COMMONWEALTH OF PENSYLVANIA
DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT

IN RE:	:	TERMINATION OF DISTRESSED
	:	STATUS UNDER SECTION 255.1
CITY OF READING	:	OF THE MUNICIPALITIES
BERKS COUNTY	:	FINANCIAL RECOVERY ACT

DEPARTMENTAL DETERMINATION AND ORDER

1. On November 12, 2009, the City of Reading (the "City") was designated a financially distressed municipality pursuant to the Municipalities Financial Recovery Act ("Act 47"), codified at 53 P.S. § 11701.101 *et seq.*.
2. On April 11, 2022, PFM Group Consulting, LLC, the Act 47 Coordinator for the City, filed a final report which recommended termination of the City's distressed status.
3. In accordance with Section 255.l(a) of Act 47, on May 4, 2022, a public hearing was held at which a designated hearing officer received evidence regarding the potential termination of the City's distressed status.
4. In determining whether the City's distressed status shall be terminated, Section 255.1 of Act 47 requires a consideration of whether:

   a) Operational deficits of the municipality have been eliminated and the financial condition of the municipality, as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures, demonstrates a reasonable probability of future balanced budgets absent participation in this act.

   b) Obligations issued to finance the municipality's debt have been retired, reduced, or reissued in a manner that has adequately refinanced outstanding principal and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in this act.

   c) The municipality has negotiated and resolved all claims or judgments that would have placed the municipality in imminent jeopardy of default.

   d) The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt obligations, and the continuation or negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after termination of distressed status.

53 P.S. § 11701.255.1(c)(1)-(4).

5. With regard to the first factor, the City's annual audits for 2012 through 2020 show operating budget surpluses in six of the past nine years, ranging from $1.0 million to $6.5 million. Further, based on preliminary year-end results, it is anticipated that 2021 will also show a surplus. The three years that showed deficits were the result of the City proactively paying off debt and making transfers to capital improvement funds. Absent those forward-thinking measures, the City would have had surpluses in each year of this analysis.
6. With regard to the second factor, the City can continue to make timely debt payments after Act 47 oversight. The City's total liability for bonds, bank notes, and leases across all government activities dropped from $163.9 million at the end of 2010 to $108.8 million at the end of 2020. The $55.1 million (or 33.6 percent) reduction reflects the City's efforts to pay its debt as scheduled and avoid issuing new debt. Without accounting for any new debt or future refinancing transactions, the City's scheduled annual debt service will drop from $11.2 million through 2029, to $10.5 million in 2030 and 2031, to $10.1 million 2032, and then retire at $9.9 million in 2033.
7. With regard to the third factor, the City has settled several lawsuits since the adoption of the 2019 Exit Plan. While the City is involved in other legal actions, the potential risk of a worst-case scenario would not put the City in imminent jeopardy of financial default. Based on the information provided and the strength of the City's unassigned General Fund reserves, the City meets this criterion to exit oversight.
8. With regard to the fourth factor, a five-year baseline projection developed by the Act 47 Coordinator shows operating deficits for 2024 through 2027 using a status quo or carryforward scenario. This status quo scenario does not include corrective measures available to the City. However, in this scenario, the City's reserves would stay above the $22 million minimum level in its ordinances until 2027. While the City will need to take meaningful action to avoid the operating deficits in the baseline projection, the Coordinator has confidence this is possible for two reasons. First, the City has demonstrated a willingness and ability to take corrective actions and has consistently outperformed results from prior baseline projections. Second, the baseline projection does not account for the potential use of "revenue replacement" funding provided by the American Rescue Plan Act of 2021. For all of these reasons, the reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures and the continuation or negotiation of collective bargaining agreements and the provision of municipal services.

AND NOW, this the 14th day of July 2022, upon review of the written recommendation of the Act 47 Coordinator, the recommendations of departmental staff and the Act 47 Coordinator, and the evidence received at the public hearing, along with other considerations, the above-captioned request is granted.

IT IS ORDERED that the status of the City of Reading, Berks County, as a financially distressed municipality under the Municipalities Financial Recovery Act, Act 47 of 1987, as amended, is terminated.

By: ____________________

Neil R. Weaver
Acting DCED Secretary

CITY OF READING
BERKS COUNTY

EVALUATION OF THE ACT 47 COORDINATOR’S RECOMMENDATION TO TERMINATE FINANCIALLY DISTRESSED STATUS UNDER ACT 47, THE MUNICIPALITIES FINANCIAL RECOVERY ACT

HEARING HELD: May 4, 2022

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COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT
GOVERNOR'S CENTER FOR LOCAL GOVERNMENT SERVICES

HEARING REGARDING TERMINATION OF DISTRESSED STATUS OF THE CITY OF READING

FINDING OF FACTS

A public hearing was held in the City of Reading ("City"), Berks County, on May 4, 2022, to receive testimony relative to the Coordinator's Recommendation for Rescission filed on April 11, 2022 ("Recommendation for Recission") to terminate the designation of distress made on November 12, 2009, under Act 47 of 1987, as amended, also known as the Municipalities Financial Recovery Act. Notice of the public hearing was advertised in accordance with Section 203 of Act 47 and the Sunshine Act. The purpose of the hearing was to gather information on the City's financial condition to assist the Secretary of the Department of Community and Economic Development ("DCED") in determining whether the City's financial condition satisfied the necessary conditions to terminate its distressed status and to inform the officials, employees, and citizens of the City of Reading of the Act 47 termination process. Under Section 11701.255.1(c) of Act 47, the following four factors are considered when determining whether to rescind the distressed status of a municipality:

1. Operational deficits have been eliminated as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures demonstrate a reasonable probability of future balanced budgets, absent participation in Act 47.
2. Obligations issued to finance the municipality's debt have been retired, reduced, or reissued.
3. All claims, or judgements that would have placed the City in imminent jeopardy or financial default have been negotiated and resolved.
4. Projected revenues of the municipality are sufficient to fund ongoing necessary expenditures for the first five years after a termination of distressed status.

Prior to the hearing, the Act 47 Coordinator for the City ("Coordinator" or "Recovery Coordinator"), Public Financial Management ("PFM"), submitted its Recommendation for Recission to DCED which reviewed the statutory factors necessary to request a termination of the City's distressed status and the statutory criteria regarding whether to issue a determination of fiscal emergency in the City. Based upon a review of the factors set forth in Section 11701.255.1(c) of Act 47, the Coordinator concluded that substantial evidence supported a determination to terminate the City's distressed status.

The Hearing Officer, Andrew Sheaf, Local Government Policy Manager with the Governor's Center for Local Government Services, made opening remarks welcoming everyone to the public hearing and stated that the public hearing would be held in accordance with Act 47. Mr. Sheaf stated the purpose of the proceeding was to receive testimony on whether the City's Act 47 distress status should be terminated.

Mayor Eddie Moran, Councilperson Johanny Cepeda-Freytiz, Councilperson Marsha Goodman-Hinnershitz, Finance Director Jamar Kelly, Recovery Coordinator Gordon Mann, DCED Regional Local Government Policy Specialist Fred Chapman, City Resident Carol Reily, and City Auditor Maria Rodriguez provided testimony.

Mayor Eddie Moran testified that Reading has had to overcome years of financial challenges. After two years as Mayor, he fully understands the recommendations and parameters set by the Recovery Coordinator and appreciates the effectiveness of those provisions. He stated that many of the provisions were in labor relations, negotiating terms related to bargaining agreements, and proscribing strict controls around health insurance costs and contributions. The ability to levy the commuter tax was also essential as it gave the City the ability to fund capital improvements, invest in deferred maintenance and support public safety expenses. Mayor Maron proceeded to make a formal request to allow the City of Reading to retain its commuter tax after exiting Act 47. The Mayor discussed the City's financial situation coming out of the global pandemic and described how the City has a stable balance sheet, a healthy fund balance, a history of surpluses and has seen positive trends in economic development. He testified that the City meets all the statutory factors for the termination of financial distress under Act 47 and the City is ready to exit Act 47. Mayor Moran recognized certain limitations within Act 47, such as the inability to retain the commuter tax and the difficulty in helping with unemployment and workforce development issues. Mayor Moran concluded his testimony by recognizing that challenges remain for the City, but he and his administration were optimistic about the City's future and its ability to exit Act 47.

Councilperson Johanny Cepeda-Freytiz stated that while there is relief that the City has reached this point, there is concern that this and future administrations will not retain valuable lessons that the Act 47 process has taught. Ms. Cepeda-Freytiz expressed concern that it will be difficult for the City to remain financially stable without the benefits of Act 47, and concluded her testimony by expressing support to retain the commuter tax.

Councilperson Marsha Goodman-Hinnershitz discussed circumstances around the initial realization that the City needed a determination financial distress under Act 47. She described there being a lack of solutions presented to council on how to fix the City's problems. She expressed gratitude that the Act 47 program provided the City with solutions, helped council to grow as a body, and held the City accountable. Ms. Goodman-Hinnershitz expressed reservations that the City doesn't have sufficient revenue sources to support critical services, explaining that the City is limited in the personnel it can hire. She reiterated the desire to continue levying the commuter tax, discussed challenges related to collective bargaining, and expressed her desire to retain city assets such as its sewer system. Ms. Goodman-Hinnershitz concluded her testimony by stating that Reading is facing a critical moment and must continue to be diligent and intentional about everything it does.

Jamar Kelly, Finance Director for the City, stated that during its time in the Act 47 program the City went through significant staffing and benefit reductions, wage freezes, federal consent decrees, a global pandemic, and many other challenges. In recent years, Reading has made strides by producing timely, balanced budgets that achieved surpluses in each of the last six years. Early in Act 47, the commuter tax provided much needed revenue to the City's General Fund. However, since the Amended Recovery Plan of 2014, the City dedicated that revenue source to capital improvements. The reserves dedicated to capital improvements are now being spent and the City is positioning itself to secure new revenues to help with the loss of the commuter tax upon exiting Act 47. A forthcoming debt management policy will help in remedy scores of deferred building maintenance issues and will provide the ability to build out new facilities to accommodate the provision of government services. Further, the City's improved internal controls has produced clean audits with less findings.

The City has not issued any new debt for a substantial period of time. The City refinanced or reissued existing debt 2019 when terms were favorable and in late 2020 when it looked like we would have huge revenue losses as a result of the pandemic shutdowns. However, the City did not experience the drastic losses that were projected and was able to cut operational costs by 15% in both 2020 and 2021. Since the adoption of the 2019 exit plan, the City settled several lawsuits and while the City is still involved in a fairly significant amount of legal action, many of them are unlikely to have a significant impact on City's overall financial outlook. Mr. Kelley proceeded to provide a summary of the resolved and ongoing legal claims against the City.

The City projects positive operating balances for the first five years following the termination of distressed status based upon recent past performance, the exercise of fiscal prudence, and significant funding through the American Rescue Plan Act. The City intends to invest a significant portion of that funding into economic development projects, capital infrastructure projects, and revenue replacement that reduces the need to increase property taxes.

Mr. Kelly concluded his testimony by stating that he firmly believes the City is in the best position it will ever be in to exit Act 47, thrive on its own, and continue to provide the quality municipal services that are expected by its residents, constituents, commuters, and stakeholders, both internal and external.

Mr. Gordon Mann, Recovery Coordinator, testified that the City has met the criteria to exit the Act 47 program as evidenced by the testimony of Jamar Kelly and the Recommendation for Recission. Mr. Mann agreed with the comments regarding the commuter tax and the importance of the collective bargaining process. He stated that the unions deserve some of the credit for the City's financial recovery. Mr. Mann stated that the next contract negotiations will be the first round of negotiations that the City goes through without protections under Act 47. Mr. Mann continued to explain that Reading's revenues naturally grow more slowly than its expenditures, which causes deficit projections. This is not unique to cities of its size or of other forms of government in Pennsylvania, but it is an issue if nothing is done. Mr. Mann stated that Reading has consistently outperformed prior projections by turning multi-million-dollar deficit projections into surpluses, and cited figures from years 2018 to 2020 to that effect. Mr. Mann concluded his testimony by stating that the City is ready to leave Act 47.

Fred Chapman, DCED Local Government Policy Specialist, stated that the City is financially stable. Mr. Chapman said that the City has sacrificed and worked hard to see this day come. He stated that the City has cooperated and collaborated with the Act 47 Recovery Team and DCED to implement Recovery Plan recommendations, and that DCED is proud and honored to share in the success of the City's financial recovery. Mr. Chapman stated that in addition to Act 47 funding, the Commonwealth supported the City through a number of programs to aid in community development and to improve quality of life. Mr. Chapman cited the Keystone Communities Program, the Multimodal Transportation Program, the Greenways, Trails and Recreation Program, and the Early Intervention Program which is now known as the Strategic Management Planning Program ("STMP").

Ms. Carol Reily, a resident of the City of Reading, expressed her concerns regarding vacant buildings. She stated she would also like to see the City preserve historical sites.

Ms. Maria Rodriquez, City Auditor, stated that the Administration and Council have faced a lot of challenges, but they have made the City a better place for everyone. She concluded her testimony by thanking the Recovery Coordinator and the Administration and expressed how pleased she is to be a part of Reading's Act 47 exit.

Hearing Officer Andrew Sheaf thanked those in attendance and who testified. He then stated that all findings and a recommendation will be presented to Acting DCED Secretary Neil Weaver for his consideration of the City's status as a financial distressed municipality.

On June 15, 2022, a public meeting was held in Reading to receive additional testimony relative to the Coordinator's Recommendation for Rescission. At the public meeting, Ms. Edna Garcia-Dipini encouraged the continuation of strategies to help Reading remain one of the largest thriving Latino cities in the Commonwealth of Pennsylvania. Additionally, Councilperson Donna Reed spoke about Reading's late Council President Jeff Waltman. She made note that, through four administrations, Mr. Waltman's leadership and financial expertise were instrumental in pulling Reading out of financial distress.

In addition to public testimony, DCED also received written comments. On May 27, 2022, written testimony was provided by Sheila Perez, a resident and advocate from Reading. Ms. Perez explained that she feels Reading is not ready to exit Act 47 because city council members have been focused on lobbying the state legislature to keep a commuter tax. If a commuter tax is necessary to fund capital improvements, Ms. Perez argues, then the Reading is not ready to have its distress status terminated.

CONCLUSION

The Coordinator's Recommendation for Recission, reports, and testimonies provided during the Act 47 Exit Hearing demonstrates that the financial condition and outlook of the City has significantly improved during the recovery period and there is substantial evidence and that the City meets the conditions for the termination of distressed status set by Section 11701.255.1(c) of Act 47. Therefore, it is recommended that the City of Reading's financially distressed status be terminated.

EXHIBIT A

City of Reading, PA

Municipalities Financial Recovery Act

Coordinator's Recommendation for Rescission

April 11, 2022

Prepared by:

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Introduction

The City of Reading (City) has had a remarkable turnaround in its financial performance since entering Commonwealth oversight under the Municipalities Financial Recovery Act (Act 47 of 1987) in November 2009.

At that point, the City was at risk to run out of money in the primary fund that pays for police, fire, and other critical services, even after using several one-time "solutions" to address its cash crunch. The City was millions of dollars behind on its required employee pension plan contributions. The General Fund had borrowed $11 million from the Sewer Fund in 2009 to cover operating costs, despite a federal consent decree that allowed a maximum annual transfer of $3 million.

Financial management was also very weak. The external audit cited a double-digit number of "material weaknesses" and "significant deficiencies" in internal controls. The City was behind on transferring money due to or from its General Fund, and the capital budget was very modest except for utility projects supported by the enterprise funds. There was no reliable, consistent cash flow report to show the impending crisis looming at the end of the year. In the 2008 audit released a few months before the City entered oversight, the external auditor concluded:

"…the city is facing a cumulative structural deficit that will exceed any remedy or form of corrective action, unless substantial reform is achieved in the future."

