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To: Julio Guridy, President and Members of City Council

From: Ed Pawlowski, Mayor

Date: November 1, 2013

Subject: **2014 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, Ed Pawlowski, 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 fiscal year 2014.

### **Budget Overview**

The 2014 budget and the final 2013 budget take into account the positive changes resulting from the concession lease of the city's water and sewer utility system to address the city's massive unfunded pension liability and related annual pension costs. It includes the building of our reserve fund to a generally acceptable level.

2014 will see progress and/or the start and/or completion of a number of significant economic development projects:

- The One City Center/Arena - Entertainment complex. This project will include the 8500 seat (expandable to 10,000) arena; a 180-room hotel; an 8 story office building secured by a lease from Lehigh Valley Health Network (LVHN) for a world-class sports medicine facility; and close to 800 parking spaces. This represents investment of more than \$270MM.
- Two City Center; \$50MM investment;
- Three City Center (36 S. 7<sup>th</sup> St.); commercial office space; \$37MM investment;
- Four City Center Residential/Retail Complex (7<sup>th</sup> & Linden Sts.); \$30MM investment.

- Butz Corporate Center III; \$15MM investment;
- Schoen's Building; \$9.8MM investment
- Sacred Heart Hospital; \$50MM investment in five year capital plan
- Lehigh Street Structural Steel/Waterfront Development Project; \$250MM, 26-acre mixed use project expected to incorporate office, retail, residential and a hotel.

We began 2013 with a continued effort to confront Allentown's most serious financial challenge in its 250 year history; our massive unfunded pension liability. The city was looking at required annual pension payments rising to close to 30% of the General Fund in a few short years.

On August 7, the city reached financial close on a 50-year concession lease of the city's Water and Sewer systems with the Lehigh County Authority ("LCA"). As a result of the very competitive and creative procurement process, Allentown received an up-front payment of just over \$211.3MM and an annual payment of \$500,000 beginning in 2016.

So far, the city has used some of the proceeds to pay off approximately \$29mm of sewer and water debt. Of the \$182mm of remaining proceeds, the city is allocating approximately \$170mm to pension funds, \$12mm to various reserves/fund balances, and to complete the Automatic Meter Reading project.

As a result of the city's successful execution of the concession lease, Moody's Investors Service has revised the city's outlook from negative to stable. In June, Standard & Poor's revised the city's outlook from stable to positive.

Over the past eight years, this administration has worked tirelessly with City Council and the City Controller to vigorously pursue initiatives to reduce spending in all areas of city government. We continued our relentless efforts to:

- Cut expenses throughout all city departments;
- Do more with less; and,
- Utilize taxpayer money wisely;
- Find new and/or increase sources of revenue.

As a result of the reduction of pension costs and hard work on the part of city employees, we anticipate finishing 2013 with expenditures under budget.

The proposed 2014 Budget and Program of Services will see a continuation of the austere spending and employment practices we have pursued these past