

Financial Condition Assessment

Many Pennsylvania municipalities struggle to find structural balance without continuously increasing tax rates because expenditures increase every year with wages and price inflation while one of the largest revenue sources used to fund these expenditures – the real estate tax – is relatively stagnant.

Easton's story is different. The City has avoided increasing tax rates for the past 18 years, yet the last four publicly available audit reports (2020, 2021, 2022, and 2023) show the City ended each year with small surpluses in its General Fund. A May 2024 report from S&P Global ratings described the City's financial position as "healthy" with "strong reserves and liquidity position."

The City achieved another milestone in 2025 when the funding levels for the three employee pension plans reached "minimally distressed" levels, meaning they have a funding ratio between 70 and 89 percent. This is an improvement from their prior "moderately distressed" status, or a funding ratio of 50 to 69 percent.

At the same time, City faces some risks to its financial position. That same ratings report from S&P also cited the City's "very weak" debt and long-term liability profile as a challenge, and the City's recent audit reports show that it has been underfunding its health insurance internal service fund relative to the cost of claims. And the City's revenue growth depends largely on the addition of a handful of multi-family residential properties that may eventually translate to a higher or different level of service needs.

This first chapter of this multi-year financial plan evaluates the City's recent financial performance in its General, Debt Service, and Recreation funds and then provides a baseline "carry forward" or *status quo* projection of future performance over the next several years (2027 through 2030), absent corrective action. The baseline projection is a diagnostic exercise to help City leaders and residents understand the answers to three key questions:

- Are the City's recurring revenues sufficient to cover recurring expenditures?
- Are there any projected deficits or surpluses in the baseline and, if so, how much are they expected to grow absent corrective action?
- What are the key revenue and expenditure trends that drive the City's financial performance?

Historical performance¹

While the City provided and PFM analyzed five years of historical results starting in 2020, we primarily focus on the period spanning 2021 through 2024 to avoid carrying any non-recurring trends from the COVID-19 pandemic into the baseline projection. We reference 2020 results throughout the chapter where relevant.

This analysis focuses on the major revenue and expenditure drivers² in the General Fund (the primary fund out of which the City of Easton pays for operating expenses like public safety and its trash hauler contract), the Recreation Fund (where the City collects a portion of its real estate tax revenue and pays for recreation expenditures), and its Debt Fund (out of which the City makes its annual debt service payments).

From 2021 through 2024, the City ended the year with small deficits or surpluses in its combined General, Debt, and Recreation funds. Revenues grew from \$44.3 million in 2021 to \$48.9 million in 2024, or a compound annual growth rate (CAGR) of 3.4 percent. In 2021 and 2023, the City used federal stimulus

¹ The City's accounting system records some transfers into the General Fund as negative expenditures or transfers out of the fund as negative revenues. For simplicity in this projection, we show most transfers in as revenues and transfers out as expenses. This chapter focuses on the major revenue and expenditure drivers in the baseline projection – other revenue and expenditure assumptions can be provided upon request.

² Other, non-major revenue and expenditure assumptions can be provided upon request.

money received under the American Rescue Plan Act (ARPA) and other non-recurring grant dollars to support its General Fund operations.

General, Debt, and Recreation Fund Revenue, 2021 – 2024 (\$ million)

	2021 Actual	2022 Actual	2023 Actual	2024 Actual	CAGR
Real Estate Taxes	\$9.2	\$8.7	\$8.8	\$9.5	0.9%
Earned Income Tax	\$9.7	\$11.1	\$12.6	\$12.2	8.1%
Other Taxes	\$3.3	\$3.6	\$3.5	\$3.8	4.1%
Sewer Revenue	\$6.4	\$6.8	\$6.8	\$7.9	7.2%
Solid Waste Collections	\$3.3	\$3.0	\$3.1	\$3.5	2.3%
Parking Revenue	\$1.8	\$2.1	\$2.1	\$2.9	16.5%
Water System Lease	\$1.7	\$1.8	\$1.8	\$2.0	4.5%
Casino Revenue	\$0.9	\$1.2	\$1.2	\$1.2	10.2%
Licenses, Permits, and Fees	\$1.5	\$2.1	\$2.3	\$2.4	15.7%
Police Fines	\$1.1	\$1.1	\$1.0	\$1.1	2.0%
Pension Aid	\$1.5	\$1.5	\$1.7	\$1.8	7.9%
Other Revenue	\$3.8	\$1.7	\$5.3	\$0.6	-46.3%
Total Revenue	\$44.3	\$44.7	\$50.3	\$48.9	3.4%