The City has spent close to close to 13 years in Act 47 oversight. It has worked through three multi-year Recovery Plans written by the Act 47 Coordinator, adopted by Council, approved by three different Mayors, and implemented through the efforts of countless employees. The City's residents, property owners, and employee bargaining units have shared in the sacrifice, especially in the early years that had the tax increases, wage freezes, and benefit structure changes necessary to stop the slide toward insolvency.

As we review the City's financial performance in early 2022, the situation would hardly be recognizable to someone who had stopped following Reading in 2009. The City has a healthy cash balance and has not needed any kind of cash flow borrowing to fund operations in years. It has consistently made full payments to the three employee pension plans while also adjusting the underlying assumptions and benefit levels for new employees to a more reasonable, affordable level. The City has long since repaid that Sewer Fund loan and is moving toward exiting the federal consent decree related to its sewer system. The 2022 capital budget is $18.0 million without any new borrowing.

Financial management is also stronger. The City's budget is more sophisticated and meaningful, and there is a multi-year financial projection that the Administration and Council routinely use to guide financial and operating decisions.

In view of this progress, we are writing this report to recommend that the Commonwealth of Pennsylvania rescind its declaration of financial distress for Reading. This report confirms that Reading meets the four statutory criteria in Act 47 that a community must meet to exit oversight.

This report also looks forward. It provides a new "baseline" projection of the City's revenues and expenditures for the next five years, highlights the challenges and opportunities that City officials will face, and provides direction on how to ensure that Reading's financial recovery is not just remarkable but also sustainable.

As City government leaders and the community know very well, the challenges that Reading faces will continue outside of Act 47 oversight. Concentration of poverty, old infrastructure, and a mismatch between the services that the community needs and the resources available to pay for them will remain for years. But the tools and processes created during the last 13 years of oversight give City government a chance to not just weather those challenges but be a constructive partner in the community-wide effort to overcome them.

History in Act 47

In November 2009, Secretary George Cornelius of Pennsylvania's Department of Community and Economic Development (DCED) designated Reading a distressed municipality according to the criteria in the Municipalities Financial Recovery Act (Act 47 of 1987). At the request of then Mayor Thomas McMahon, DCED reviewed the City's financial performance and found that the City met three of the 11 criteria that qualify a community for distressed status under Act 47:

1) Reading maintained a deficit over a three-year period (2006 – 2008), with a deficit of 1 percent or more in each of the previous fiscal years;

2) Reading's expenditures exceeded revenues for a period of three years or more (2006 – 2008); and

3) Reading accumulated and operated for each of two successive years (2007 and 2008) a deficit equal to 5 percent or more of its revenues.

DCED found that the City'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."

In December 2009 the Secretary appointed an Act 47 Coordinator team led by Public Financial Management (PFM) to develop a financial Recovery Plan to bring the City back to fiscal health. The Coordinator wrote the initial Recovery Plan that was approved by City Council and signed into ordinance by Mayor Murphy in 2006.

Under the first Recovery Plan, the City broke its string of years with operating deficits and started to gain financial stability. The City went from having a cash deficit to maintaining a General Fund reserve and gaining a credit rating upgrade that lowered its cost of borrowing. The City retired its past due obligations to the employee pension plans and repaid the multi-million dollar loan from the Sewer Fund that it took to sustain operations in 2009. The City has avoided these types of loans, made its Minimum Municipal Obligation (MMO) payments to its employee pension plans, and had operating surpluses in its General Fund consistently since 2010.

The City also started to implement basic financial management tools – cash flow monitoring, budget-to-actual quarterly reports, monitoring position vacancies – that give City leaders, residents, credit holders, and others timely, accurate information. PFM acknowledged the City's progress and pointed to the next round of challenges:

"It is important to acknowledge the substantial contributions that several parties have made to help City government achieve this progress…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."

That was the goal of the Amended Recovery Plan, adopted by City Council and signed into ordinance by then Mayor Vaughn Spencer in December 2014.

Like the 2010 Plan, the Amended Plan provided initiatives that increased revenues and reduced expenditures to avoid deficits in the baseline projection. It shifted a growing portion of the earned income tax (EIT) from operations to investments in the City's fire stations, parks, and other capital needs. The Plan reduced spending on health insurance for former City police officers who had access to coverage at their current employer. It pushed continued improvements in financial management to address the shrinking, but persistent, list of weaknesses identified by the external auditor.

Shortly after the City adopted the Amended Recovery Plan, the Act 47 process went through a substantial change. On October 31, 2014, Governor Tom Corbett signed Act 199 into law, establishing limits on the amount of time that a Pennsylvania municipality can remain in financial oversight according to the Municipalities Financial Recovery Act (Act 47 of 1987). For communities like the City of Reading that were already in Act 47 oversight, the following provision took effect:

"Municipalities operating pursuant to a recovery plan on the effective date of this section shall be subject to a termination date five years from the effective date of the most recent recovery plan or amendment enacted in accordance with this act…"

The five-year termination date for Reading was December 5, 2019. In the first half of that year, PFM reported on the City's financial condition with three possible paths related to oversight:

1) Conditions warrant a termination of the City's distressed status, and the City successfully should exit Act 47 oversight;

2) Conditions are such that the Secretary should request a determination of a fiscal emergency in Reading; or

3) A three-year exit plan is warranted.

PFM recommended a three-year exit Plan to ease the transition out of oversight and give the City time to fill several key vacancies in its Finance and Community Development units. City Council adopted the Exit Plan and then Mayor Wally Scott signed it into ordinance in July 2019. City officials have worked with PFM as Coordinator to implement many of the Plan initiatives.

Act 199 provides that after a municipality adopts a three-year exit plan, the Secretary of DCED may issue an administrative determination to rescind the order declaring the municipality distressed upon written recommendation from the Coordinator. The next section presents the relevant facts upon which we base our recommendation that the Secretary rescind Reading's Act 47 status.

Factors to consider

In determining whether the City's distressed status shall be terminated, Section 255.1 of Act 47 requires the Secretary of DCED to consider the following four factors:

1) Operational deficits have been eliminated as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles, and projections of future revenues and expenditures demonstrate a reasonable probability of future balanced budgets absent participation in Act 47;

2) Obligations issued to finance the municipality's debt have been retired, reduced, or reissued;

3) All claims or judgments that would have placed the City in imminent jeopardy of financial default have been negotiated and resolved; and

4) The City is projected to have positive operating balances for the first five years after the termination of distressed status. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distress.

Act 47 states that distressed status shall be rescinded if "the secretary concludes that substantial evidence supports an affirmative determination for each of the [prior] four factors." Substantial evidence is defined as such relevant evidence as a reasonable mind might accept as adequate to support a conclusion.

We present evidence on each of the four factors in turn.

Factor 1: Elimination of operational deficits

Operational deficits of the municipality have been eliminated and the financial condition of the municipality, as evidenced by audited financial statements prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures demonstrates a reasonable probability of future balanced budgets absent participation in [Act 47].

The City's annual audits for 2012 through 2020 show operating budget surpluses in six of the past nine years, ranging from $1.0 million to $6.5 million.

Audited General Fund Results, 2012 – 2020[1]

	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Actual
Revenues	$74.7	$82.1	$85.2	$91.7	$92.0	$90.6	$93.0	$93.4	$96.1
Expenditures	$79.0	$77.7	$82.2	$85.2	$92.6	$86.8	$95.1	$92.3	$93.7
Surplus/(Deficit)	**($4.3)**	**$4.4**	**$3.0**	**$6.5**	**($0.6)**	**$3.9**	**($2.0)**	**$1.1**	**$2.4**

The surplus/deficit figure on its own understates the strength of Reading's financial performance:

- Expenditures in 2012 include an additional $5 million payment on the unfunded debt loan that the City issued in 2010. Without this early debt payment, the City would have had a $0.7 million surplus in 2012.
- Expenditures in 2016 include an additional $6.6 million debt payment the City made to retire obligations ahead of schedule and reduce future costs. Without this, the City's operating surplus would have been close to $6 million
- In 2018, the City transferred $4.4 million from the General Fund to a separate fund for capital projects and another $1.5 million to a fund for street paving. Both transfers aligned with the 2014 Amended Recovery Plan's emphasis on increasing capital infrastructure investment. Those transfers are netted against the City's excess of revenues over expenditures in the 2018 audit. Without them, the City would have had a $3.9 million surplus.

While we do not have the preliminary 2021 year-end results at the time of report release, we anticipate they will also show a surplus. We will update this report if the preliminary results are available during the time allowed for report amendment.

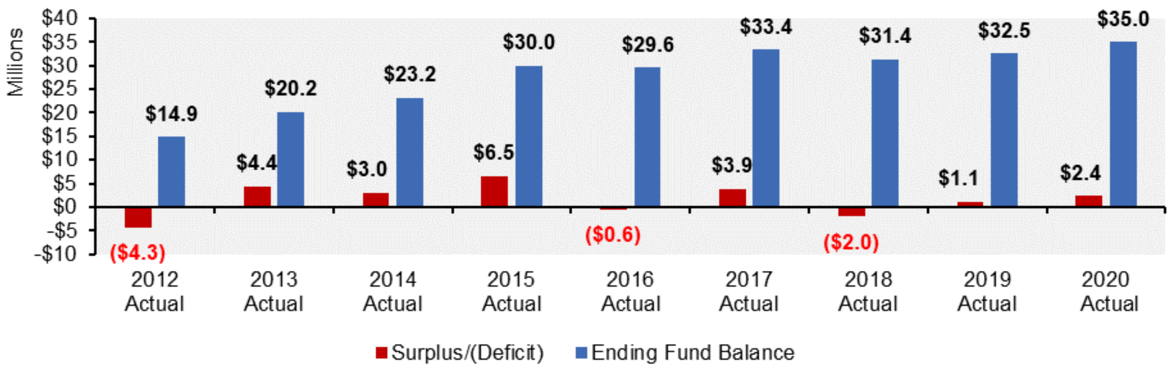
The run of annual operating surpluses has allowed the City to build sufficient General Fund reserves. Those reserves help the City pay its obligations early in the year before tax revenues arrive, and avoid paying interest on borrowed money (such as Tax Revenue Anticipation Notes) to fund basic operations early in the year. Fund balance 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.

The 2020 audit shows a $35.0 million General Fund balance, most of which ($30.7 million) is unassigned. The City uses much of the $30.7 million to comply with its minimum fund balance policy adopted by ordinance in 2017. That ordinance requires the City to retain a minimum fund balance of 20 percent of regular General Fund operating expenditures or $22 million, whichever is higher. Complying with its own

[1] The table above does not include revenues or expenditures related to debt refinancing transactions, which occurred in 2012, 2014, 2015, 2017 and 2020. Those events skew the results and obscure the City's true financial condition.

policy is a good way for City government to demonstrate its ability to manage its finances once oversight ends. The graph below shows the City's year-end results compared to available reserves.

Surplus/(Deficit) and Ending Fund Balance



Factor 1 states that the City needs to demonstrate the "reasonable probability of future balanced budgets absent participation in this act." We will discuss this probability within the context of Factor 4 (projected operating balances for the next five years).

Factor 2: Debt obligations

Obligations issued to finance the municipality's debt have been retired, reduced, or reissued in a manner that has adequately refinanced outstanding principle [sic] and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in this act.

The City's total liability for bonds, bank notes, and leases across all government activities dropped from $163.9 million at the end of 2010 to $108.8 million at the end of 2020. The $55.1 million (or 33.6 percent) reduction reflects the City's efforts to pay its debt as scheduled and avoid issuing new debt.

After issuing an unfunded debt loan at the start of oversight (which was repaid ahead of schedule), the City limited debt transactions within the General Fund[2] to refunding loans and bank notes that were issued before entering financial oversight. The City no longer issues Tax Anticipation Notes to cover cash flow needs early in the year. The table below shows the City's General Fund debt liability as a percentage of total expenditures since 2012.

Debt Service as a % of Expenditures

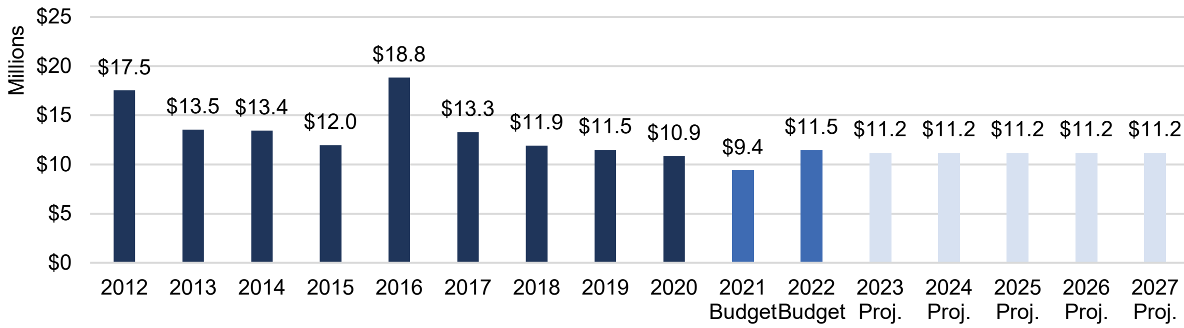
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Debt service	$17.5	$13.5	$13.4	$12.0	$18.8	$13.3	$11.9	$11.5	$10.9
% of expenditures	22.2%	17.4%	16.4%	14.0%	20.3%[3]	15.3%	12.5%	12.5%	11.6%

The City can continue to make timely payments on its debt after Act 47 oversight. Without accounting for any new debt or future refinancing transactions, the City's scheduled annual debt service will drop from $11.2 million through 2029, to $10.5 million in 2030 and 2031, to $10.1 million in 2032, and then retire at $9.9 million in 2033.

[2] This analysis does not include debt activity in the City's enterprise funds for water and sewer utilizes. That debt is repaid using service charge revenues collected in those separate funds.

[3] The City retired its 2010 unfunded debt loan ahead of schedule, making a $6.6 million early repayment in 2016. Absent this prepayment, the City would have spent $13.2 million towards its debt obligations that year.

Debt Service Payments, 2012 – 2020



Factor 3: Outstanding claims/judgments

The municipality has negotiated and resolved all claims or judgements that would have placed the municipality in imminent jeopardy of financial default.

Since the adoption of the 2019 Exit Plan, the City has settled several lawsuits including the following:

- In 2021, the City resolved a class-action suit challenging the City's fee for collecting recyclable material. Under the terms of the settlement agreement, the City paid the Plaintiffs' attorneys fees and costs and agreed to a Court order limiting the amount the City can charge for the collection of recyclables to $69.40 per unit in 2022; $80.00 per unit in 2023; $85.00 per unit in 2024; $90.00 per unit in 2025; and $95.00 per unit in 2026. The cost of this service is covered by a separate enterprise fund that had $978,000 net revenue and a $5.6 million fund balance at the end of 2020.

- The City settled a wrongful termination case and a civil rights violation case where the amount paid in each was over $100,000.

- The City is in the process of completing settlement in a catastrophic slip-and-fall case in which the City tendered the statutory limitation.

