creation and enhancement of tax revenue per acre.

The total deficit for all funds is ($14.6M). The deficit can be attributed to General Fund capital expenditures of $11.2M, growth in wage costs of $6.8M, and increase in debt of $0.8M; offset by organic growth in real estate taxes of $1.7M, decrease in Fringe Benefits of $1.4M, new Election Integrity Grant $0.8M, and lower Children and Youth and Juvenile Probation net costs of $0.5M and $0.4M, respectively. Consistent with prior years and GFOA best practices, we propose funding one-time capital expenditures with General Fund reserves and operating losses for specific restricted funds and enterprise funds, where applicable, with restricted reserves and net assets, respectively. The exclusion of capital and restricted and enterprise fund surpluses and deficits results in an operating budget deficit of ($3.8M). The operating deficit is less than 1% of our total expenditure budget and within an acceptable range of deviation for a budget of our size. It also represents less than 3% of the 2023 General Fund unassigned fund balance reserves and does not diminish our financial health. Funding capital with reserves avoids the addition of net new debt service that would require a future tax increase and is still less expensive than what can be earned on the investment of our funds. Considering all factors, it is our recommendation we maintain our current tax rate of 7.657 mills for 2023, which will also allow time for an economic recovery for our citizens before we would consider asking for additional tax support.

The realization of the 2023 Budget is dependent upon the outcome of the following factors: the financial performance of our pension assets, competitive wage pressure due to labor supply shortages, impact of inflation on the outcome of current collective bargaining (CBA) negotiations, actual health and worker compensation claims, renewal of federal and state funding for our human service operations, continuation of the Federal/State IGT and Medicaid funding for our nursing home, continuation of our BCRC operation, flat demand for human service and criminal justice response, and head count growth. 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. The 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, when necessary, to attract commercial and industrial facility investment to enhance real estate tax growth.
- Continued implementation of Imagine Berks Strategic Plan.
- Implementation of new technology and software solutions that enable process improvements and lower service costs.
- Utilization of reserves for capital expenditures to avoid net new debt service costs.
- Jail diversion plans for first-time offenders, low risk offenders, and 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.
- Limit head count growth to mandated services.
- Pursuit of grants to fund operating and capital costs.

Budget Summary and Select Highlights

Real Estate Tax Comparison

Total 2023 tax revenue is $150.4M, an increase over 2022 of $1.7M. This includes a slight decrease in interim taxes due to a change in the billing cycle in 2021 which resulted in a one-time delay into 2022 that has now normalized. Our tax base growth remains at a consistently high level as commercial and residential demand for developable property remains high. We continue to see excellent growth in our commercial and residential taxable assessed values. Our assessed value growth has exceeded 0.92% per year for 2020 through 2023. This organic growth increases tax revenues without the need for excessive tax rate increases and is a big reason why for the fifth year in a row we need not raise taxes. The following table summarizes the tax revenue comparison to 2022.

Real Estate Tax Revenue (in Millions)		
	2023	2022
Millage Rate	7.657	7.657
Assessed Value -Billions	19.9B	19.7B
Percent Increase	0.94%	0.92%
Net Tax Billing	$145.2	$143.3
Interims	$1.0	$1.2
Net Tax Collections	$146.2	$144.5
Tax Claim Revenue	$4.2	$4.2
Total Tax Revenue	$150.4	$148.7

(Note: 2022 Assessed Value Is Actual Billed March 1, 2022. All other values are 2022 Adopted Budget)

General Fund and All Funds Budget Comparison

Revenue and Expenditures (In Millions)

General Fund:	2023	2022	Inc./(Dec.)	% Change Inc./(Dec.)
Total Revenue	$269.9	$237.6	$32.3	13.59%
Total Expense	$271.2	$232.6	$38.6	16.60%
Less Total Adjustments	$14.1	$13.4	$0.7	
Net Surplus/(Deficit)	**($15.4)**	**($8.4)**	**($7.0)**	

All Funds:	2023	2022	Inc./(Dec.)	% Change Inc./(Dec.)
Total Revenue	$645.0	$570.9	$74.1	12.98%
Total Expense	$658.3	$576.6	$81.7	14.17%
Less Expense Adjustments	$1.3	$1.1	$0.2	
Net Surplus/(Deficit)	**($14.6)**	**($6.8)**	**($7.8)**	

(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. Expense Adjustments in All Funds are for depreciation expense, net of capital expenditures, for our Enterprise Funds.)