Cash compensation was the largest driver of expenditure growth over the previous four years. The City also saw its Minimum Municipal Obligation payments (or MMOs) to its three pension plans climb to \$8.5 million and a 16.1 percent average annual increase in its Solid Waste contract from its private hauler. Overall, expenditures grew at a rate of 4.0 percent annually, faster than the pace of revenues.

General, Debt, and Recreation Fund Expenditures, 2021 – 2024 (\$ million)

	2021 Actual	2022 Actual	2023 Actual	2024 Prelim.	CAGR
Cash Compensation	\$16.3	\$17.3	\$18.2	\$18.9	5.1%
Pension	\$6.3	\$6.4	\$8.0	\$8.5	10.4%
Health Insurance	\$3.6	\$3.7	\$3.8	\$3.7	0.9%
Other Personnel	\$0.9	\$1.1	\$1.3	\$1.2	9.1%
Solid Waste Contract	\$1.9	\$1.9	\$2.1	\$3.0	16.1%
Sewer Expenses	\$2.6	\$2.8	\$2.9	\$2.9	2.7%
Other Operating	\$5.2	\$6.0	\$5.9	\$5.9	4.2%
Debt Service	\$7.1	\$4.5	\$4.7	\$4.7	-12.9%
Other Expenses	\$0.6	\$0.9	\$1.5	\$1.3	31.9%
Total Expenditure	\$44.6	\$44.5	\$48.4	\$50.1	4.0%

Baseline projection

The baseline presented in this chapter projects Easton's financial performance in the combined General, Debt, and Recreation funds before any corrective action. There are three very important contextual points for understanding the baseline projection:

- **The baseline presents a status quo scenario.**

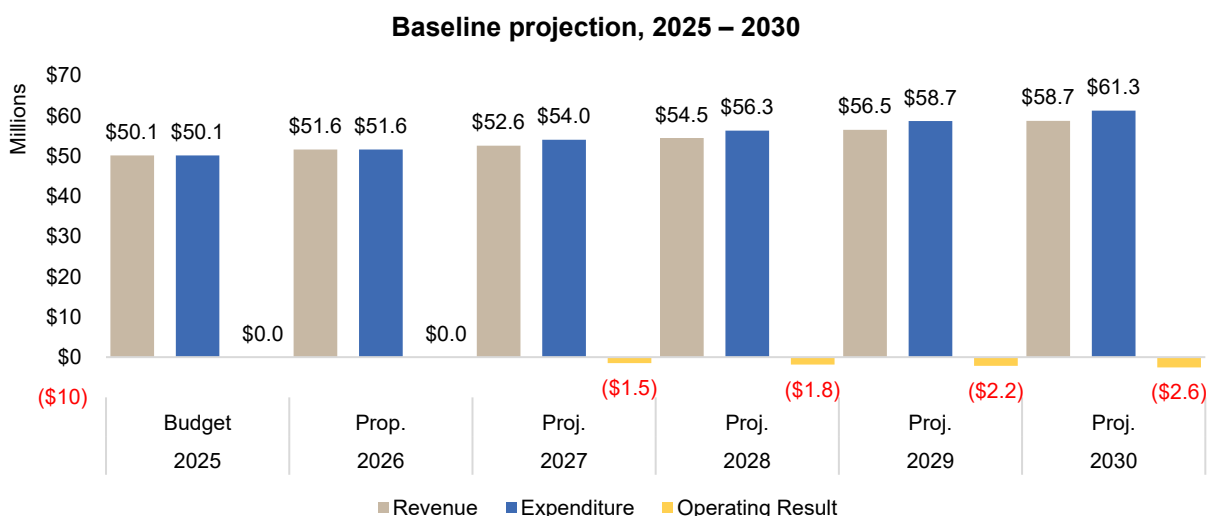
The projection assumes no significant changes in the City's policies or operational structure from what is proposed in the City's 2026 budget. For example, for revenues, the baseline projection assumes no further increases in real estate tax rates or service charges. Unless explicitly noted in the sections below, revenue growth comes from expected growth in the underlying tax, user fee base, or rate of collection.