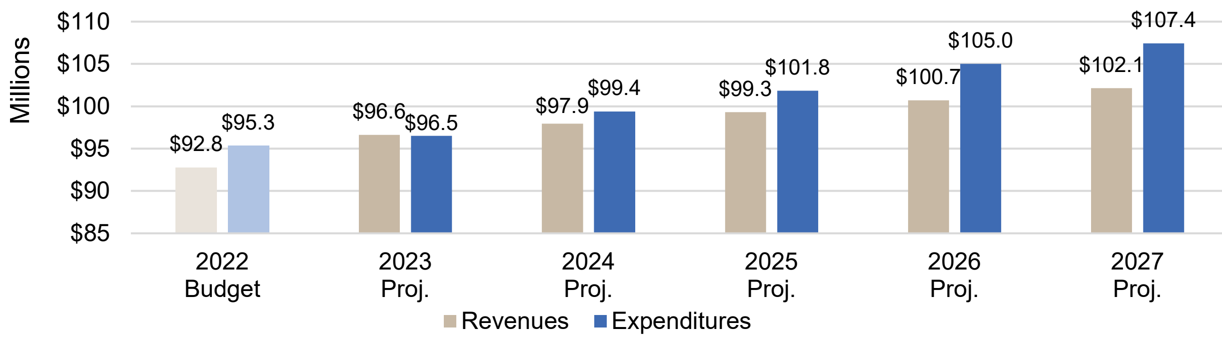
While the City is involved in other legal actions, its view is that the potential risk of a worst-case scenario would not put the City in imminent jeopardy of financial default. Based on the information provided and the City's adequate unassigned reserves, the City meets this criterion to exit oversight.

Factor 4: Projected positive operating results

The reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation of negotiation of collective bargaining agreements and the provision of municipal services. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distressed status.

To determine whether the City satisfies this requirement, we developed a five-year baseline projection that shows General Fund revenues and expenditures in a status quo or carryforward scenario. The projection starts with the adopted 2022 General Fund operating budget and then carries through 2027. The 2022 budget has $2.6 million difference between revenues and expenditures that would be covered by use of the City's unassigned General Fund reserves. The five-year projection shows operating deficits for 2024 through 2027 in this status quo scenario, absent any corrective measures. In this scenario, the City's reserves would stay above the $22 million minimum level in its ordinances until 2027.

Five-Year General Fund Projection, 2023 – 2027



	2022 Budget	2023 Projected	2024 Projected	2025 Projected	2026 Projected	2027 Projected
Revenues	$92.8	$96.6	$97.9	$99.3	$100.7	$102.1
Expenditures	$95.3	$96.5	$99.4	$101.8	$105.0	$107.4
Surplus/(Deficit)	**($2.6)**	**$0.1**	**($1.5)**	**($2.6)**	**($4.3)**	**($5.3)**

The following pages detail this projection's underlying assumptions, but the summary explanation for the projected deficits is a familiar one for Reading and other Pennsylvania cities. The City's spending on operations, debt, and pensions grows faster than the revenues available to fund those expenditures unless the City takes corrective action to increase revenues and curb the growth in expenditures.

While the City will need to take meaningful action to avoid the operating deficits in the baseline, we have confidence this is possible for two reasons:

- ***The City has demonstrated willingness and ability to take necessary corrective actions needed to avoid deficits.***

  The City has consistently outperformed the results in prior baseline projections by taking the corrective measures necessary to avoid large deficits and adopt budgets with much smaller uses of reserves to cover operating costs. After budgets were adopted, the City outperformed those projections and consistently produced operating surpluses, instead of deficits. The table below shows the City's actual financial performance relative to the baseline projection and its own budgets.[4]

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Original Recovery Plan				Amended Recovery Plan					Exit Plan		
Baseline projection	($14.3)	($16.6)	($19.0)	($21.4)	($3.1)	($8.8)	($11.3)	($13.1)	($14.8)	($2.9)	($2.9)	($3.5)
Annual budget	$0.0	$0.0	$1.0	$0.9	($0.2)	($1.0)	($0.9)	($1.1)	($2.3)	$0.0	$0.0	($2.6)
Audited result	**$8.1**	**($4.3)**	**$5.3**	**$3.0**	**$6.5**	**($0.6)**	**$3.9**	**($2.0)**	**$1.1**	**$2.4**	**--**	**--**

[4] As described above, the apparent deficits in 2012, 2016 and 2018 were due to the City paying some of its debt ahead of schedule and using portions of its fund balance to fund capital projects. Absent those strategic investments, the City had operating surpluses in those years, too.

- ***The baseline projection does not account for the potential use of "revenue replacement" funding provided by the American Rescue Plan Act of 2021 (ARPA)***

The City received the first half of its $61.1 million ARPA allocation in 2021 and will receive the second half later this year. Under the final U.S. Treasury guidelines, the City can likely use most, if not all, of its ARPA allocation for revenue replacement, the most flexible category of potential uses that includes covering operating expenditures. Revenue replacement dollars will be available to cover any operating deficits in 2022, 2023, or 2024, though we caution against leaning too heavily on that source since it is finite. The use of one-time solutions to temporarily address structural problems is one of the reasons that the City fell into oversight in 2009.

In addition to its history of operating surpluses and the ARPA funding, the City has more options available to close its deficit than other Pennsylvania municipalities. Those options are described in more detail below, however as there are no free and easy ways to boost the City's revenue by millions of dollars on a recurring basis, each option comes with a tradeoff. The City should have ample time to discuss those options to avoid the deficits shown in the baseline projection, starting with the 2023 budget this fall.

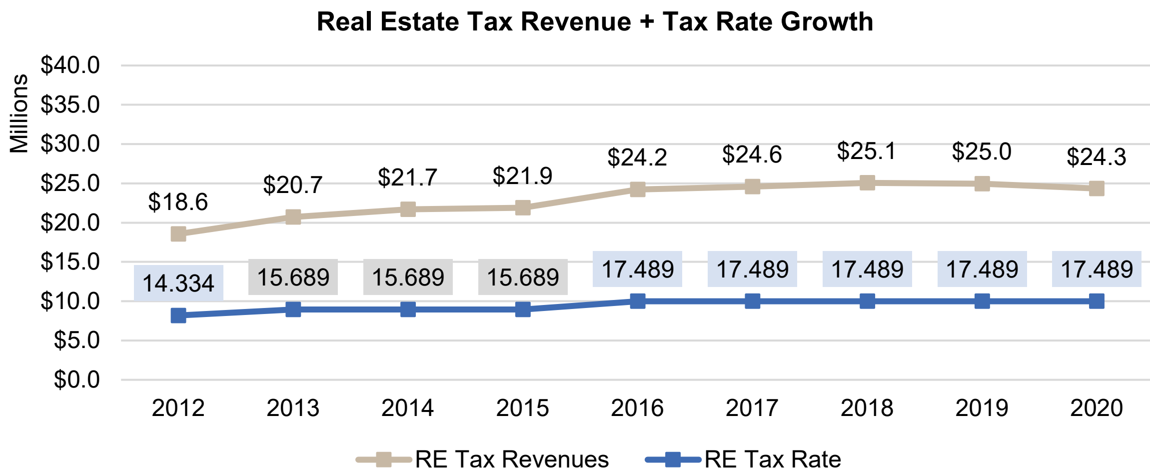
Revenue assumptions

Like most Pennsylvania communities, the City of Reading has two primary sources of revenue – the real estate tax and earned income tax (EIT). The City now also draws substantial revenue from its real estate transfer tax and interfund water system transfers under the lease agreement with the Reading Area Water Authority (RAWA). The table below shows the baseline projection for the City's General Fund revenues through 2027.

Baseline General Fund Revenue Projection ($ Millions)

	2022 Budget	2023 Projected	2024 Projected	2025 Projected	2026 Projected	2027 Projected	CAGR
Real Estate Tax	25.6	25.6	25.6	25.6	25.6	25.6	0.0%
Earned Income Tax	21.0	21.6	22.3	22.9	23.6	24.3	3.0%
Act 511 taxes	8.8	9.1	9.4	9.8	10.1	10.5	3.5%
Charges for services	6.9	7.1	7.1	7.1	7.1	7.2	0.1%
Licenses, permits and fees	5.2	5.2	5.3	5.4	5.5	5.6	1.7%
Intergovernmental	5.0	7.0	7.1	7.1	7.2	7.2	0.7%
Rentals and interest	2.2	2.2	2.2	2.2	2.2	2.2	0.0%
Transfers - Water	10.4	10.8	10.9	11.1	11.2	11.4	1.5%
Transfers - Sewer	3.0	3.0	3.0	3.0	3.0	3.0	0.0%
Employee health contributions	1.8	2.0	2.0	2.0	2.1	2.1	1.1%
Other revenues	2.9	2.9	2.9	2.9	3.0	3.0	0.9%
Total Revenue	**$92.8**	**$96.6**	**$97.9**	**$99.3**	**$100.7**	**$102.1**	**1.4%**

The City's largest revenue source is its **real estate tax.** The 2022 budget projects $25.6 million in current and delinquent tax revenue, or 27.6 percent of the total General Fund revenue target. Real estate tax revenues grew by 3.4 percent each year from 2012 to 2020, mostly due to tax rate increases.



The five-year projection does not assume any increases in the tax rate, tax base, or collection rate, though it is very likely the City will need a tax increase before 2027. The City's has had three real estate tax increases since 2012 that translated to a 2.7 percent average annual increase. City leadership should be prepared to make similar adjustments going forward.

The **earned income tax** is the City's second largest revenue source, representing 22.6 percent of the total 2022 General Fund budget. Prior to the pandemic, resident EIT revenues had very robust growth that helped offset stagnation in other revenues. EIT revenue growth was slowing before the pandemic hit and then dropped to a negative in 2020. The table below shows the year-to-year growth in total EIT revenues across the General Fund and Capital Project Fund on a cash basis.[5]

	2017	2018	2019	2020	2021
Resident EIT	8.6%	5.1%	4.9%	-3.3%	3.4%
Commuter EIT	3.4%	2.0%	0.4%	-4.3%	3.7%
Total	**6.5%**	**5.0%**	**4.7%**	**-4.3%**	**3.4%**

The City received $21.7 million in General Fund EIT in the last full year before the pandemic. Revenues dropped to $20.6 million in 2020 and the 2022 budget anticipates they will rebound to $21.0 million. The baseline projection assumes resident EIT revenues return close to pre-pandemic levels in 2023 and then grow at 3.0 percent. The baseline does not assume that the City will change how the resident EIT is allocated (0.3 percent to Capital Project Fund, the rest to the General Fund), though the City as a Home Rule Community has flexibility to change that allocation.

The commuter EIT that generated $3.3 million on a cash basis in 2021 will drop to $0 once the City leaves Act 47 oversight and loses authority to levy that tax. All commuter EIT revenue flows to the Capital Project Fund, so losing the commuter EIT will not directly impact operations.

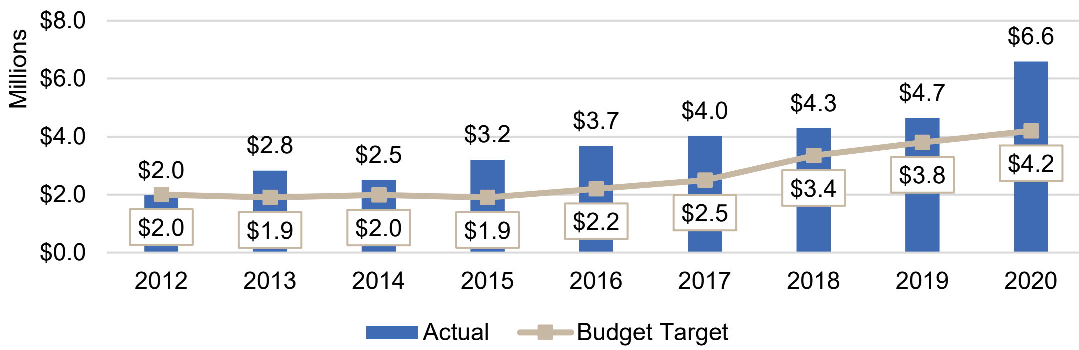
The third largest source of revenue is **RAWA's payment to the City** to lease the water filtration and distribution system, which is recorded as an interfund transfer. The 2022 budget shows $10.4 million, which appears to be an error.[6] We have adjusted for that error and assume the 1.5 percent annual growth rate in the current contract carries forward. The City could do better than the baseline projection because the City and RAWA will negotiate new terms for the lease agreement later this year.

[5] The City budgets on a modified accrual basis but the third-party collector provides receipts on a cash basis that allow for more precise analysis.
[6] $10.4 million is the lease payment for 2021 carried forward in 2022. Under the terms of the lease agreement, RAWA's payment to the City should increase by 1.5 percent per year, which would be $10.6 million in 2022.

Other major revenue assumptions include:

- Revenues from **other Act 511 taxes** are generated by the real estate transfer tax, business privilege tax, per capita tax, and local services tax. The growth across this category is 3.5 percent per year, primarily from the transfer tax which had dramatic growth since the pandemic began. The 2022 budget target ($5.5 million) is conservative considering recent performance. The baseline projection uses 2022 as a starting point and applies the historical 5.0 percent growth rate used before the rapid growth in 2020. While the exceptionally strong performance here has helped offset the loss of revenue elsewhere, there is a risk to becoming overly dependent on a revenue source that can fluctuate from year to year and may be temporarily driven by unusual circumstances related to the pandemic. As recommended in the Exit Plan, the City should consider setting aside large increases in this revenue for use on one-time priorities like improving the City's housing stock.

Real Estate Transfer Tax Revenues
Budget Target vs. Actual Collections
2012 – 2020



- The largest items in **charges for service** were either flat ($1.7 million per year for water meter surcharge revenues) or fell during the pandemic. The 2022 budget target for several items in this category, such as the EMS transport charges, the admissions tax, and rental housing inspections, are lower than before 2020. The baseline projection assumes that revenues from the admissions tax on events held at the major sports and recreation facilities rebound to pre-pandemic levels in 2023 and holds the other items flat.

- The largest item in **intergovernmental revenues** is the Commonwealth pension aid, which dropped the last two years. The amount of aid that the City receives is based on its headcount and the unit aid value tied to receipts from a Commonwealth tax on out-of-state insurance policies. We hold this item flat since the baseline projection does not assume any changes in headcount and the unit aid value has dropped the last two years. The City budgeted -$1.1 million for its prescription drug reimbursement in 2022. We return that to historical levels (+$900,000) in 2023 and other items are held flat or grown at inflation since they are reimbursements based on costs.

The baseline does not assume any changes in the City **transfer from the Sewer Fund** to the General Fund, which is currently capped at $3.0 million by a federal consent decree. The baseline also does not assume any changes in the $1.8 million annual payment from the **Reading Parking Authority (RPA),** though the multi-year agreement will expire before 2027 and can be renegotiated by the parties.

Expenditure assumptions

Like other Pennsylvania municipalities, the City spends most of its budget on its employees who belong to one of four collective bargaining units – the Fraternal Order of Police, Lodge 9; the International Association of Fire Fighters, Local 1803; AFSCME 2763; and AFSCME 3799. The terms of compensation for those employees are set by collective bargaining agreements that expire at the end of 2022.

The 2022 budget allocates $68.4 million, or 72 percent of the General Fund total, for employee salaries, benefits, and the City's contribution to the three employee pension plans. The table below shows the General Fund expenditures in the baseline projection.

Baseline General Fund Expenditure Projection ($ Millions)

	2022 Budget	2023 Projected	2024 Projected	2025 Projected	2026 Projected	2027 Projected	CAGR
Salaries	31.2	32.3	33.5	34.7	35.9	37.2	3.6%
Overtime	3.4	3.5	3.6	3.7	3.9	4.0	3.5%
Premium pay	1.6	1.6	1.7	1.7	1.8	1.8	3.5%
Pension	17.2	16.2	16.3	15.9	16.0	15.2	-1.6%
Fringe benefits	12.6	13.6	14.7	15.9	17.1	18.5	8.0%
Other personnel	2.4	2.5	2.5	2.6	2.7	2.8	2.8%
Utilities, supplies & maintenance	5.4	5.5	5.6	5.6	5.7	5.8	1.5%
Contracted services	4.5	4.5	4.6	4.8	4.9	5.0	2.4%
Other expenses	3.3	3.3	3.4	3.5	3.6	3.6	2.2%
Transfers	2.3	2.3	2.3	2.3	2.3	2.3	0.0%
Debt service	11.5	11.2	11.2	11.2	11.2	11.2	0.0%
Total Expenditures	**$95.3**	**$96.5**	**$99.4**	**$101.8**	**$105.0**	**$107.4**	**2.7%**

One of the biggest challenges for Reading's leaders after leaving oversight will be containing personnel costs without the cost control provisions in the Recovery Plans, and instead setting costs by collective bargaining and (when necessary) interest arbitration outside of Act 47. The City will gain more flexibility to increase its headcount, but it will not have total compensation growth caps that the Recovery Plans provided. The City and the collective bargaining units will have more discretion and more responsibility to manage total costs outside of oversight.