Revenues

General Fund increase of $32.3M is primarily attributable to: application of 2022 ARP lost revenue to County general government operating costs $29.6M, tax revenue arising from increase in taxable assessed value $1.7M, and IGT net asset transfer from our nursing home Berks Heim $5.6M. Offset by decreases in: indirect cost reimbursement due to lower facility depreciation and debt service interest allocation ($2.3M), Row Officer and Adult Probation fees attributed to court activity and public safety, indicative of a decline in arrests and criminal and civil filings ($1.5M), and lower federal and state reimbursements for juvenile services due to lower placements ($0.8M).

All Funds increase of $74.1M is primarily attributable to: General Fund $32.3M, nursing home revenues as more fully described in the Berks Heim Section $11.1M, Community Development and Affordable Housing inclusive of Emergency Rental Assistance grants $2.6M, recognition of ARP 2022 lost revenue in the Cares Act/American Recovery Fund $29.4M, special revenue fund Aging grants $0.6M, Liquid Fuels bridge funds $0.4M, COCA funding net increase inclusive of opioid settlement funding $0.3M, and Emergency 911 System funding $0.8M. Offset by decrease in Children and Youth Services resulting from lower placement expense ($3.4M).

Expenditures

General Fund increase of $38.6M is primarily attributable to: capital $4.6M, IGT contribution to PA DHS $5.6M to enhance Medicaid funding for Berks Heim, community support and infrastructure investments to continue the recovery from COVID $27.3M, and net increase in personnel costs $3.7M. Offset by decreases in the General Fund portion of debt service ($1.1M) and Juvenile Probation Office placement costs ($1.1M) due to continued utilization of diversionary courts, day reporting, and best practices that result in lower recidivism.

All Funds increase of $81.7M is primarily attributable to: General Fund $38.6M, Cares Act/American Recovery Fund $29.4M, Berks Heim operating expense increase, as more fully described in the Berks Heim section $10.3M, Community Development and Affordable Housing inclusive of Emergency Rental Assistance grants $2.6M, and COCA funding net increase inclusive of opioid settlement funding $0.3M.

Debt

The total debt service expenditure budget for all fund types, net of bond premium amortization, is $16.3M compared to $15.5M for 2022, an increase of $0.8M. This is due to a scheduled increase in principal payments for our 2019 Bond. This represents a decrease in the general fund ($1.1M) and a net increase in other fund types of $1.9M. We do not anticipate any new debt issuances in 2023.

Fund Balance

Total General Fund and Unassigned fund balance is projected to be $184.8M and $168.3M, respectively on December 31, 2023. Unassigned fund reserves represent a healthy 93-day operating expense float for all funds. The minimum GFOA best practice is two months or 60 days. 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 expected at December 31, 2023. For December 31, 2022, we project a total fund balance of $200.1M, with committed funds of $44.4M and unassigned funds of $141.0M. The Committed funds represent our 2023 planned use of reserves for capital $11.2M, operating deficit $3.8M, and the allocation of County ARP funding for community support and county infrastructure $27.3M.

Personnel/Staffing

The total personnel budget, inclusive of wages, payroll taxes, fringe benefits, GASB 68 pension expense for Berks Heim and BCRC, and worker's compensation costs, is $181.5M, an increase of $8.7M or 5.6% over the 2022 Adopted Budget. The 2023 wage component is $128.3M compared to $121.4M for 2022, an increase of $6.8M. The increase is attributable to growth in headcount of $1.7M, base pay cost of living adjustment (COLA) of $4.4M, and competitive pay increases of $0.7M. On a percentage basis, total wages increase by 5.63%. The average COLA increase to base pay is 3.66%, competitive pay is 0.59%, or 4.25% on a combined basis. This is less than both October CPI of 7.7% and September Employment Cost Index (ECI) for State and Local Government employees of 4.4%. Competitive pay increases have become necessary to retain and attract talented employees. It is well documented that employee turnover results in lost productivity and institutional knowledge. The budget reflects the Commissioner strategic emphasis on retention of staff and attraction of talent in a very competitive environment.