For the City's expenditures, the baseline projections assume no changes in the levels or types of service provided by departments. The projection does not assume changes in headcount or new hires, other than those needed to fill vacant positions. Salary increases are projected based on the pattern of negotiated wage increases where known or, where the City does not have a labor agreement in place, the baseline assumes annual wage increases continue at recent levels. The baseline also assumes no additional debt issuance or additional funding for capital projects above the current level. These key assumptions will be discussed in further detail later in the chapter.

- **The baseline projection is not a prescription for Easton's financial policies, nor is it a prediction of future annual results.**

The baseline projection is a diagnostic exercise that highlights the key trends that drive financial performance, identifies any structural deficit where recurring revenues do not cover recurring expenditures, and quantifies how that deficit would grow without corrective action. The assumptions are not recommendations for what the City should do for the next five years.

The baseline is also not a prediction of future results because it assumes that Easton will not take any corrective measures to address the projected deficits. City leaders will have to take some corrective action because Easton is statutorily required to pass a balanced budget. Rather than presume what those corrective actions will be, the baseline analysis will help City leaders and residents understand what types of corrective actions will be most effective, how much action they will need to take, and how quickly they will need to take it.



The baseline projection shows relatively small, manageable deficits relative to the size of Easton's budget, taxing ability, and fund balance reserves. After an initial \$1.5 million shortfall in 2027, the structural deficit grows by around \$350,000 each year, which is less than 1.0 percent the City's annual budget.

As explained above, the baseline projection does not predict future results. The City *will* take action to close these modest deficits, as it did in the past, and trends described in this chapter identify the areas where City leaders can most effectively manage those risks.

Real estate tax

The real estate tax is one of the City's largest sources of revenue, second only to the earned income tax. The City levies a 24.95-mill total tax rate on the assessed value of taxable land and buildings in Easton, collects the resulting revenue in its General Fund, and then transfers the relevant portions to the Debt Service and Recreation Funds.

Over the review period, total current year real estate tax revenues³ grew by 0.8 percent per year from \$8.6 million to \$8.8 million largely because of the tax base growth described below. However, the amount of real estate tax revenue available to support General Fund operations dropped by \$1.1 million because the City has allocated increasing amounts to debt and recreation.

Real Estate Tax Revenues, 2021 – 2024 (\$ million)

	2021 Actual	2022 Actual	2023 Actual	2024 Actual	CAGR
General purpose	\$5.6	\$4.7	\$4.8	\$4.5	-6.9%
Debt service	\$1.1	\$1.4	\$1.4	\$1.6	13.4%
Recreation	\$2.0	\$2.4	\$2.4	\$2.8	11.9%
2% discount	(\$0.1)	(\$0.1)	(\$0.1)	(\$0.1)	2.3%
Net real estate tax revenue	\$8.6	\$8.3	\$8.4	\$8.8	0.8%

The City's future real estate tax revenues will be the product of three variables – the tax rate, the collection rate, and the tax base.

Tax rate

The City's total tax rate has consistently been 24.95 mills with the portions allocated to general purpose, debt, and the recreation fund adjusted each year. The 2025 budget shifted more of the debt and recreation millage to general purpose (i.e. funding available to support public safety, public works, and other daily operations).