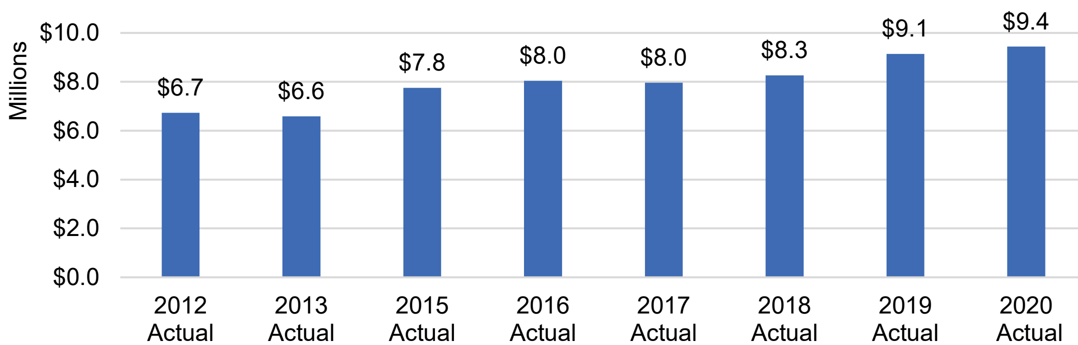
The baseline projection has the following major expenditure assumptions while acknowledging that the actual terms of compensation could differ:

- **Salaries and wages** account for about one-third of the total General Fund budget. The City has budgeted $31.2 million for this category in 2022. The baseline projection does not assume any changes in headcount. The last round of collective bargaining resulted in base salary increases of 3.5 to 4.5 percent in 2022 and the baseline assumes 3.5 percent annual increases, though that is subject to collective bargaining for most City employees. Other items that are indexed to salaries, like holiday pay and payroll taxes, also grow by 3.5 percent.

- The City's contributions to the three **employee pension plans** are the next largest category of expenditures. The General Fund will contribute $17.2 million to the three plans (mostly police and fire) in 2022 and other funds will contribution another $1.4 million toward the cost of pension benefits for current and former employees in the enterprise (i.e. utility) funds. The City's actuary has provided estimates for the City's Minimum Municipal Obligations (MMOs) to the pension plans, and we incorporated them in the baseline projection, while accounting for the Officers and Employee Pension Plan costs being split between multiple funds.

- **Fringe benefits** are the City's next largest personnel cost. The City provides health insurance benefits to active employees ($8.0 million budgeted in the General Fund in 2022) and retired employees ($4.6 million budgeted in the General Fund for 2022). Under the 2019 Exit Plan, the City contributes a specific maximum amount per employee based on their coverage level (i.e. single, employee + 1, family). That maximum amount is the same regardless of which plan the employee chooses (i.e. Preferred, Preferred Plus) and grows annually by a set amount, usually 5 percent. If the cost of health insurance grows by more than 5 percent, the employee has the choice to either pay the difference via higher employee contributions or choose a different, lower cost medical plan. This provision has provided the City with stability in a large expenditure that could otherwise be subject to large fluctuations because the City is self-insured. Active employee benefit spending grew by 4.3 percent from 2012 through 2020 and 3.8 percent from 2015 through 2020.

Active vs. Retired Employees' Fringe Benefit Costs, 2012 – 2022[7]



The baseline projection starts with $8.0 million budgeted in 2022, which includes $1.5 million in anticipated savings from a new prescription drug program. The baseline then assumes eight percent annual growth in employee premium costs, 5 percent of which is covered by the City and 3 percent of which is covered by the employee through higher contributions (recorded as revenues). Like salaries, this provision will be subject to negotiations in upcoming collective bargaining.

- The City's projected **debt service** is based on the debt schedule discussed earlier under Factor 3 of the exit criteria.

- The next largest non-personnel cost is **contracted services**, covering many of the arrangements where the City pays another organization to provide services under an agreement. Except for the City's contribution to the Reading Recreation Commission (held flat) and spending on outside labor counsel (reduced after collective bargaining cycle ends), the baseline projection assumes that contracted services grow by an annual inflationary rate of 2.7 percent.

The baseline projection shows a balanced budget for 2023, small deficits in 2024 and 2025, and larger deficits after that. The deficits in the baseline projection underscore the challenge that the City has faced and will continue to face for years. There is a fundamental imbalance between revenue growth and expenditure growth for Pennsylvania local governments

But Reading does not need to approach this mismatch with fear or fatalism.

The City is in a much stronger position than when it entered Act 47 oversight. The deficits in this baseline projection are smaller than those in the 2010, 2014 and 2019 Recovery Plans (see table at the bottom of page 7). There are options to address the deficits in the later years of this projection. The City has sufficient reserves and federal funding.

Most importantly, the baseline projection assumes no corrective action is taken to close the deficits, and the City has repeatedly shown that it can and will take the corrective action needed to balance its budget.

[7] The City's financial data for 2014 does not separate active employee fringe benefit expenditures from retiree health benefit costs, so results from 2014 were not included in this graph.

In response to the fourth and final criteria for exiting oversight, *the reasonably projected revenues of the City of Reading will be sufficient to fund ongoing necessary expenditures, including pension and debt obligations and the continuation of provision of municipal services, if the City still follows the principles and uses the tools applied during oversight.*

The last section describes some of those key principles.

Principles for sustained recovery

Principle 1: Use recurring revenues to pay for recurring costs and non-recurring revenues to pay for non-recurring costs.

One warning sign that a municipality is slipping closer to financial distress is an increasing reliance on non-recurring, temporary fixes to recurring, structural problems. Before entering Act 47 oversight in 2009, the City used asset sales, excessive transfers from its utility funds, and one-time payments from the Reading Parking Authority to temporarily sustain operations.

Those solutions only provided short-term relief and did not prevent the City from dropping into oversight. Reliance on temporary solutions also made the changes needed to wrench City finances back into balance more painful.

The City has not depended heavily on one-time solutions to balance its budget for the last decade, even in the early years of the pandemic. When revenues were higher than expected, the City did not increase spending to match those revenues and hope the robust revenue collections would continue indefinitely. Instead, the City built its reserves and then used some of them to pay debt ahead of schedule, fund capital projects, and establish an Other Post-Employment Benefit Trust Fund.

This principle is straightforward, but not always easy to follow. There will always be temptation to use near-term resources to address long-term needs, and some of those temptations are already here.

In early 2022, the City applied for a federal grant under the Staffing for Adequate Fire and Emergency Response (SAFER) program. If awarded, the SAFER grant would provide funding to add up to a dozen new firefighters for three years. Applying for that grant to increase fire department staffing is a reasonable move, but the City should identify a recurring source of revenue to fund those positions after the grant expires. To Mayor Moran and City Council's credit, they are already having those discussions.

Another temptation to fix structural problems with temporary solutions is the federal stimulus money awarded under ARPA.

Using American Rescue Plan Act funding

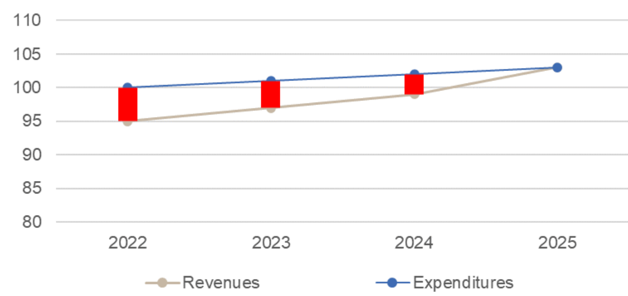
The American Rescue Plan Act (ARPA) of 2021 established the State and Local Fiscal Recovery Funds (SLFRF) program to provide communities with an influx of cash to respond and recover from the pandemic. The City of Reading was allocated $61.1 million in federal dollars through this program, and the U.S. Department of Treasury has released guidance on how these funds can be used. The Final Rule, the program's governing document, lays out four broad categories:

1) Public health emergency response, including addressing economic impacts
2) Premium pay to eligible workers
3) Revenue replacement
4) Investments in water, sewer, and broadband

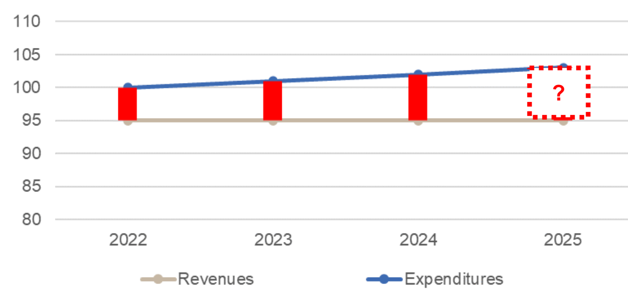
Revenue replacement allows municipalities to take a standard allowance of up to $10 million of their total award or calculate the amount of revenue lost due to the pandemic and use that for operating or capital expenses.

Reading will likely be able to use all its ARPA allocation for revenue replacement and it is not unreasonable to use some of that money to cover a small operating deficit, especially for revenues that were depressed by the pandemic and have a realistic chance of rebounding. But there are prudent ways to use revenue replacement, such as on a fixed or declining basis (see Graph A below), and there are risky ways that create a fiscal cliff when ARPA ends (see Graph B below).

Graph A
Declining Revenue Replacement Usage



Graph B
Increasing Revenue Replacement Usage



A much better use of this unique, large influx of cash is to make strategic investments that improve Reading for years after ARPA is over. The Moran Administration and City Council are developing a strategic plan to use ARPA funding with this kind of long-term investment in mind. The Mayor has hosted several public engagement sessions to share the Administration's thoughts and solicit feedback from residents and businessowners. The City also enlisted the assistance of an external accounting firm to monitor the Treasury's reporting guidance and assist City staff with submitting timely and accurate quarterly reports as required by the Act. To date, the largest allocations have gone to publicly owned regional assets, like Santander Arena and FirstEnergy Stadium.

In addition to continuous monitoring, the City's management approach for ARPA should include consistent community engagement and regular progress reporting. Several of the projects discussed during ARPA engagement meetings have the potential to become legacy projects that help the community through the pandemic and beyond.

Several cities have elected to publish a dashboard on their website to show how funds have been allocated and the progress made towards project completion. While this may be an additional administrative task for City staff, such a site could promote transparency and generate more informed community input for future projects. In addition, the platform could be used to communicate the overall ARPA strategy and improve accountability in completing projects efficiently.

Route to recurring revenues

The robust growth in resident EIT revenue before the pandemic was an important factor in Reading's financial turnaround. Annual growth of 4.5 percent or more in those revenues offset the flat or declining trends in other revenues. There is no guarantee that resident EIT revenue growth will return to those levels coming out of the pandemic, and there were signs that growth was slowing even before COVID-19.

So, the City will have to take other actions to ensure annual revenue growth.

Ideally real estate tax revenues will rise when the assessed value of taxable property increases, but the City cannot control the timing or volume of private construction or reassessment. If the real estate tax base does not grow, then the City should have small, periodic rate increases to ensure that its largest operating revenue does not stagnate.

The first four years of oversight had two real estate tax increases and a resident EIT increase. Coupled with employee wage freezes, benefit restructuring, and headcount reductions, the City was able to avoid insolvency. The City has not needed frequent real estate tax increases since 2013 and the compound annual growth rate for the real estate tax during oversight (2009 through 2022) was 3.2 percent. The City has successfully stabilized its tax rate growth, which was referenced as a component of true, full financial recovery in the 2014 Amended Recovery Plan.

Real Estate Tax and Earned Income Tax Rate Growth
2009 – 2022

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2009-22 CAGR
Real estate tax (GF + Shade Tree)	11.945	11.945	**14.334**	14.334	**15.689**	15.689	15.689	**17.489**	17.489	17.489	17.489	17.489	**17.929**	17.929	N/A
% change		0.0%	**20.0%**	0.0%	**9.5%**	0.0%	0.0%	**11.5%**	0.0%	0.0%	0.0%	0.0%	**2.5%**	0.0%	3.2%
Resident EIT (GF + Capital)	1.7%	**2.1%**	2.1%	**1.9%**	**2.1%**	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	N/A
% change		**23.5%**	0.0%	**-9.5%**	**10.5%**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.6%

City leadership should be prepared to increase real estate tax rates at least once over the projection period and potentially more than that if the increases are small.

The City should also ensure that the next lease agreement with RAWA provides automatic annual increases. The current agreement increases the lease payment by 1.5 percent[8] per year and, while that is below inflation, the compounding value has helped the City balance its budget. The City cannot increase the transfer from the sewer system that is capped by the federal consent decree, but that should also be adjusted once the City gains that flexibility.

The best way to ensure that the City does not become overly reliant on non-recurring solutions to recurring problems is to take a multi-year perspective when making financial decisions. That is the next principle.

Principle 2: Use a multi-year perspective to make important financial decisions

Multi-year (or long-term) financial planning is a best practice recognized by the Government Finance Officers Association (GFOA). The GFOA explains[9]:

> *Long-term financial planning combines financial forecasting with strategizing. It is a highly collaborative process that considers future scenarios and helps governments navigate challenges. Long-term financial planning works best as part of an overall strategic plan…*
>
> ***Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability in light of the government's service objectives and financial challenges*** *(emphasis added).*

GFOA describes a sophisticated multi-year planning process, but a simpler version will help the City anticipate financial challenges; identify and quantify options to address those challenges; and take action accordingly.

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[9] GFOA best practice available online at https://www.gfoa.org/long-term-financial-planning-0.

The Reading Home Rule Charter requires the Managing Director to “prepare and submit to the Mayor on an annual basis a five-year financial plan.” In its role as Recovery Coordinator, PFM has led the City’s multi-year projection process. The Administration and Council have used that projection to guide their decisions and should continue to do so especially at the following junctures:

- Before issuing debt
- During collective bargaining (see Principle 3 below)
- During preparation of the next year’s fiscal budget (September or October)

Most major decisions on hiring or tax/fee rates occur during the budget process, but the City should also use the multi-year projection when making big decisions off budget cycle (e.g., the current SAFER grant process, during the RAWA lease negotiation).

The City should continue to use this important tool and process, internally or with external support. In the latter case, the City should use the Commonwealth’s Strategic Management Planning (STMP) program to fund a portion of the costs associated with this work.

Principle 3: Evaluate the cost of collective bargaining proposals before agreeing to them

Like other Pennsylvania municipalities, the City spends most of its budget on its employees and most of its employees are in one of four collective bargaining units. The terms of compensation for those employees are set by collective bargaining agreements that expire at the end of 2022, so the upcoming round of collective bargaining is central to the City’s future financial performance.

The last two rounds of bargaining followed the statutory process in Act 47 in which the Coordinator provided maximum annual allocations that the City could spend on total compensation for all employees in each union, similar to a salary cap but also including the City’s share of employee fringe benefit costs. The City and unions traded proposals; the parties estimated the cost of those proposals or asked the Coordinator to do so; the parties reached agreement on a package of changes; and then the Coordinator reviewed the package to confirm it complied with the Recovery Plan caps.

