



Allentown
City without limits.

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To: The Honorable Roger MacLean, Council President
And Members of City Council

From: Interim Mayor Ray O'Connell

Re: **2019 City of Allentown Proposed Budget and Program of Services**

In accordance with the provisions of the Home Rule Charter adopted by the voters of the City of Allentown on April 23, 1996, I, Ray O'Connell, acting in my capacity as Mayor, herewith present to City Council and the residents of the City of Allentown a proposed Budget and Program of Services for the fiscal year 2019. As required by ordinance, I verify the 2006 reserve fund account is on deposit and not impacted by this budget.

The 2019 proposed operating and capital budget for the City of Allentown addresses these service needs and their resulting fiscal realities in a responsible manner by constraining expenditures and enabling sufficient recurring revenue as a foundation for future years.

In 2005, when the City of Allentown last implemented a property tax rate increase, that year's current real estate tax collection totaled \$28.2 million. Adjusted for inflation, taxes on the same properties in 2018 would total \$35.8 million, but actual collection was less than \$30 million.

Thirteen years without a property tax increase have provided beneficial cost stability for Allentown taxpayers. However, the City's costs of materials, supplies, wages, benefits and services have continued to rise with inflation while the revenue to support them has not kept pace. Defrayal of costs in subsequent years by means of debt financing and the water/sewer concession lease provided Allentown temporary cash reserves to close this gap. In the last three years, the citizens and workers of Allentown have funded increases in earned income tax rates and stormwater management fees to reduce the recurring operating deficit significantly, and a permanent closure of that gap is within reach.

Allentown's financial standing has been bolstered by the growth of the Neighborhood Improvement Zone and by the sustained pride and efforts of Allentown citizens. The City and surrounding Lehigh Valley are among Pennsylvania's fastest-growing population centers. Allentown's government has responded to these trends by maintaining and improving police protection, fire and emergency medical response, street maintenance, street lighting, bridges, traffic control, solid waste and recycling, parks and recreation, health, community and economic development, code enforcement, building standards and City planning services to ensure that all citizens benefit sufficiently from their provision. These departments and bureaus perform

and provide a myriad of services that contribute to the health and well-being of a 21st century city.

THE FISCAL SITUATION

The administration is doing and will continue to do everything possible to restrict spending. The City of Allentown will try to expand its revenue base, as well. A spirit of cooperation between the administration and City Council will work to preserve city services at the lowest possible cost.

In 2015 Allentown's General Fund faced an annual structural operational deficit of \$8 million that was growing over time. Thanks to two increases in the resident earned income tax rate and the imposition of a stormwater management fee, by 2018 the City had reduced much of that deficit. But closing the gap required the use of cash reserves each year. An effective \$2 million reserve draw in 2015 was followed by a \$4.5 million repayable loan from the Solid Waste Fund in 2016, a \$2.5 million budgeted reserve draw in 2017 and a \$3.9 million budgeted reserve draw in 2018. Careful expenditure control has minimized these deficits, but these actions effectively reduce the General Fund unrestricted cash reserve to about \$6 million by the end of 2018. Bond rating agencies Moody's and Standard & Poor's have downgraded the City's financial outlook, with the latter agency reducing the City's bond rating by one notch in October 2018. Both agencies have indicated the need for Allentown to match recurring expenditures with recurring revenues in order to stabilize and improve this outlook in the coming years.

The City's use of debt financing has also reached a near maximum level. In recent years, the City issued millions of dollars in bonds for capital expenditures, but generated no new revenue stream to back these proceeds, resulting in a sizeable increase of General Fund dollars being used to service debt. The City now uses more than 8 percent of its annual General Fund appropriation to pay principal and interest on general obligation and pension obligation debt. This constriction will be critical as additional needs for fleet services, street repair and information technology renewal will require standard operating funds for 2 to 3 years, putting additional stress on the General Fund.

With approximately 800 employees, the City's operations today have nearly 200 fewer staff than a decade prior, yet employee wages and benefits remain the primary driver of cost increases. Department managers have effectively controlled non-personnel costs in recent years to save money, but cost increases in this sector are now inhibiting essential service provision to an unacceptable extent.

The Neighborhood Improvement Zone has provided growing property tax revenue during the past five years, but the overall impact will remain modest until this Center City development reaches its intended capacity. Meanwhile, City property tax collection outside of the zone has remained nominally flat during the same five years.

2019 BUDGET HIGHLIGHTS

This proposed 2019 operating and capital budget for the City of Allentown establishes a genuine balance between recurring revenues and expenditures, avoiding further reserve draws while maintaining and improving the quality of the City's public services. Significant provisions of the General Fund budget include the following:

- An effective 1.5-mill increase on the aggregated value of real estate, from 5.81 to 7.31 mills, will generate an additional \$7.6 million in recurring annual revenue. The separate millage rates for land and improvements are increased by the same percentage so that all taxpayers are affected equally regardless of the type of property owned. As an example, an Allentown home with an improvement

value of \$150,000 and a land value of \$20,000 would see its annual City property tax increase from \$903 to \$1,139, or about \$20 more per month. These increases would be smaller for lower-value properties and greater for more expensive properties.

- The Business Privilege Tax remains stable, as does the Earned Income Tax, and the \$52 Local Services Tax. The Refuse Collection Fee remains flat.
- Cash reserves are not utilized and are in fact slightly supplemented, demonstrating the City's commitment to fiscal responsibility going forward. The \$4.8 million last-resort Stabilization Fund remains fully funded and unutilized. Additionally, new capital and equipment expenses will be paid from operating funds in 2019, avoiding additional debt service obligations.
- Two additional fire fighters are authorized, increasing total fire staff to 124, and efforts to reduce the backlog in building inspections will continue in 2019. Most positions remain essentially the same as in 2018 in advance of the findings of a City compensation study. Three percent wage increases are provided to all bargaining unit and non-bargaining positions, and a pool of money is provided for non-bargaining positions upon completion of the compensation study to ensure market-competitive pay rates.
- The City will expand its winter aquatics program both to provide recreational opportunities for youth and to establish a reserve of trained lifeguards that will enable full utilization of City pools next summer. Additionally, wage rates for lifeguards and summer recreation program staff are increased to be more competitive with labor market conditions.
- The City's 911 system management responsibilities will be transferred fully to Lehigh County in early 2019, and the City will no longer coordinate emergency dispatch thereafter.
- Additional technical support is provided in the information technology budget to bolster protection against future malware attacks on the City's computer system. Significant increases are also provided to the Risk Management Fund to address health insurance costs and potential liability and legal matters. All other major City activities are provided at or above 2018 service levels.
- General Fund repayment of the 2016 loan from the Solid Waste Fund loan will be suspended for one year in order to support the available cash balance in the General Fund. Five years of repayment remain on the loan and continuation of repayment is anticipated in 2020.

All special purpose and enterprise funds, including Trexler, Liquid Fuels, Solid Waste and Stormwater, will either have revenues exceeding expenditures in 2019 or will have sufficient cash reserves to cover excess expenditures.

Relations between the Mayor's office and City Council have improved significantly this year with a greater focus on policy and fiscal transparency. Just as Allentown looks forward by updating its comprehensive plan in the coming year, I similarly look forward to building with you a positive future vision for the City beginning with this budget.

About a dozen Lehigh County municipalities have raised property tax rates since the last county property assessment in 2013. Allentown's 13-year rate consistency has lasted far longer, but cannot credibly continue. The opportunity to stop the continued depletion of cash reserves will be costly at first, but it establishes a dependable fiscal foundation for coming years. The citizens of Allentown deserve nothing less.