Real Estate Tax Mills by Type, 2021 – 2025 (mills)

	2021	2022	2023	2024	2025
General purpose	16.00	14.04	14.01	12.05	13.38
Debt service	5.29	6.96	6.90	8.45	7.22
Recreation	3.66	3.95	4.04	4.45	4.35
Total millage	24.95	24.95	24.95	24.95	24.95
General purpose % of total	64.1%	56.3%	56.2%	48.3%	53.6%

The baseline scenario assumes no changes in the total tax rate, which remains 24.95 mills throughout the projection period. The Debt Service Fund relies on real estate tax revenue to make its principal and interest

³ This amount is net the 2 percent discount for property owners who pay their bills to the City of Easton before March 7th of each year.

payments, therefore the portion of the total tax rate allocated to debt will rise if scheduled debt payments rise and vice versa. The same is true for the Recreation Fund that relies on the General Fund (and by extension the real estate tax) to cover any shortfall.

Key trend: While total real estate tax revenue has increased in the review period, the amount available to fund daily operations has dropped because the City allocated a larger proportion to debt and recreation.

Collection rate

From 2021 through 2023, the City's current-year collection rate averaged 95 percent. The preliminary 2024 results suggest a 97 percent current-year collection rate, which would be unusually high. The final audited results could drop this calculation back toward the historical average. The baseline projects a 95 percent average collection rate reported for 2021 through 2023 and applies it to the calculation beginning in 2027.

Current Year Collection Rate, 2021 – 2024

	2021 Actual	2022 Actual	2023 Actual	2024 Prelim.	CAGR
Taxable assessed value (\$ millions)	\$357.5	\$356.8	\$359.6	\$360.7	0.2%
Total tax rate (mills)	24.95	24.95	24.95	24.95	0.0%
Gross levy (\$ millions)	\$9.0	\$9.0	\$9.1	\$9.2	0.6%
Current year collection (\$ millions)	\$8.7	\$8.4	\$8.6	\$8.9	1.7%
Collection rate (%)	96.9%	93.8%	94.4%	97.2%	1.1%

Tax base

The City's current year real estate tax revenues grew by 0.8 percent per year over the review period, despite Easton having the same tax rate and relatively stable collection rates. That revenue growth resulted from growth in the tax base as residential and commercial development adds taxable assessed value.

To incentivize development, the City offers a Local Economic Revitalization Tax Assistance (LERTA) program. Property owners who make substantial improvements to their residential, commercial or industrial properties within Easton's LERTA district receive a 10-year tax abatement on the assessed value of the property improvements.⁴ The taxpayer receives a 100 percent tax abatement for the value of the improvements in the first year, 90 percent in the second, 80 percent in the third, and so on until the property owner pays the full tax after the 10-year abatement ends.

As of late June 2025, there were 42 parcels receiving LERTA tax abatements. Since the abatement for each parcel declines by 10 percent a year, the City adds incremental taxable assessed value (AV) to its tax base from each property, each year. In 2020, the LERTA properties accounted for \$1.2 million in additional AV, which translates to \$30,000 in current year taxes. By 2024, that number increased to \$6.3 million (\$157,000 in current year taxes), and it will reach \$15.1 million (or \$377,000 in current year taxes) in 2033 after the tax abatements on all 42 parcels expire.

⁴ The abatement only applies the incremental increase in assessed value. Taxes paid on the base value of the property, prior to improvements, are not reduced.

Setting those LERTA properties aside, there was very modest growth in the rest of Easton's real estate tax base (0.2 percent per year from 2020 through 2025). The City has identified five other large development projects, in addition to the 42 parcels referenced above, that it expects will use LERTA and gradually add AV during our projection period. While the timing and amount of this tax base growth will not be known until the projects are finished and the improvements assessed, we project the City's real estate tax base will grow as shown below⁵. New development projects would increase the AV beyond what is shown below