The upcoming round of collective bargaining will occur outside of Act 47, so there will not be Coordinator-established maximum annual allocations that govern collective bargaining. Nevertheless, it is critical that the parties continue the practice of costing proposals and discussing those estimates during bargaining. This will prevent both sides from over- or understating the cost of proposed changes. The analysis can reveal small changes that would make a proposal affordable within the context of the City’s overall financial picture. The analysis also will help the City update its multi-year financial projection (see Principle 2) and budget allocations.

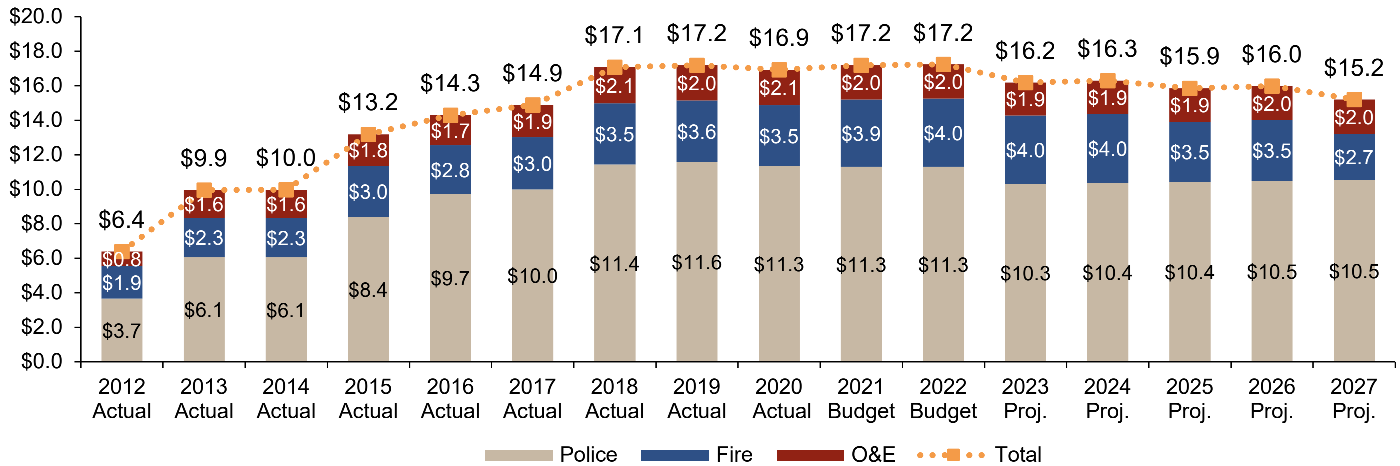
Avoid pension and OPEB enhancements

After salaries and wages, the City’s next largest expense is its Minimum Municipal Obligation (MMO) payments to the three employee pension plans. From 2012 to 2018, the General Fund share of the MMOs nearly tripled, mainly due to the very costly police pension plan benefit increases negotiated in 2007.[10]

[10] We have written extensively about these changes that included increasing the maximum pension benefit calculation for officers hired before 2012 and allowing those officers to purchase five years of military time plus five years of “ghost time.” The practical consequence of those changes is that police officers hired before 2012 could work 10 years, purchase another 10 years of service time and then retire with a 60 percent pension in their late 30s or early 40s that lasts for decades. In return those officers contribute 6.5 percent of base salary plus $1 per month instead of the 5 percent in the Third Class City standard. These benefits are not available to police officers hired after 2012. Please see pages 58-64 in the 2014 Recovery Plan for more information.

Based on the actuary's most recent calculations, the General Fund's pension contribution will drop from $17.2 million in 2022 to an estimated $16.2 million in 2023 and then could potentially decline further to $15.2 million in 2027. The estimated pension contributions beyond 2024 are very preliminary since the actual contributions will be based on future actuarial calculations that account for factors like investment performance, experience loss or gains, and changes in headcount.

General Fund Share of Pension MMOs ($ Millions)



While the rapid MMO growth of 2012 through 2018 has given way to more stability in recent years, the City's contributions have stabilized at a high amount. The future drop in MMOs is also projected, and not guaranteed. The actuarial projections in the 2019 Exit Plan also showed the General Fund pension contribution dropping to $15.8 million in 2022. The City's actual 2022 contributions will be $1.4 million higher than that.

In addition to the pension liabilities, the City has a $66.4 million unfunded liability for other post-employment benefits (OPEB), which is mostly retired employee health insurance. The City is not legally obligated to prefund the OPEB liability, like it does the pension plans. But the liability translates to more than $4 million in spending on retired employee health insurance claims each year. The City used $1 million to establish an OPEB Trust fund several years ago and should consider using a portion of its fund balance as another contribution (see Principle 7).

Since 2010, the Recovery Plans have prohibited any enhancements in pension or retiree health insurance benefits. While that prohibition ends when oversight does, the City and unions should resist temptation to reverse the measures that halted the rampant growth in these liabilities and provided room for more regular, significant base salary increases in recent years. This includes:

- Keeping pension benefits at the levels in Pennsylvania's Third Class City code for police officers hired after January 1, 2012 and firefighters hired after January 1, 2011.
- Using the recently established defined contribution plan for new civilian employees.
- Not increasing pension or retiree health insurance benefits for employees who have already retired.
- Requiring that retirees have the same employee cost sharing structure as current employees.

Principle 4: Fill vacancies in key management positions

One reason the City did not exit oversight in 2019 was that it had several vacancies in key management positions in Administrative Services (i.e. Finance, HR and IT) and Community Development. The 2019 Exit Plan identified four key positions related to financial management and four related to community and economic development (see table to the right). Most of those positions are currently filled, and not by employees with multiple titles or an acting basis. The Director of Administrative Services and Controller (i.e. Deputy Director) have been in place for a while. There has been frequent turnover in the Accounting and Treasury Manager position, but the City has filled that vacancy in a timely manner and used the Coordinator to bring the new hires up to speed on the budget.

Position	Early 2019	Early 2022
Managing Director	Filled	Filled on an Interim Basis
Director of Admin Services	Filled on an Interim Basis	Filled
Controller (Dep. Finance Director)	Open	Filled
Accounting & Treasury Manager	Open	Filled
Community Development Director	Filled on an Interim Basis	Filled
Chief Building Officer	Open	Open
Codes Manager	Filled on an Interim Basis	Filled
Planning Manager	Open	Filled

Filling these vacancies is not just a matter of "checking a box" or filling the blanks in an organizational chart. The City needs qualified candidates who can manage day-to-day operations and make sustained progress on strategic initiatives.

The City also needs stability in its most senior positions. Reading has had five different Managing Directors since September 2018. While each brought talent and energy to the position, this degree of turnover in the organization's most senor administrative position makes it hard to address issues that require a coordinated, focused response over several years. If nothing else, it takes time for each new arrival to get up the learning curve on the challenging issues and wide range of duties associated with that position.

The Moran Administration is aware of these challenges and has been filling vacancies as they occur, first on an acting basis and then eventually on a permanent basis. The Exit Plan's caps on maximum compensation limited the City's flexibility on starting salaries, but soon that will not be an obstacle. The City has changed the residency requirement for some positions and may remove the requirement that the Public Works Director be a professional civil engineer[11]. Doing so would provide more flexibility to fill that vacancy, which is a high priority considering the next principle.

Principle 5: Add capacity to execute capital projects

Prior to entering oversight, the City did not have a meaningful capital budget. While the 2010 Recovery Plan prioritized General Fund stabilization, the 2014 Amended Recovery Plan required the City to shift a growing portion of the resident and commuter EIT revenues to a separate Capital Project Fund where the City can invest in the facilities, parks and other infrastructure that residents, visitors and employees use every day.
The 2020 audit reported a total of $9.9 million in restricted funds in the City's Capital Projects fund, mostly comprised of unspent tax revenues. The fund also has $6.9 million in committed funds for street paving ($1.5 million), facility construction ($4.4 million), and housing improvements ($1.0 million). The City will lose

[11] Other senior staff in the Public Works Department currently have this certification and the Department Director should be focused on the other duties related to running this large operation.

the commuter EIT when oversight ends, but the resident EIT devoted to capital will continue and should remain at some level indefinitely. The capital EIT will be temporarily supplemented by the federal stimulus aid provided through ARPA.

The Reading City Charter requires that Council adopt an annual capital budget reflective of the projects and timeline defined in an overarching Capital Improvement Plan (CIP). The CIP covers three to five years of projects at a summary level, and the capital budget describes the projects for the current fiscal year in more detail.

The 2022 CIP budgets $18.0 million for capital projects funded by the City's Capital Fund, which is $7.5 million (or 52.2 percent) more than budgeted for 2021. For reference, the City budgeted $13.8 million and spent $4.25 million (31.0 percent) in 2020 and budgeted $11.5 million and spent $4.5 million in 2021 (or 39.3).

Developing and executing a sound Capital Improvement Plan is critical to the long-term financial health of a community. The CIP is a spending roadmap for maintaining and improving critical infrastructure. While circumstances and priorities change, a multi-year CIP should ensure that progress is made in multiple areas over time. In addition, the CIP provides City leaders with a yardstick for measuring progress made on its capital needs each year.

The City has made progress in determining where to spend its capital dollars. With DCED grant funding, the City completed a facility condition assessment in 2018 that identified the major repair and replacement needs at most City-owned facilities. Though the assessment did not include the City's capital needs beyond City-owned buildings and facilities, it identified priorities over an 11-year time frame and provided a starting point to develop a multi-year Capital Improvement Plan. The City should update that assessment in the next year or two.

The Coordinator has provided recommendations to improve the content and format of Reading's CIP and written the first set of CIP progress reports for City Council and the public at-large. Just as the City has improved its operating budget, it should improve the capital budget so that it lays out short- and long-term goals that explain the timing and prioritization of the selected projects.

The priority now is project execution and progress monitoring. As mentioned in the Exit Plan:

Capital project execution is complicated and time-consuming, particularly when the project involves funding from multiple sources; oversight of design or engineering work, including the associated procurement process; and oversight of construction work, and its associated procurement process. So the [Exit Plan] creates and funds a new Capital Project Manager position, and it requires more regular and more meaningful progress reports for a section of the budget that is now larger than the operating budget for every department except Police.[12]

The Public Works Department needs a full-time director and at least one Capital Project Manager, as described in the Exit Plan. Those two positions are currently filled on an interim basis. With APRA bringing more dollars and a limited time to spend them, the City should consider adding more full-time staff focused on managing and executing capital projects, at least until ARPA ends.

Principle 6: Adopt and follow a debt policy to guide future issuance and refinancing decisions

Since entering oversight in late 2009, the City has not issued much new debt to fund projects other than those associated with the sewer system. General Obligation debt has been limited to refunding the loans and bank notes that the City had before entering oversight. Between the federal ARPA funding and unspent capital project EIT money, the City may not need to issue much new debt in the next couple years. But

[12] Act 47 Exit Plan, page 5.

eventually the City can and should issue debt to pay for large capital projects where the asset built or acquired has a long useful life. When done responsibly, debt-funded capital projects create intergenerational equity, meaning the residents who benefit from the completed project in the future also contribute toward paying for its costs.

Initiative CP07 of the Exit Plan directs the City to adopt a debt policy to guide decisions on the timing, amount ,and amortization schedule for future debt and to help evaluate refinancing opportunities. The City is currently working with its debt advisory firm on a draft policy that should be introduced and adopted by City Council. Like the policies that Council adopted relative to minimum fund balance and interfund transfers, this will formalize some of the direction provided during oversight and help City leaders decide when to guarantee debt issued by related organizations.

Principle 7: Maintain reserves at an adequate level and then direct the rest to strategic priorities

One of the strongest arguments for Reading's readiness to leave oversight is that the City has built and maintained financial reserves.

When Reading entered oversight, its General Fund balance in 2009 was -$6.5 million. The consequences of having no financial reserves were tangible in 2010 when the City was in danger of running out of cash to fund operations and had no means to retire past due obligations to the Sewer Fund and employee pension plans.

After more than a decade in oversight, the 2020 audit shows a $35.0 million General Fund balance, most of which ($30.7 million) is unassigned. The City wisely adopted a minimum fund balance policy requiring a minimum of 20 percent of regular General Fund operating expenditures or $22 million, whichever is higher, and the City has remained in compliance with this policy.

That reserve helps the City pay its obligations early in the year before tax revenues arrive, without having to issue Tax Revenue Anticipation Notes and pay interest on borrowed money to fund basic operations early in the year. Fund balance 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.

While it is important to comply with the minimum fund balance policy – and the reader should note that the threshold set by that policy is a *minimum target* – it is also good stewardship for the City to periodically review its reserves and determine if some should be directed to strategic priorities. In prior years the City has used portions of its fund balance to retire debt ahead of schedule; establish an OPEB Trust Fund; and to fund capital projects.

Unassigned and Assigned Fund Balance[13]

	2015	2016	2017	2018	2019	2020
Next year budget appropriations	$957,000	$850,000	$1,250,000	$2,300,000	$300,000	$2,255,138
Other post-employment benefits	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$0	$0
Street paving/Liquid Fuels	$0	$1,500,000	$1,500,000	$0	$0	$0
Capital projects - Fire Station	$0	$2,000,000	$4,400,000	$0	$0	$0
City housing improvements	$0	$0	$1,000,000	$1,000,000	$0	$0
Demolition	$0	$0	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Property acquisition (for fire station)	$0	$0	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Early debt retirement	$6,570,000	$0	$0	$0	$0	$0
Assigned GF Balance	***$8,527,000***	***$5,350,000***	***$11,150,000***	***$6,300,000***	***$2,300,000***	***$4,255,138***
Unassigned GF balance	***$21,508,604***	***$24,202,454***	***$22,266,397***	***$25,073,682***	***$30,231,430***	***$30,655,239***
Unrestricted GF balance	**$30,035,604**	**$29,552,454**	**$33,416,397**	**$31,373,682**	**$32,531,430**	**$34,959,742**

The first principle for sustained financial recovery is relevant again here. The City should use non-recurring resources for non-recurring needs. Since prior year reserves are not a recurring source of revenue, as much as possible, the City should avoid using them to cover recurring costs.

Instead, the City should review the amount in its unassigned General Fund balance once the 2021 audit is farther along and decide whether to use part of it as an additional contribution to the employee pension plans, another contribution to the OPEB Trust fund, an initial contribution to stabilization fund for insurance claims,[14] or another strategic priority.

Closing

When Reading entered fiscal oversight in 2010, the situation was dire and the mood was tense in City Hall. Against that backdrop, one of Reading's elected leaders described his community as a hidden gem that, if just given the chance, it could shine again.

Twelve years later, the City has had a remarkable fiscal turnaround. It is up to the City's leaders, employees, and stakeholders to work together and ensure that turnaround is ***continual*** **–** that its hard-fought progress is not lost; and that the hard-learned lessons of oversight are not forgotten.

Reading has earned its chance to shine outside of Commonwealth oversight.

We recommend that the Secretary of the Department of Community and Economic Development rescind the City of Reading's status as a distressed municipality under Act 47 of 1987.

[13] The City had $49,365 in committed fund balance in 2020, which is included in the unrestricted total.
[14] The volume and size of insurance claims can vary greatly from year to year since the City is self-insured. The stabilization fund would give the City a reserve to access in years where the claims are larger than expected.

EXHIBIT B

NOTICE

NOTICE IS HEREBY GIVEN that the Commonwealth of Pennsylvania, Department of Community and Economic Development has scheduled a public hearing to receive testimony presented on behalf of the City of Reading, Berks County, Pennsylvania with respect to the recommendation from the Act 47 Coordinator to consider a termination of the City's Act 47 determination pursuant to the Municipalities Financial Recovery Act, Act 47 of 1987 as amended.