Fringe benefits inclusive of pension contribution and health care costs, net of employee contributions, is $38.6M compared to $40.0M in 2022, a decrease of ($1.4M) or (3.46%). This is lower than the September ECI for fringe benefits of 5%. This is attributable to a decrease in pension contribution ($3.3M), increase in employee contribution to health benefits ($0.2M), offset by an increase in health benefits $2.4M. Increase in health benefits of 5.57% is due to higher utilization per member and inflation, partially offset by lower number of enrolled employees due to vacancies. The pension contribution decrease results from implementing actuary recommendations for valuation of assets and employee contributions effective January 1, 2023.

Funded, full-time equivalent (FTE) positions have increased by 45.5 for a total of 2,213 positions. This is primarily for: 25.5 FTE removed in 2021 at Berks Heim due to COVID induced decline in resident population restored to support anticipated bed census growth in 2023, 7 FTE support staff for the increased demands in Election Services, 2 FTE support supervisor roles in Emergency 911 System, 3 FTE support staff in Human Resources for the growing demand for employee services, 2 FTE in the District Attorney Office to support forensic services and interns to provide pipeline for Assistant District Attorney talent, and 1 FTE each in Planning, Register of Wills, Jail, Assessment, Finance, and Commissioner departments. The following table summarizes the change in budgeted headcount:

Change in Full-Time Equivalent Headcount

Status	2023	2022	Inc (Dec)
Full Time	2051	2012	39.0
Part Time	162	155.5	6.5
Total	2213	2167.5	45.5

Jail
The 2023 net operating costs, before operating transfer in of ARP lost revenue, is $45.5M, an increase of $0.3M, compared to the 2022 net costs of $45.2M. This increase is primarily attributable to personnel costs $0.4M.

Total revenue for 2023 is $30.2M, an increase of $28.5M over 2022 revenue of $1.7M. This increase is due to the application of ARP lost revenue funds to the Jail operation in 2023 as more fully described below. This was not budgeted in 2022 because the data needed to calculate the amount was not available in time for budget adoption. This also occurred in 2021 which explains the variance between 2021 actual and 2022 budget, as presented in our Budget Book. This revenue is not indicative of revenue from operations and therefore, has been removed for analysis purposes to derive the net cost of operations. Excluding this reduces the operating revenue to $0.6M for 2023 compared to $1.7M for 2022, resulting in a ($1.1M) decrease. The decrease is due to the reclassification of the Inmate Commissary Fund out of the General Fund to a Trust and Agency Fund of ($1.3M) pursuant to applicable accounting standards; offset by a net increase in grant funding for drug addiction treatment of $0.2M.

Operating expenses of $46.1M is lower by ($0.9M) primarily due to the reclassification of the Inmate Commissary Fund out of the General Fund to a Trust and Agency Fund of ($1.3M), which is partially offset by an increase in personnel costs of $0.4M. The net increase includes wage and payroll tax increases of $0.8M, offset by a decrease in union health and welfare costs of ($0.4M) due to higher vacancies and a flat contracted rate for the duration of the current CBA.

The ARP lost revenue can be applied to any general government operating expense, which is calculated by a formula and limited to the county allocation of ARP funds. These funds are not specifically earmarked for county jails. For administrative convenience, we have applied them to jail operating costs. For 2022 actuals we anticipate applying the lost revenue to multiple departments. It is anticipated there will be no ARP funds remaining after 2023 to offset general county government operating costs.

Children and Youth Services (CYS)
The required county contribution for CYS in 2023 is $6.1M compared to $6.6M in 2022. Despite an increase in personnel costs, the county match is lower due to a more favorable mix of Federal Title IV-E fully funded expense resulting in higher reimbursement rates. In addition, the County continues to leverage lower cost counseling and in-home service solutions when placing children out of their home by using family members rather than more expensive out of home facility placements, resulting in lower costs and lower county match.