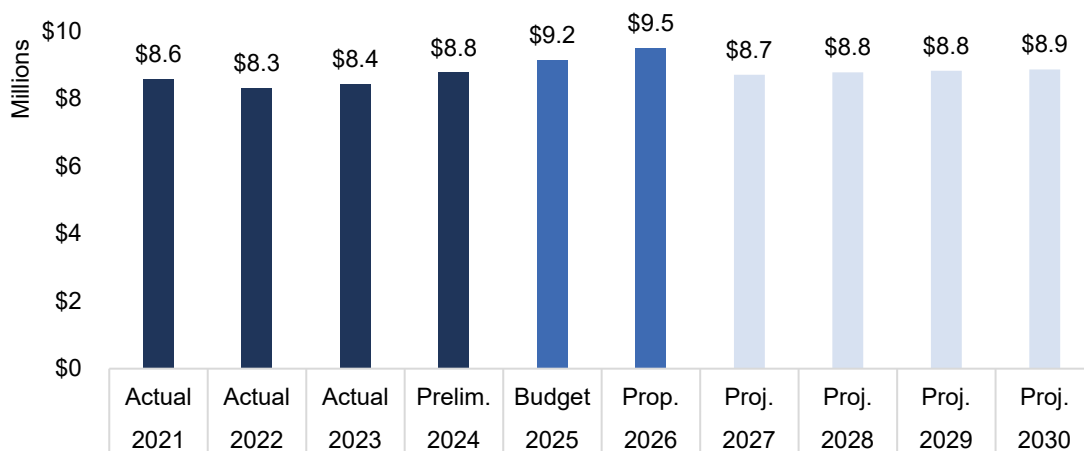
Projected Taxable Assessed Value, 2024 – 2030 (\$ millions)

	2025 Budget	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.	CAGR
Non-LERTA assessed value	\$360.2	\$361.0	\$361.7	\$362.5	\$363.3	\$364.1	0.2%
42 LERTA parcels	\$7.8	\$9.3	\$10.7	\$12.0	\$13.3	\$14.1	12.6%
Five prospective LERTAs	\$0.0	\$0.0	\$1.7	\$2.6	\$2.6	\$2.6	N/A
Total assessed value	\$368.0	\$370.2	\$374.1	\$377.1	\$379.2	\$380.8	0.7%

Key trend: Growth in the real estate tax base has been fueled by and concentrated in development of properties using the Local Economic Revitalization Tax Assistance (LERTA)

Combining the constant tax rate, the historical current year collection rate, and the growing tax base yields the following current year real estate tax revenue projection, net of discounts for early payment.

Current Year Real Estate Tax Revenue (Net of Discount), 2021 – 2030⁶



Prior year real estate tax revenues⁷ fluctuated during the review period from \$470,000 to \$628,000 per year, and the City's 2026 budget target is \$612,000. Prior year tax revenues can peak and plummet depending on the presence or absence of a few large delinquent accounts. The baseline projection assumes prior year real estate tax revenues grow according to the same trajectory as current year revenues.

⁵ New development projects beyond the five captured in the "prospective LERTA" category would increase the AV in that row.

⁶ The \$9.2 million budget target for 2025 is based on a taxable assessed value assumption from earlier in 2024. The City has adjusted this assumption, which we use in 2026 and beyond, along with the historical collection rate of 94.5 percent.

⁷ This includes revenues collected by the City's external tax collector, the County Tax Claim Bureau and the City itself.

Earned income tax

The earned income tax (EIT) is the City's largest source of revenue and accounts for 23.1 percent of the combined General, Debt, and Recreation fund proposed budget for 2026. Its robust growth has been critical to the City's financial stability and is a big reason that Easton has been able to balance its budget without real estate tax increases.