The hearing on the request will be held on May 4, 2022 at 5:00 p.m., in Council Chambers of City Hall, 815 Washington Street, Reading, PA 19601, before a hearing officer duly appointed by the Department. The public is invited to attend. Those individuals requiring special accommodations to attend the hearing should contact the Department. For further information contact Fred Chapman, Local Government Policy Specialist, at 717–720 –7396.

EXHIBIT C

COMMONWEALTH OF PENNSYLVANIA

DEPARTMENT COMMUNITY AND ECONOMIC DEVELOPMENT

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IN RE: ACT 47 RESCISSION

ADMINISTRATIVE PUBLIC HEARING

* * * * * * * * *

BEFORE: ANDREW SHEAF, HEARING OFFICER

HEARING: Thursday, May 5, 2022

5:11 p.m.

LOCATION: City Council Chambers

815 Washington Street

Reading, PA 19601

WITNESSES: Eddie Moran, Johanny Cepeda-Freytiz, Marsha Goodman-Hinnershitz, Jamar Kelly, Gordon Mann, Fredrick Chapman, Carol Reily, Maria Rodriguez

Reporter: Brian D. O'Hare

I N D E X

E X H I B I T S

Number	Description	Page Offered
	NONE OFFERED	

P R O C E E D I N G S

HEARING OFFICER: I call to order this Administrative Public Hearing, which is being held pursuant to Section 255.1(a) of the Municipality's Financial Recovery Act, also known as Act 47. The sole purpose of this hearing is to receive evidence and testimony regarding the potential termination of the Reading's status as a financially-distressed municipality. We cannot respond to any questions or challenges at this hearing.

My name is Andrew Sheaf, Local Government Policy Manager for the Department of Community and Economic Development, and I will be serving as the Hearing Officer today. For the record, this hearing was advertised in the Reading Eagle on April 27, 2022. And written notice was provided to the City Clerk, Mayor, Solicitor, Council Members, Controller and Acting City Manager prior to the hearing.

As background for the members of the public with us today, on April 11th, 2022, the Recovery Coordinator for the City of Reading, PFM Group Consulting, LLC, submitted a Final Report in accordance with Section 255 of Act 47. The

Coordinator of this report, reviewed the City of Reading's financial condition, in conjunction with statutory practice listed in Section 255.1(a) of Act 47, which included the City of Reading's status as a distressed municipality should be permanent.

Per Section 255.1(a) of Act 47, the Department if required to hold a public hearing within 30 days of receiving the final Coordinator's report. Once again, the sole purpose of this hearing is receive evidence and testimony regarding potential termination of Reading's status as a financially-distressed municipality.

Individuals representing Reading, Reading's Act 47 Coordinator and the Government's Center for Local Government Services will be presenting evidence and testimony tonight. After the Department has received evidence and testimony from the previously-mentioned parties, I will invite any other interested party in the audience to provide evidence and testimony.

Please note, there is a sign-in sheet that has been circulated to verify attendance at the hearing today. I will ask that all in attendance please sign the sheet, even if you are not providing evidence and testimony. If you change your mind later and do decide you want to provide testimony, please note that all witnesses will be required to be sworn in by the Stenographer prior to testifying.

At this time, I call Mayor Eddie Moran, City of Reading, to the witness stand. We'll have the Stenographer swear everybody in before we start.

COURT REPORTER: Everybody who's going to be testifying, please raise your right hand.

(WHEREUPON, WITNESSES SWORN EN MASSE.)

COURT REPORTER: The witnesses have all been duly sworn.

HEARING OFFICER: Thank you. Please begin.

EDDIE MORAN,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND HAVING PREVIOUSLY BEEN DULY SWORN, TESTIFIED AND SAID AS FOLLOWS:

MR. MORAN: Good afternoon, and welcome to the City of Reading. My name is Eddie Moran and I serve at the Mayor of this great City of

Reading. I would like to first welcome you and also thank you for joining us today in our great City Council Chambers. It is beautiful, right? It is very nice to host visitors once again as we move beyond COVID-19. In fact, just a few days ago, we had the great privilege to host Acting Secretary of DCED, Mr. Neil Weaver on a visit to Reading, kicking off Small Business Week here in the Commonwealth. We did a mobile and walking tour of a cross-section of new and long term small businesses that have found ways to open, survive and thrive despite the many challenges in many years. Some of them included, La Casa del Chimi and the Juice Bar, New Heightz Grocery and the Great American Creamery. We closed out the visit at the American Barber and Beauty Academy, the first of its kind located right here in the City of Reading.

But back to the reason why we are here to visit today, this public hearing on our exit from Act 47 and the end of the label of financial distress, I want to take a moment to single out and thank Gordon Mann from PFM, our Recovery Coordinator for the last decade-plus. He and his team have worked tirelessly to help us stabilize our finances and reframe our work thinking toward bigger and brighter prospects and opportunities for our City. I know he cares deeply about our progress and we appreciate it. Sir, thank you.

I have been honored to serve as the City's Mayor since January 6, 2020, a date that is remembered with some unfortunate events in Washington. As the events occurred in Washington, my team came into office, ready to work and make a difference even as the global pandemic, the likes of which many and most of us have not seen, nor experienced before, began to take hold of our city, state and nation.

Reading, designated a financially-distressed municipality, had overcome years of financial challenges. I quickly learned everything I could not do, due to the restrictions under Act 47, and I say that jokingly, but however, it's a reality when you're a common citizen and see those things. With now two years under my administration, I have been able to fully understand the very necessary recommendation and parameters set by the Act 47 and appreciate the effectiveness of these provisions. Many of them were in the area of labor relations, negotiating terms related to our bargaining agreements and strict controls surrounding our health insurance costs and contributions. The ability to levy the commuter tax was also essential as it gave us the ability to fund capital improvement and deferred maintenance responsibility in a generation or more.

While on this topic, I would like to take a moment to acknowledge how City Council President, whom I know would have loved to be here today, but unfortunately, is unable to meet with us due to health issues, which we keep him lifted in prayer, however, President Councilman Waldman would put me in a headlock if I did not put in a formal request to allow the City of Reading to retain the commuter tax, even after exiting Act 47. While we recognize that this will take an act of the legislature - legislation, we still implore you to lobby for it on our behalf.

Please let the record reflect, a formal request to retain the commuter tax, as it has been very helpful to both the community and the commuters alike. It has helped us support and provide many of our newly-paved streets that include ADA curbs, ramps to those that come into the City to work or live here. It has supported our excellent public teams of police, fire and EMS service.

Let's also not forget the vigilant street sweeping and cleaning from Public Works and there is so much more that still needs to be done, built and fixed. It would be significant for us to retain that revenue to contain and continue making progress on many projects that directly benefits the community.

Reading has been labeled as distressed under the Act 47 program since 2010. As we come out of a global pandemic in 2022, with a stable balance sheet, a healthy fund balance reserved that far exceeds 20 percent of our general fund budget, no deficits within the last five years or more, newfound traction luring developing projects to the city and executing our own capital improvement, I firmly believe that now, more than ever, our City is ready to exit Act 47 with limitless opportunities for success ahead of us. Distress is a thing of the past, folks.

Three years ago, the City adopted an exit plan that our Act 47 Coordinator recommended to the Secretary of the Department of Community and Economic Development to take back the order declaring the City of Reading financially distressed. Following current law, and the secretary should consider four specific factors in making that determination. My Finance Director, Mr. Jamar Kelly, will walk you through those factors, but rest assured, we check those boxes and much more.

For all its advantages, and there are many, I've mentioned tonight and those I have yet to, or else we'd be here well into the night, I can assure you. It should also be noted that there are also some limitations to the Act 47 program, aside from creating a significant new revenue stream and then taking it away, navigating a pandemic that shut down businesses and offices with a requirement of providing municipal services at the same time, if not a higher level, due to some mandates from the Governor, Department of Health and CDC recommendations was not easy, folks.

It does not address the significant increase in unemployment and then a rebound that still finds people shifting careers while leaving the workforce across all industry sectors, both public and private. It doesn't address disagreements between a Mayor and Councilmembers, be they small or unyielding.

However, the Act 47 program and our

Coordinator have forced us to look at the bigger picture issues and craft new policies and procedures around them that are sustainable beyond political headwinds and almost predictable turnovers as people grow and desire to pursue other passions. This process has also helped us prioritizing hiring qualified personnel and consulting support where appropriate to implement the coordinator and plan recommending cost controls and project implementation whether it is working to complete the consent decree for the water - Waste Water Treatment Plant administration and operation, or acting our long dormant CIP, Capital Improvement Plan, which finally has the 9th and Marion Fire Station well under construction with a planned December dedication ceremony for the new facility, something that was advocated by councilmember - former Councilmember Waldman for almost 15 years.

We are also going to finally fix the roof here in City Hall, things that have been talked about for years, if not decades, are finally being accomplished here in the City of Reading. And it is a credit to our diligent, hardworking employees and the expertise of our partners at PFM and DCED. We appreciate you more than you know. Thank you from the bottom of my heart. I speak on behalf of the citizens on that.

As I close, let me assure you that we, as an administration, and council body, remain sober-minded about the challenges ahead after Act 47, while also very optimistic that we would not need to call on you in the near or distant future, for this program at least. We thank you for your support over the 12 past years. We also declare we are ready to exit and stand on our own feet. Thank you.

HEARING OFFICER: Thanks for your testimony. I call Johanny Cepeda-Freytiz, Council Vice President, City of Reading.

JOHANNY CEPEDA-FREYTIZ,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND HAVING PREVIOUSLY BEEN DULY SWORN, TESTIFIED AND SAID AS FOLLOWS:

MS. CEPEDA-FREYTIZ: Good evening and thank you for this opportunity for this hearing and for allowing us all to speak and give our input. Unfortunately, Jeff Waldman, Council President is not with us, but as the Mayor stated, you know, we ask that everyone continue to keep him in prayer for a speedy recovery.

So on his behalf and on Council behalf, the City has reached a pivotal point in time as the DCED prepares to consider removing Reading from the Act 47 program. First, I have to thank the DCED for assigning PFM to guide us through the difficult 13-year process and especially thanking Gordon Mann for all of the work that he did to teach us and at time gave us some tough love, when we were poised to make bad decisions and we will always have his help and guidance.

While we are all relieved that Reading has reached at this point in time, some who have watched the City progress over these 13 years are concerned that this and future administrations will have not retained the valuable lessons the Act 47 process has taught us. As you're starting to see questionable spending decisions and practices to further the exit plan, Mr. Mann has let the authority control our decisions.

While the City seems to have a wealthy fund balance, one large issue can change that in a flash. The programs available to the municipalities while they are in the Act 47 program help to stabilize the municipality financially, but outside of the Act 47, those programs were stripped away. As Council President Jeff Waldman has repeatedly said, if municipalities need those programs while in Act 47, how can they survive without them after Act 47? And Jeff was absolutely right.

Our executive requests to the state legislators to retain the commuter tax after Act 47 and for amendments to the Act 511 tax statute enacted in the 1960s has fallen on deaf ears. And repackaging of commuter tax as the payroll tax is going nowhere and none of the state legislators have signed on as sponsors.

Fortunately, Mr. Mann made a shift from the commuter tax revenue from the operating budget to the capital budget and for the first time in two decades, the City finally has capital funding which will triple after July 14th, 2022 and leave us where we started pre-Act 47, with a need to repair aging infrastructure with no funding.

While we are pleased to shed this Act 47 distressed designation, we're also cautious. So as city council continues to work with this and future administrations to make sound, financial decision that will retain the city's financial well-being. We ask you, at the DCED, to work with the state legislators and help municipalities, especially third-class cities, to amend the Act 511 tax statute and consider the necessary changes that would provide municipalities with an increased level of flexibility with various revenue-generating options. Thank you so much for your time. And I will pass it on to Councilwoman Marsha, who would like you add to the comments.

HEARING OFFICER: Thank you.

MARSHA GOODMAN-HINNERSHITZ,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND HAVING PREVIOUSLY BEEN DULY SWORN, TESTIFIED AND SAID AS FOLLOWS:

MS. GOODMAN-HINNERSHITZ: Good evening, and it is such an honor to be a part of this process today. I remember years ago, sitting at my council seat when the action was taken to move us to Act 47. That was a painful process, but it was a reality test.

When I first joined City Council, I was not aware the burden we were going to take on of the financial condition of the city. It was astounding to me that the city could function in that condition and survive, and certainly, as I was elected to my second term, I mean, moving to the Act 47, it was clear that we had no capacity. But thank goodness that the State had an option of Act 47 to help us due to distress.

Just as a little background on this, before we moved into Act 47, there was substantial efforts taken by citizens, including our Council President, Jeff Waldman before he joined council, he was involved in financial oversight of the city, there were a lot of experienced people looking at the city finances. So when we came to the realization that we weren't going to move forward without being declared a distressed city, we knew that we needed to not deny where we were, to accept the reality and move on.

I think the greatest gift that we received as a city was the services of DCED and PFM, because without their diligence and holding our feet to the fire, we would never be where we are today. And we look at that as a fact that a lot of the solutions, as I sat through my first term of office, we weren't coming up with a solutions and I'll give you some examples.

Because we could not pay for certain things that we were in debt, we took out a bond, a police pension bond. Bad move.

Okay?

But again, the advice that council was getting from the director at that point, did not help us with that decision-making. It was also hard for me, and I have to say, my first year on council, I in no way, was an expert at finances. I learned and grew through it. I'm now Chair of the finance committee. I have been for several years and I think that the growing process and the work that PFM did, helped us all grow as a council to be able to make those tough decisions. And so I really believe we have grown as a body, but in order to take on the challenges, including Act 47, we needed to have a reality check.

It's not going to be just so we're not distressed anymore. We still have a challenge that our revenue is not sufficient to support the beautiful services and critical services that the city needs. And as an example, during Act 47, we were limited on the amount of personnel we could hire, our police force was and it still is, severely undermanned, as is all of our departments. And so we - we're not at the point that we can support that. To look at what we really need to run the city effectively, we're not quite sure where that revenue is going to come from moving forward. And that has to do with our tax space, the revenues that we generate.

So a lot of this is not easy. It's going to really take our hard work, working with the administration, council working together, being diligent about what we need to do as far as expenditures go. It's in no way going to be an easy street.

And we're not the only city in this situation. I think it speaks to the nature of what's happening across the state and across the nation. The only difference is we’re not like the federal government. We can't be trillions of dollars in debt. We have to keep a balanced budget. So we do that in the best way that we can.

So I just wanted to point out, some of the things that we did that I think were beneficial and at the same time, gave us a guidance. When we looked at combining our pension funds, very sound advice to be able to maximize however we were going to be able to utilize our pensions. When we set up a policy for a fund balance, again, in order to - because we didn't have that policy. We need a healthy fund balance to maintain the financial stability of the city.

The use of the commuter tax for capital expenses. When I was navigating through council, there were many years that we didn't even have a capital budget. Even though we still have the city falling apart with some of those capital needs, there was no money designated for that. Now we're finally at the point, and I thank this administration for being so proactive in making sure those major capital needs were being addressed.

The downside to that is Act 47 allows us certain things that won't exist once we are no longer distressed. It won't allow the commuter tax,

Okay?

And I can tell you, I worked with colleagues that commute into the city, they will not mind paying the commuter tax.

Okay?

They are willing to do that, but unfortunately, it takes state legislation to make that happen and we haven't had any positive movement in that direction. Because of that, looking at the loss of the commuter tax itself, there will be a certain point that we're not going to be able to - address our capital needs.

The other piece that we need to look at is the protection as far as negotiating with the bargaining units. I won't take anything away from what all our bargaining units bring to the city, but it has helped us not having to go into binding arbitration, which doesn't consider the financial condition of the city when the decisions are made with regard to the contracts. So we need to look at a better way to navigate through that.