Berks Heim
The 2023 net income is projected at $1.9M, an increase of $0.7M compared to 2022 budgeted net income of $1.2M. This increase is due to higher: bed census revenues $3.6M, State ARP funded non-recurring grants $1.0M, and Access to Care payments (IGT/MDO1) $6.4M. This is partially offset by increases in: wages and payroll taxes of $2.0M, fringe benefits and pension expense $2.4M, net asset IGT transfer to the General Fund $5.6M and other operating costs $0.3M.

We anticipate the volume of residents to begin the year at 302 and grow to 364 by year-end. The 2022 budget was based upon the same census, but due to persistent 2022 COVID outbreaks and continued labor shortage of direct care employees, we have been unable to achieve this result. While this has been slow to recover, we anticipate residents will increase in 2023 and revenue growth reflects this expectation.

The increase in wages and payroll taxes is due to restoration of funding for 25.5 FTE positions that were de-funded in 2021 due to a steep decline in residents. In addition, wages are higher due to management and contractual CBA rate increases including modifications to provide for signing bonuses, rate increases, and shift differentials to retain and attract key direct care positions to support our resident census goal for 2023, as noted above.

Fringe benefit costs are higher primarily due to $1.9M increase in pension expense and health benefits of $0.5M. The increase in GASB 68 pension expense is due to the anticipated decline in pension asset values as of December 31, 2023, resulting from inflationary pressure, higher interest rates, and geopolitical impacts on investment performance.

The State of Pennsylvania, in its fiscal year adopted budget for 2022-2023, announced a 17.1% increase in Medical Assistance (MA) for county long term care facilities. This was assumed to be a MA daily bed rate increase effective January 1, 2023. It was subsequently confirmed this is not manifesting as an increase in the daily MA bed rate, but rather is a larger allocation to State DHS funding for securing a larger match of federal MA dollars. To date agreements have not been provided and the only certainty is an increase in IGT/MDO1 from January 1, 2023, through July 1, 2023, and our proposed budget reflects this.

Pursuant to the preliminary estimates, the County General Fund will contribute $14.9M to the State, and in return Berks Heim will receive $22.9M in Access to Care Medicaid funds. Berks Heim will contribute $14.9M to the General Fund as a net asset transfer. The net income benefit of $8.0M is $0.9M higher than our 2022 budget.

<u>Capital Program</u>

The 2023 Capital Expenditure Plan is $17.6M, which is $6.5M higher than 2022 of $11.1M. The projects are funded by restricted/special revenue fund balances and grants $6.4M and General Fund reserves $11.2M. Highlights of the 2023 plan are as follows:

2023 Summary Capital Plan (Millions)			
County Bridges	$4.4	Archives - Racking Equip	$0.3
Facility Upgrades	$7.6	Park Trails/ Facilities	$1.4
IS Hardware Software Upgrades	$1.2	Berks Heim Equipment/Facility	$0.7
Ag Land Preservation	$1.0	Other Equipment/Upgrades	$1.0
		Total Capital	**$17.6**

This plan includes $5M of leasehold improvements at our new South Campus Facility and carryover of $1.9M for projects authorized in the 2022 budget that were not completed due to supply chain issues and labor shortages. Carryover includes completion of facility security project $0.4M, facility lighting control system $0.7M, and Park trail improvements $0.3M. This saved General Fund dollars in 2022 that will be expended in 2023.

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 as itemized in the 2023 Summary Capital Plan table.

Library System Support
The county will contribute $3.7M in General Fund tax dollars to the countywide public library system which maintains our contractual commitment of $0.9M to the Reading Public Library. This represents an increase of $0.1M over 2022 due to a net increase in personnel and other operating costs

Sponsorship Agreements
The County will continue its support and/or sponsor commitments with General Fund tax dollars as follows:

- RACC – $3.25M education operating stipend. In addition, the Berks County Redevelopment Authority will provide funding of $1M for the Weitz Health Pavilion.
- Economic Development-$970K for personnel, business outreach & includes GRCA $500K.
- SCTA/BARTA – County will increase its funding by 5% to $475K.

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 15, 2022.

Respectfully Submitted,

Robert J. Patrizio, Chief Financial Officer
Date: November 17, 2022