Earned Income Tax Revenues, 2021 – 2024 (\$ million)

	2021 Actual	2022 Actual	2023 Actual	2024 Prelim.	CAGR
Resident	\$7.6	\$8.8	\$10.2	\$9.8	8.8%
Non-resident (Pension only)	\$2.1	\$2.3	\$2.4	\$2.4	5.5%
Total EIT revenue	\$9.7	\$11.1	\$12.6	\$12.2	8.1%

The City uses Pennsylvania's **Local Tax Enabling Act** (Act 511 of 1965) to levy a 1.0 percent EIT on the gross earned income and net profits of its own residents and commuters who work in Easton but live elsewhere. The City splits the resident EIT revenue 50:50 with the Easton Area School District. While commuters pay the 1.0 percent EIT in Easton, the revenue from that tax is frequently remitted back to the commuters' home municipality, if it also levies a 1.0 percent resident EIT.

The City then uses its **Home Rule Charter** to levy an additional 0.95 percent EIT on its residents and contributes the associated revenue to its employee pension plans. Effective January 1, 2025, the City eliminated the 0.95 percent non-resident (or commuter) EIT that generated about \$2 million a year for the employee pension plans.

The City's future EIT revenues will be the product of three variables – the EIT rate, the collection rate, and the tax base.

Under the baseline *status quo* methodology, we assume the EIT rate remains at the 2026 levels with residents paying 1.45 percent and commuters paying 1.0 percent to the City⁸, but only if their home municipality does not also have a resident EIT.

According to Pennsylvania law, Easton's EIT is collected by a third party selected by a countywide governance committee. In Northampton County, Keystone Collections Groups collects the EIT on behalf of Easton and all other municipalities and school districts that use the tax. Under the baseline methodology, we also do not assume any changes in EIT collection rates.

That leaves the tax base as the primary variable for projecting future tax revenues. Since most current year EIT revenue now comes from residents, we focus on the resident EIT base – the number of jobs and earnings of Easton residents.

Resident employment

The US Bureau of Labor Statistics publishes data on employment, labor force participation, and unemployment for Easton residents.⁹ The number of employed Easton residents dropped during the first year of the COVID-19 pandemic, then rebounded to pre-pandemic levels in 2021 and has grown by 1.0

⁸ We assume Easton residents will also continue to pay 0.50 percent to the Easton Area School District.

⁹ US Bureau of Labor Statistics Local Area Unemployment Statistics.

percent per year since 2022. The labor force also increased, and the unemployment rate dropped lower than it was before the pandemic.

	2019	2020	2021	2022	2023	2024	CAGR
Labor Force	14,593	14,435	15,363	15,116	15,217	15,295	0.9%
Employment	13,854	13,032	14,407	14,477	14,640	14,764	1.3%
Unemployment	740	1,403	957	638	577	531	-6.4%
Unemployment rate (%)	5.1	9.8	6.2	4.2	3.8	3.5	-7.3%

Resident earnings

The US Census Bureau provides a separate set of data on changes in resident earnings and income on a household, family, and per capita basis¹⁰. Earnings (primarily salary and wages) are a subset of income, which also includes social security, public assistance, and other items not subject to the EIT.

	2019	2020	2021	2022	2023	CAGR
Median Household Income (S1901)	51,698	55,201	58,243	62,642	63,775	4.9%
Percent below poverty level (S1701)	15.9%	16.4%	17.6%	16.5%	17.9%	1.4%
Median earnings past 12 months (S2001)	\$25,352	\$27,418	\$29,836	\$32,692	\$34,290	8.2%

Considering these metrics in tandem with other datapoints provides a more holistic view of past performance, which in turn informs our projections.

In addition to the Census data, the City's financial figures show double-digit year-over-year resident EIT growth in 2021 (11.8 percent), 2022 (16.5 percent), and 2023 (15.6 percent). The compound annual growth rate over the full 2020 to 2024 review period was a little lower but still very strong at 9.6 percent, and these figures account for growth in the number of employed residents and resident earnings.

Future tax base growth

One key factor in Easton's tax base growth has been the addition of new multi-unit residential properties like the Watermark apartment towers (45 Larry Holmes Boulevard) and The Commodore mixed-use development (100 Northampton Street). These properties add residents with relatively high household incomes to the tax base who will pay the City's EIT, even if they work outside of Easton. While the property owners benefit from the City's 10-year declining tax abatement under LERTA,¹¹ the residents who live in those properties pay EIT immediately. So, City government can waive part of the real estate tax revenue and still benefit financially.