Another item, which I'm hoping that the Department of Justice will look at, is our ability to draw down from the sewage fund, which will help at this point, but we really do need to look at getting information and that will again help the budget. But beware and have due diligence about that. In the past, the city did not handle that appropriately and that's just why the Department of Justice said no to what we're doing.

So there's been a lot of bad practices and I wish someone would put together an encyclopedia of the things that maybe were done correctly so that we can look at those as we make our decisions and say, are we making the same mistakes again?

Okay?

And I don't who might be able to help us with that, but I think we're going to need to be able to look at, be supportive and turned in the wrong direction. This is how you stay on course. And for that, I would like to be able to ask Council to consider that there's some way that PFM can stay with us to be able to guide us through our Act 47. You can't be able to put someone out, if someone can ride a bike, and you turn and take off the training wheels and not expect them to fall. So we need someone to sort of be our training wheels as we move out of this process. And I know from - with my knowledge as Chair of Finance, how complicated it is and how difficult it might be to be able to make those decisions.

The one thing about council that is extremely challenging is we're only part time, and we - we're responsible for making the major financial decisions of the city at a time that requires a lot of studying of complicated financial documents and it's something that requires a lot of training and insight. Not to take away, because there's a lot people, - there's a lot of expertise who serve the city, but we really all need to be on the same page to understand the consequences of our decision in order to remain fiscally sound.

A couple things I just want to add that can't happen. We cannot lose our assets in order to remain fiscally solvent. We have a water system that is beyond done. We know that there are private vendors that would like to take control of that. We cannot allow that to happen. We need to maximize the use of our sewer system, which serves the entire county, and be able to look at how we can be more regionalized in our approaches.

Those are just some of my thoughts. But I think together, as council, as the administration and with our citizens, we need to come out with some practical ways of not just saying we're no longer distressed, but how do we stay in a situation that we will keep us in our financial stability. This is a very, very fragile point that we're at now, and I just want to reiterate my point of view.

I know that unless we continue to be diligent and mindful about every step that we take, every ordinance that we pass, every financial transaction that we do, there could be problems in the future, but we've got our beautify city. We cherish it. Just being in this Council Chambers is inspiring to me, because it speaks to the history of the city, where we came from. We want to preserve that history and we want to preserve that legacy and in order to do that, we need the supporting tools. So thank you and I'm honored to serve.

HEARING OFFICER: Thank you for your testimony. I call Jamar Kelly, Director of Administrative Services, City of Reading.

JAMAR KELLY,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND HAVING FIRST BEEN DULY SWORN, TESTIFIED AND SAID AS FOLLOWS:

MR. KELLY: Thank you, Andrew. The voters eliminated the Department of Administration Services in 2021. So I'm now just the Finance Director for the City.

Thank you for the opportunity to speak and provide testimony today on behalf of the City's more than 500 employees and staff. My name is Jamar Kelly and I'm the Finance Director for the City of

Reading as Andrew mentioned, formerly, the Administrative Services Director. I have served in this role since March of 2019 and sometime prior to that, I had the pleasure to work with Reading in my capacity with the Commonwealth as a policy specialist.

To that end, let me welcome and thank the Department of Community and Economic Development. Specifically, Rick Vilello, Deputy Secretary Kim Bracey, and the Governor's Center for Local Government Services, Andrew, Fred Chapman who's been with the city as a policy specialist for a long time as well. And all the other great staff over the years that have helped Reading get to this exit hearing today.

Next, I must thank, although a simple thanks doesn't quite do justice to the immeasurable amount of advice and policy guidance that Gordon Mann, Ashley Anyu, Meredith Brett and others at PFM have provided to us over the years that have been absolutely critical to the successful implementation of the Recovery Plan, the Amended Recovery Plan and the Exit Plans. Lastly, our city employees, both current and former must be thanked and appreciated for both the sacrifice and resilience demonstrated over the 12 years in the Act 47 program. We've made it through significant staffing and benefit reductions, wage freezes, federal consent decrees, a global pandemic, among many other challenges.

The City of Reading has made huge strides over recent years since it was placed in the Municipal Financial Recovery Program, also known as Act 47. The City has produced balanced, on-time budgets that achieved surpluses in each of the last six years plus, saved for some interfund transfers.

Early on in Act 47, the Commuter Tax helped provide much needed additional revenue to the General Fund, but since the Amended Recovery Plan of 2014, they have weaned the general funding off of dependence of those additional revenues. And dedicated that funding to the capital improvements that allowed us to build up a significant reserve, capital improvement funding over the years. We are now spending those reserves with verve, Gordon, and positioning ourselves to secure new revenue enhancements that will sustain our progress as we stand to lose the commuter tax revenue with our exit plan.

With the coming implementation of a debt management policy, thanks to PFM and Mike Vind, our Financial Advisor, the city will be better positioned to entertain a new conversation about a variety of funding options as you look to remedy scores of deferred maintenance issues in our buildings, as well as other improvements. But also looking to build out new facilities to accommodate the provision of government services that we are charged with.

The Mayor alluded to the four technical provisions that must be considered before the Municipality can exit Act 47, please allow me to elaborate further.

When determining whether the city's distressed status should be terminated in Section 255.1, as Andrew mentioned of Act 47, requires the Secretary of DCED to consider the following four factors.

One, operational deficits have been eliminated as evidenced by audited financial statements prepared in accordance with generally-accepted accounting principles and projections of future revenues and expenditures demonstrate a reasonable probability of future balanced budgets, absent participation in Act 47. Thanks to the work of our finance staff and auditors, we have produced clean audits with less findings. When I started, we had eight findings in the 2018 Audit. In August of 2019, we hired a new city controller. There's now - we now have timely filings of all reports to state agencies. We have a production of our Schedule of Expenditure of Federal Awards without any issue. We are caught up on all of indirect cost allocation reports, which determines the level of federal funding for overhead costs. And our 2020 audit completed last fall, had only one finding.

Number two, obligations issued to finance the municipality's debt have been retired, reduced or reissued. The City has not issued any new debt for quite some time and we have refinanced or reissued existing debt twice under my leadership, both in 2019 when terms were favorable, and then during late 2020, when it looked like we would have huge revenue losses as a result of the pandemic shutdowns. So a newsflash, it's sometimes overlooked, but we did not experience the drastic losses that were projected. In fact, we cut operational costs by 15 percent in both 2020 and 2021.

Number three, all claims or judgements that would have placed the city in imminent jeopardy of financial default have been negotiated and resolved. As advised by our Solicitor, since the adoption of the 2019 exit plan, the City has settled several lawsuits and had several lawsuits which are active or ongoing. While the city is involved in a fairly significant amount of legal action, many of them are relatively small in value in terms of the city's overall financial outlook.

The following is a summary of more substantial ongoing and settled legal claims from the exit plan period. In 2021, the City resolved a class-action lawsuit, which challenged the city's fee for collection of recyclables. Under the terms of the settlement agreement, the city paid plaintiff's attorney's fees and cost totaling $259,000 and agreed to a court order which will limit the amount the city can charge for collection of recyclables to $69.40 per unit in 2022, $80 per unit in 2023 and $85 per unit in 2024, wrapping it up with $90 per unit in 2025 and $95 in 2026.

In 2020, the city settled a wrongful termination case for $125,000. The city is in the process of completing the settlement in a catastrophic slip-and-fall case, in which the city tendered the $500,000 statutory limitation and the city settled the case involving a Civil Rights violation prior to the filing of the suit for $165,000.

Number four; the city is projected to have a positive operating balances for the first five years after the termination of the distressed status. Projections of revenues shall include any anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distress. We do project to have continued positive operating balances for the first five years after the distress status termination.

This projection is based both upon recent past performance, fiscal prudence exercised by the administration and councilmembers, as well as a significant windfall from the federal government through the American Rescue Plan Act that will send $61,134,970 into city coffers, the first half of which was received in March of 2021. The administration and council plan to invest a significant portion of this funding into a combination of economic development projects, capital infrastructure projects and revenue replacement that reduces any potential need for property tax increases in the first two years after

Act 47. And I'm sure Gordon will go into a more detail review of the numbers relative to those projections.

Act 47 states that distressed status shall be rescinded, quote, if the Secretary concludes that substantial evidence supports an affirmative determination for each of the prior four factors that I just walked through. Substantial evidence is defined as such relevant evidence as a reasonable mind might accept as adequate to support a conclusion. Andrew, I will leave it your considered expertise, along with the secretary to determine what, quote, a reasonable mind might accept as adequate. But certainly, we believe that we've done our level best to do right by the city, especially through implementation of the aforementioned recovery through exit plans that have brought us to this hearing here today.

To Marsha's point, so long as we continue to follow the plans that have created the path laid before us, including responsible contract negotiations, invigorated efforts to fill our vacant positions and produce revenue enhancements that sustain our capital improvement budget through an extension of our tax space, negotiation of our upcoming lease agreements, water, sewer, similar to what we've recently done with the Reading Parking Authority, which was a long-term recommendation through both the amended plan and the exit plan that I think our administration was able to execute last year with the Parking Authority. That has produced $1.7 million in revenue, which hasn't happened since who knows how long.

I firmly believe Reading is in the best position we'll ever be to exit Act 47, thrive on its own and continue to be able to provide the quality municipal services that are expected of us by our residents, constituents, commuters and all our stakeholders, both internal and external. We would not have gotten here without you and we hope you'll continue to stick with us for many years to come. Thank you very much.

HEARING OFFICER: Thank you for your testimony. I now call Gordon Mann, Recovery Coordinator, PFM Group Consulting.

MR. MANN: Is this okay?

HEARING OFFICER: Yep. Please begin.

GORDON MANN,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND

HAVING PREVIOUSLY BEEN DULY SWORN, TESTIFIED AND SAID AS FOLLOWS:

MR. MANN: Well, I guess the nice thing about going last is I actually have a lot less to say. Let me go off script here a little bit and first say, thank you to all the folks here that we've had a chance to work with. Linda, and Jamar, and Marsha and Donna, and Frank hiding in the back there, a lot of folks who - we've been through a very long process together and I - it's been an honor as I told you once before, it's been the greatest professional honor to work with you and I just want to thank you for giving me that opportunity.

Now, with the mushy stuff out of the way, let's talk a little bit of finances. Jamar did cover the four areas, the four criteria for the city to exit Act 47. I'll leave it to you decide whether I'm a reasonable mind or not, but I believe the city has met those criteria. And I'm not going to - Jamar's adequately covered all four of them and if you want even more on that, there's the written report, but I did want to touch a little bit on the fourth criteria, which is the reasonable projection that the city's revenues and expenses will basically be enough.

This is a very appropriate question that the state wants the answer on your way out of Act 47, is you're not coming back, right? We want to make sure that you're on stable footing and you stay out. And I agree with a lot of the comments that have been made. I agree with the comments of the commuter tax. The comments about the importance of reasonable reasons, collective bargaining. I would say the unions, the Fraternal Order of Police and IFF, especially, deserve credit for some of what's happening here. They have shown the ability to look at what their proposals cost and come up with reasonable estimates of them. They've had to do so because that's what the law requires, but they demonstrated that technical capacity and the city has as well and that gives me, perhaps somewhat naively, but optimistically hope that will continue because the next round of negotiations will be very different from Act 47. This will be the first round of negotiations that the city goes through without the protections that Act 47 has provided over a decade and that is meaningful.

The revenues and expenses, if you look

at the projection, and the baseline projection we've done many times where you say, if you do nothing, Councilman Waldman would jump in here and say, that's not going to happen, and he would be right, the city is not going to not do anything. But if you do nothing, the revenues naturally grows more slowly than the expenditures do. Right? That's not unique to Reading. It's not unique to cities of its size. It's not even unique to townships, counties, school districts or even the Commonwealth itself. That's just the status quo. It doesn't mean it can't and shouldn't be fixed, but Reading doesn't find itself in an unusual position there.

If you're home and you're listening and you're saying, well, why wouldn't the finances balance? Because the needs are higher than the resources and that's generally true. And everywhere, including in people's own personal checkbooks and you have to be able to manage both. And the city has demonstrated the ability to do that. Why do I think the city will be able to get out of Act 47 and why did they check that last box, that reasonable projection that revenues and expenditures will stay in balance. Well, two reasons, the first is that they've done it significantly and repeatedly over time, and I will consult my notes on this one because these numbers, I have no chance of memorizing.

But in 2018, the baseline projection, which again is intended to say, this is what happens if you do nothing, it's not prediction of what will actually happen. Had a $13.1 million deficit. The city had a surplus and put the money aside for the debt. 2019, baseline projection was a $15 million deficit. The city had a $1.1 million surplus. 2020 was a $3 million deficit, that projection was before the pandemic. We probably would've been larger than that, and I think we probably did. The city's actual result was a $2.4 million surplus. 2021, $3 million deficit projection, the audit's in process, but I wouldn't be surprised if that shows a surplus too.

So the best way you know that a city has the ability to balance its revenues and expenses, they show you they can do it. And Reading has shown they can do it. That said, progress is not inevitable. It's not guaranteed. It is not forever. There is continued work to do here. If you are a resident and you say, that's all great, but my street is not paved and I want to see more cops in my neighborhood and I'm worried about my taxes. You're right to have those concerns. But this is not mission accomplished. There's no banner over my head, but this is that there is - the next round of work is ready to be done outside of Act 47,

In closing, I want to go back to a very cold, gray January day in 2010. I was sitting in an office no too far from here, which as I think Linda and Jeff Waldman and a number of folks from DCED. And after Jeff told us, at length, what he thought of a number of things, the way he closed the meeting, he said, you know, Reading is a hidden gem. If you just polish us and give us a chance to shine, we will. Reading is ready to shine outside of Act 47. Thank you.

HEARING OFFICER: Thank you for your testimony. I next call, Fredrick Chapman, Local Government Policy Specialist, Department of Community and Economic Development to the witness stand.

FREDRICK CHAPMAN,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND HAVING PREVIOUSLY BEEN DULY SWORN, TESTIFIED AND SAID AS FOLLOWS:

MR. CHAPMAN: Good evening, everyone. Mayor and Council, it's great to see you. In November of 2009, the Pennsylvania Department of Community and Economic Development designated the City of Reading as financially distressed after amending and extending the City's original recovery plan, the city is, at last, financially stable. The City of Reading, Pennsylvania has sacrificed and worked extremely hard to see this day become a reality. The city cooperated and worked collaboratively with the Act 47 Recovery team and DCED to satisfy much needed Recommendations.

The Commonwealth of Pennsylvania, specifically the State Department of Community and Economic Development, is extremely proud of the city's accomplishments. DCED has supported the City of Reading throughout the entire process and we are extremely honored to share in the success of the City's role toward financial solvency.

In addition to Act 47 funding, the Commonwealth of Pennsylvania supported the city with multiple financial funding program opportunities to assist in improving community development and basic quality of life. Several great funding programs such as the Keystone Community Blight Remediation, multi-mobile transportation, Greenways Trails and Recreation, and the former Early Intervention Program now known as STMP, Strategic Management Planning Program.

The administration had to face tough and sometimes unpopular decisions, but managed to make a remarkable turnaround in its financial performance since entering Act 47. Finally, DCED will continue to support the City of Reading, just as we do all municipalities throughout the great Commonwealth of Pennsylvania. Serving as the DCED Local Government Southeast Regional Policy Specialist, I personally would like to congratulate this administration and I agree with the Act 47 Coordinators recommendation for Rescission status. Thank you.

HEARING OFFICER: Thank you for your testimony. I would now like to invite any other interested party in the audience who would like to present testimony, please come up and be sworn in by the Stenographer.

MR. KELLY: This would be public comment.