This year, about 100 residential units were added to the City's tax base with the completion of The Commodore, the first phase of the Watermark projects, and partial occupancy of The Marquis apartments (27 South Third Street). The City accounted for this tax base growth in its 2025 budget target, which is 12.1 percent higher than preliminary 2024 results.

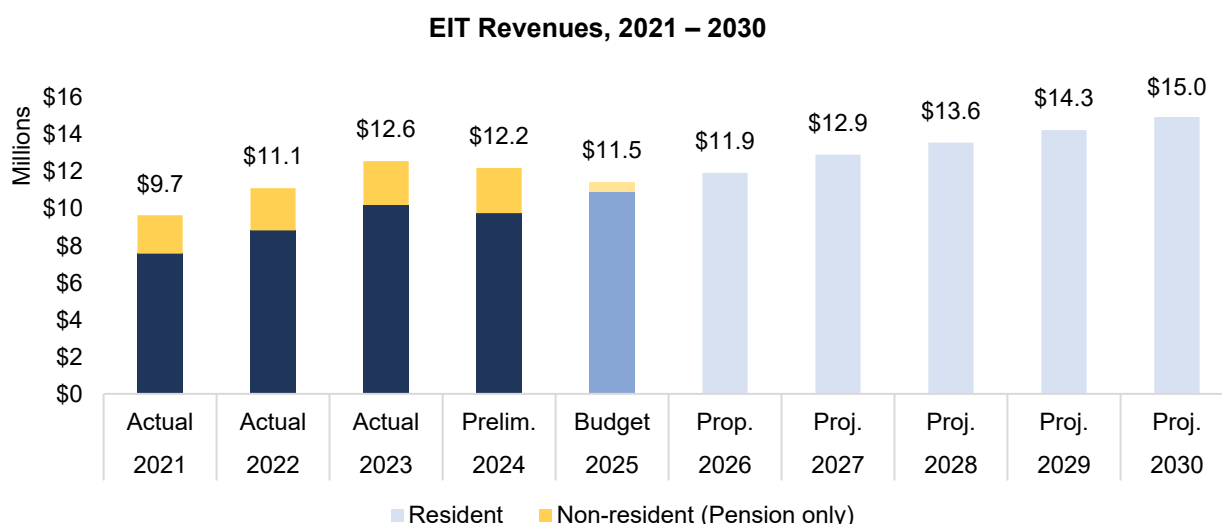
¹⁰ American Community Survey five-year estimates. The= 2023 dataset was the most recent at the time of analysis.

¹¹ Please see the real estate tax section for more information on LERTA.

In 2026, 300 additional residential units will open with the completion of the second phase of Watermark and further occupancy at The Marquis Apartments. The 2026 proposed budget captures this additional growth as a 9.0 percent increase over the 2025 budget.

Beyond 2026, the baseline projects another 273 rental units will come online when Confluence (185 South Third street) is completed (revenue reflected in 2027). We then assume the earned income for Easton's existing tax base – current residents including those who moved into the City in recent years – grows by 5.0 percent. This is admittedly a conservative estimate relative to recent growth in EIT revenues, but the robust, double-figure growth in EIT revenues was partially powered by new residents who recently moved into the City and are now included in the existing tax base.

The resulting projection is 8.3 percent growth in 2027 and then 5.0 percent growth thereafter. Total EIT revenues dropped in 2025 when the City eliminated the distressed pension EIT on commuters.



As noted above, the City has greatly benefited from adding new residential units occupied by residents with relatively high incomes, and the projections assume that will continue in 2027. The projections only account for known development projects, and similar projects could push the EIT growth back closer to the double-digit percentages experienced from 2020 through 2023.

Similarly, the projections assume the new residential units are filled quickly by residents with relatively high incomes. If the market changed – if the residential units remained vacant or if the occupants had different income levels – that would also change the City's revenue projections.