CAROL REILY,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND HAVING PREVIOUSLY BEEN DULY SWORN, TESTIFIED AND SAID AS FOLLOWS:

MS. REILY: Hello, City Council, government. My name's Carol Reily. I've been living in the City since 2011. I've seen a building; I've had my eyes on a lot of buildings and I've been in them already and what bothers me more than anything is we need to get things active in this community. Not just for kids, but any age bracket, even the veterans, the seniors. I've had a lot of people touch base with me in the past years. They say, I have nowhere to go. What can we do to keep ourselves busy, because we're always bored. I would try to keep them occupied in any way, shape or form I can. I've been in the building between Chestnut and 6th Street.

Okay?

That has been blocked. Number one, how in God's name is somebody to get on the walkway without getting hit? And not just that, a lot of the lights, I should be with public - I mean, with

Codes or whatever, but the lights, the situation is -.

UNKNOWN SPEAKER: Excuse me?

MS. REILY: What?

UNKNOWN SPEAKER: The testimony that you're giving is supposed to be about Act 47.

MS. REILY: Okay.

I'm sorry. Let me back up. Sorry about that.

With the buildings and everything, you definitely have to look into that. Mayor Moran, I greatly appreciate if you, as well as City Council because inside some of these buildings, there's history. I went into one of them. There's three old things in there. So why can't we bring history back into life into the city like this young gentleman said. It was a charm or something like that, if it is, we need to get it active.

So I appreciate very much. I thank you again.

MR. MORAN: And respectfully, I'll be more than happy to have you come into our office and chat with us at length.

Okay?

MS. REILY: Yes. I thank you.

HEARING OFFICER: Thank you for your testimony.

MARIA RODRIGUEZ,

CALLED AS A WITNESS IN THE FOLLOWING PROCEEDING, AND HAVING PREVIOUSLY BEEN DULY SWORN, TESTIFIED AND SAID AS FOLLOWS:

MS. RODRIGUEZ: Good evening, everyone. My name is Maria Rodriguez and I became the City Auditor in 2019 when Council appointed me as the - to be considered the Auditor and then I was selected in 2020. Working with this administration and city council has been a lot of - we have faced a lot of challenges, but by the same token, we all look for the same, to make the city better for everybody, for our residents, for us because we're part of our city.

I want to say thank you to Mr. Gordon, anytime I had a question, I send him an email and ask him for details and stuff like that. We have a great working professional relationship. Also with the administration, I want to say thank you tonight and we are looking for the best to have a better city here in the City of Reading and trying to our best. So it's pleasure to be part of exit of Act 47. We had a long road to get here, to make this possible. So thank you, everyone.

HEARING OFFICER: Thank you for your testimony.

Seeing no other witnesses, I would like to take this opportunity to thank those in attendance and those who provided evidence and testimony at today's Administrative Public Hearing. Today's evidence and testimony will be presented to the Acting Secretary Neil Weaver for his final determination as to whether Reading's status as a financially-distressed municipality should be terminated. Pursuant to Section 255.1(b) of Act 47, the determination will be issued within 90 days of today's hearing. Thank you. This hearing will now be adjourned at 6:01

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HEARING CONCLUDED AT 6:01 P.M.

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CERTIFICATE

I hereby certify that the foregoing proceedings, hearing was held before Hearing Officer Sheaf, was reported by me on May 4, 2022 and that I, Brian D. O'Hare, read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.

Dated the 25 day of May, 2022

Brian D. O’Hare
Court Reporter

EXHIBIT D

NOTICE

NOTICE IS HEREBY GIVEN that the Commonwealth of Pennsylvania, Department of Community and Economic Development has scheduled a public meeting to receive public comment presented on behalf of the City of Reading, Berks County, Pennsylvania with respect to the recommendation from the Act 47 Coordinator to consider a termination of the City's Act 47 determination pursuant to the Municipalities Financial Recovery Act, Act 47 of 1987 as amended.

The public meeting on the request will be held on June 15, 2022 at 5:30 p.m., in Council Chambers of City Hall, 815 Washington Street, Reading, PA 19601, before a meeting facilitator duly appointed by the Department. The public is invited to attend. Those individuals requiring special accommodations to attend the public meeting should contact the Department. For further information contact Fred Chapman, Local Government Policy Specialist, at 717–720 –7396.

EXHIBIT E

BEFORE THE

READING CITY COUNCIL

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IN RE: DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT, ACT 47 RESCISSION PROCESS

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BEFORE: FREDRICK CHAPMAN, Chair

HEARING: Wednesday, June 15, 2022

5:33 p.m.

LOCATION: Reading City Hall

815 Washington Street

Reading, PA 19601

WITNESSES: Edna Garcia-Dipini, Donna Reed

Reporter: Brian D. O'Hare

A P P E A R A N C E S

Also Present:
Linda Kelleher
Jamar Kelly
Andrew Sheaf
Bennetry Richard-Herrmann

I N D E X

E X H I B I T S

Number	Description	Page Offered
	NONE OFFERED	

P R O C E E D I N G S

CHAIR: Good evening, everyone.

Thank for attending the Act 47 public meeting. This is an administrative public meeting to accept public comments only. However, we cannot respond to any questions concerning challenges at this meeting.

I would like to commence this Act 47 public meeting to receive comments on the rescission of distressed status of the City of Reading under Act 47 as amended in the Municipality's Financial Recovery Program.

At this time please join me as we Pledge of Allegiance.

(WHEREUPON, PLEDGE OF ALLEGIANCE RECITED.)

CHAIR: Thank you.

I would like to call this public meeting to order. My name is Fredrick Chapman and I am a local government policy specialist for the Commonwealth's State Department of Community and Economic Development Center for Local Government Services, and I serve the Southeast Region and I will serve as your facilitor on - facilitator on this evening.

Today's DCED public meeting will be to offer comments relating to the recommendation of rescission of the distressed status of the City of Reading under Act 47 as amended, the Municipality's Financial Recovery Program. Anyone interested in providing public comments you will have three minutes. And again, we cannot respond to any questions concerning challenges at this meeting. There is a sign-in sheet that is being circulated to verify attendants at today's public meeting. I will ask that all in attendance please sign the sheet even if you are not offering testimony.

Okay. We are ready to receive public comments at this time. I add that you will have three minutes to present your public comments. Please step to the mic if you have public comments or those that are streaming please present public comments one at a time and you will have three minutes.

Anyone present in the audience first? Yes, please.

Please state your name very loud and then you may proceed.

MS. GARCIA-DIPINI: Good evening, Council. My name is Edna Garcia-Dipini.

MS. KELLEHER: Hang on a minute.

MS. GARCIA-DIPINI: Thank you. Good evening, Council. My name is Edna Garcia-Dipini and I'm here representing the RIZE organization and the Latino community in Reading, Pennsylvania and Berks County.

First I'd like to say congratulations on exiting the Act 47 under the leadership of Mayor Moran. We are extremely proud of all the hard work and service that you dedicate to the City of Reading.

Hispanics come from a collectivism culture and where group activities are dominant, responsibility is shared and accountability is collective. Because the emphasis on collectively, harmony and cooperation within our groups we tend to be multicultural and passion based. Let's continue to work as a collective and encourage promoting strategies that better civically engage Latino Millennials, Generation X, our senior population and all Americans; improve the growth rates of Latino-owned businesses; continue to grow and support family programs; invest in our youth; keep ahead of the technology; continue to grow and support the local arts community with competitive wages for local artists and art organizations; work in increasing wages for colored workers; make real estate available and affordable for locals; follow-through and be accountable for the blueprint timetable for economic development. Let's continue to rise to be the - one of the largest thriving Latino cities in the Commonwealth of Pennsylvania. Thank you so much.

CHAIR: Thank you very much.

Do we have someone else that would like to offer public comment at this time? From the audience or streaming?

MS. KELLEHER: The only attendee streaming other than what you see is the reporter from the Reading Eagle.

CHAIR: Okay.

So no one else present.

MS. REED: Could I - can I say something?

CHAIR: Yes. Absolutely.

MS. KELLEHER: I didn't give you a mic.

MS. REED: On behalf of Council I just

want to thank everyone who is attending both - both remotely, as many of our councilors are, as well as those watching and those in the audience.

I just want to make a point here of respect to our - our late Council President Jeff Waltman who through four administrations was absolutely instrumental. It is not one administration, it's four administrations. And I can't say enough about Jeff Waltman. His financial expertise and his patience in pulling us out of Act 47 he was absolutely instrumental, and I can't let that - that note go by without - without saying that. And we of course we will miss him very much in personal ways but certainly in the business of the City. He was without par in terms of - without parallel in terms of his ability. So I would like that to be added to the record, the importance and the continuity and the devotion that Jeff gave to our financial processes and how that helped pull us out of Act 47. Again, it was a collective effort on many, many people's parts but to me Jeff was the leader throughout. So I just want to make that very clear. Thank you.

CHAIR: Thank you very much, Councilwoman Reed.

Is there anyone else that would like to offer public comments? Okay. Seeing that there is no one else that would like to submit public comments at this time, I would like to thank those in attendance and those who perhaps may be streaming that provided public comments at today's DCED Act 47 public meeting. All public comments will be submitted accordingly and all findings will be presented to DCED's Acting Secretary Neil Weaver for his consideration and official determination of rescission.

And finally, I would like to extend condolences on behalf of the State Department of Community and Economic Development to the family of your President Mr. Walton and - Waltman and City of Reading. Thank you very much and this meeting is adjourned.

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HEARING CONCLUDED AT 5:41 P.M.

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CERTIFICATE

I hereby certify that the foregoing proceedings, hearing was held before Chair Chapman, was reported by me on June 15, 2022 and that I, Brian D. O'Hare, read this transcript and that I attest that this transcript is a true and accurate record of the proceeding.

Dated the 1 day of July, 2022

Brian D. O’Hare

Court Reporter

EXHIBIT F

To: Kim Bracey, Community and Economic Development – ckbracey@pa.gov
Fred Chapman – PA CED – frchapman@pa.gov 717-720-7396

From: Sheila Perez, Reading, Pa Resident and Advocate

Date: May 27, 2022

Re: **Act 47 Exit Plan for City of Reading, PA (Public Comments)**

Greetings,

Attached to be included for the record is the public comment that I was not able to deliver at the Public Hearing for ACT 47 which took place on May 4, 2022 due to lack of effective advertising. Again please note that this communication was never made to the large Hispanic/Latino Community which is over 70%.

Although we have addressed this concern with the local government body on numerous occasions, the City of Reading has failed to take an active role in making certain that all local government meetings, public hearings, etc. is actually effectively communicated including captioned City Council Meetings, etc. I am also including for the record a statement of Verification as a result of those that were sworn in to give testimony at the Public Hearing which took place on May 4, 2022.

On Monday May 23, 2022 I presented my opposition as to the City of Reading, Pennsylvania plans to Exit Act 47. I explained that I felt that the city is not ready to exit Act 47 status because the City Council Members are busy lobbying with the Local State Legislatures to request them to submit a bill that would allow the City of Reading to continue to charge the Commuter tax and the increased Earned Income Tax to be able to pay for the Capital Expenditures.

So much so that the Reading Eagle Article entitled "There's a $40 Million Shortfall for Reading Capital Projects" written by Reading Eagle Journalist Michelle Lynch dated March 28, 2022 stated the following:

> "*We are going to recommend ARPA funds,*" Denbowski said. "*But the question is how much?*"

That will depend on whether the state legislature takes action that will allow the city to continue levying a 0.3% earned-income tax on commuters.

The city has spent revenue from the commuter tax to fund capital projects, but will lose that ability when it leaves Act 47 later this year.

"I am hopeful that by the end of July the state is going to open up the commuter tax," Councilwoman Marcia Goodman-Hinnershitz said. "*It is so important the public knows the disadvantage we have been placed in*."

Goodman-Hinnershitz **urged city residents to ask their state representatives to support a change that will allow the city to continue receiving the benefits of the tax**.

I stated that supporting legislation that would allow the City of Reading, Pennsylvania to continue to use the tools that were put in place in ACT 47 to help distressed cities get out of their distressed state does a disservice to the Act 47 and to the residents and commuters that live and work in those distressed cities. And quite frankly, if our local government body has to lobby with legislatures to alter the law to allow our city to continue to charge the Commuter Tax and the increased Earned Income Tax (which our local government has not commented on) to help fund those capital expenditure projects, then technically, the City of Reading, Pennsylvania is not ready to Exit ACT 47 Status.

Please keep in mind that a portion of the American Recovery Plan Act funds $61 Million will be used in conjunction with the ability to continue to charge the commuter tax and the increased earned income tax is needed to fund the Capital Expenditure Projects.

Please note that although I spoke this in detail in our May 23, 2022 City Council Meeting, the City Clerk failed to capture this very important topic and detail in the minutes. That is why I am providing to you the link for the meeting so that you may view at your leisure.

There were 3 people registered to speak at that meeting. Two of which were myself and Reverend Evelyn Morrison.

https://www.bctv.org/video/city-of-reading-city-council-meeting-5-23-22/

Video Timer: 12:56 – 16:20 – Sheila Perez Presentation (3 Minutes) Non Agenda Item

Video Timer: 7:40 – 12:55 – Reverend Evelyn Morrison (5 Minutes) Agenda Item

VERIFICATION

I, **Sheila Perez**, resident of Reading, Pennsylvania, hereby state that the facts above set forth are true and correct (or are true and correct to the best of my knowledge, information and belief). I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Date: May 27, 2022

Respectively Submitted,

Sheila Perez

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Michelle Lynch: There's a $40 million shortfall for Reading capital projects

Michelle Lynch, Reading Eagle, Pa.
March 28, 2022·3 min read

https://sports.yahoo.com/michelle-lynch-theres-40-million-162200456.html

Mar. 28—The city will have to come up with more than $40 million to meet the shortfall in its estimated budget for ongoing and proposed capital improvement projects.

"Currently, we have 35 active projects on the roster," David W. Anspach III, acting capital project manager, told City Council.

Anspach presented a brief snap shot of projects underway and planned during a recent committee of the whole meeting.

He showed the costs and budget deficits in funding public projects in a table format.

City administrators will return to council at a later date with recommendations on how to shore up the shortfall, said Frank Denbowski, interim city managing director and Moran's chief of staff.

The projects — including upgrades to city parks, playgrounds and properties; neighborhood projects, such as traffic signals, street signs and streets; rehabilitation of the Pagoda and construction of a police training and laboratory facility — total $50.7 million.

Nearly 80% of that figure is unfunded.

The new police facility, proposed for an as-yet-undetermined location and estimated at $12 to $15 million, is the biggest single ticket item on the list.

"From where is that money going to come?" asked Maria Rodriguez, city auditor.

Finance director Jamar Kelly said not all the potential funding sources have been identified, but the city plans to pursue grants.

Some of the shortfalls may be made up with some of the more than $61 million Reading is slated to receive from the American Rescue Plan Act, Council President Jeffrey S. Waltman Sr. said.

The city has received about half of its allotment from the act passed by Congress last year and signed by President Joe Biden and expects the rest of the funds by the end of the month.

It will have until 2026 to spend the money.

"We are going to recommend ARPA funds," Denbowski said. "But the question is how much?"

That will depend on whether the state legislature takes action that will allow the city to continue levying a 0.3% earned-income tax on commuters.

The city has spent revenue from the commuter tax to fund capital projects, but will lose that ability when it leaves Act 47 later this year.

"I am hopeful that by the end of July the state is going to open up the commuter tax," Councilwoman Marcia Goodman-Hinnershitz said. "It is so important the public knows the disadvantage we have been placed in."

Goodman-Hinnershitz urged city residents to ask their state representatives to support a change that will allow the city to continue receiving the benefits of the tax.

Waltman said there are other options, such as borrowing the money, but he would prefer not to have to do that.

Goodman-Hinnershitz thanked Anspach for his work on the capital project budget.

"I think this plan is well thought out," she said. "We'll be aggressive about grant writing and put the pieces together. If we run into deficits, we'll just have to prioritize projects."