The potential for changes underscores the importance of monitoring performance relative to projections and continually adjusting them. This is true for all facets of a multi-year projection, but especially in this area because of EIT's size and importance to City government's fiscal performance.

Key trend: Easton has experienced growth in its the earned income tax base, spurred by an increase in the number of residents with higher incomes in recent years. The baseline assumes some of this growth will continue.

Other major revenues¹²

Property development, especially the addition of multiple multi-unit residential properties, has fueled the City's strong earned income tax revenue growth and produced some growth in Easton's real estate tax revenues, which are often flat for Pennsylvania's smaller cities.

This form of economic development should also drive other revenues higher, though that growth may be more sporadic and lack the recurring benefit of EIT and real estate growth. For example, the surge in residential construction helped building permit revenues jump from \$489,000 in 2021 to \$1.0 million in 2023. Those revenues slipped to \$866,000 in 2024, which is still much higher than at the start of this review period. This uneven growth pattern indicates the City should not assume or rely upon double-digit growth from revenues that are tied to large projects, especially if those projects are still in their early stages.

Key trend: The City should experience some growth in revenues other than the real estate tax and EIT that is connected to residential development, especially for projects near completion. But the baseline does not attempt to predict further growth from new projects, and we encourage the City to revisit these assumptions and update the baseline projection regularly.

Other tax revenues

The City levies its **business privilege tax** (BPT) at different rates on wholesale, retail/service and property rental activity. Certain types of commercial activity, such as manufacturing, are not taxed under Pennsylvania law, and BPT revenues are often flatter than external economic growth indices suggest they should be.

Easton's BPT revenues grew by 5.5 percent from 2021 through 2024, but that growth was uneven with positive and negative swings of more than 20 percent each of the last three years. The City budgets \$831,000 for 2026, which is close to the 2024 actual receipts, and the baseline assumes 2.0 percent growth, which could be higher if there are new rental properties.

The City levies a **real estate transfer tax** on the value of land and buildings sold or transferred, and those revenues dropped from \$695,000 in 2021 to \$568,000 in 2024. Transfer tax revenues can vary widely year to year, depending on the presence of a few large commercial transactions. The City budgets \$497,000 for 2026, which we hold flat through 2030.

The City levies a 5.0 percent **admissions tax** on "the sale of admission or privilege to attend or engage in any amusement," up to a maximum of \$2.50 per ticket. Admissions tax revenues jumped from \$265,000 in 2022 to \$441,000 in 2023 and then leveled off in 2024. The baseline projects inflationary growth off the \$491,000 budget target for 2026.

Parking

Easton's parking enforcement is run by City government. The City collects revenue from on-street parking meters, three parking lots, and two garages concentrated in downtown Easton at rates ranging from \$1.50 to \$3 per hour. The City leases some spaces from Northampton County as well as the private firm that owns the Social Security Administration building. Coming out of the COVID-19 pandemic, parking revenues increased by 61.9 percent from \$1.1 million in 2020 to \$1.8 million in 2021. Since then, the City has seen

¹² Revenues generated by the City's solid waste and sewer utility functions are discussed near the end of the chapter.

double-digit increases to parking revenue in 2022 (a 15.1 percent increase) and 2024 (a 36.6 percent increase).

In 2026, the City plans to procure 175 more parking spaces and increase hourly rates from \$2.00 to \$2.75 (a 37.5 percent increase) or \$2.50 to \$3.00 (a 20 percent increase), depending on location. As a result, the proposed budget increases parking revenue to \$4.5 million – a 31.4 percent increase over the 2025 budget. In the baseline, status quo scenario, we assume that the number of spaces, demand, and fees remain at 2026 levels. Therefore, parking revenue is projected to remain at \$4.5 million through 2030.

Gaming revenue

The City receives a portion of the host fee payments generated by the Wind Creek Casino in Bethlehem. These revenues fell to \$491,000 in 2020 due to the COVID-19 pandemic and then rebounded to \$1.2 million in 2022 where they remained through 2024.

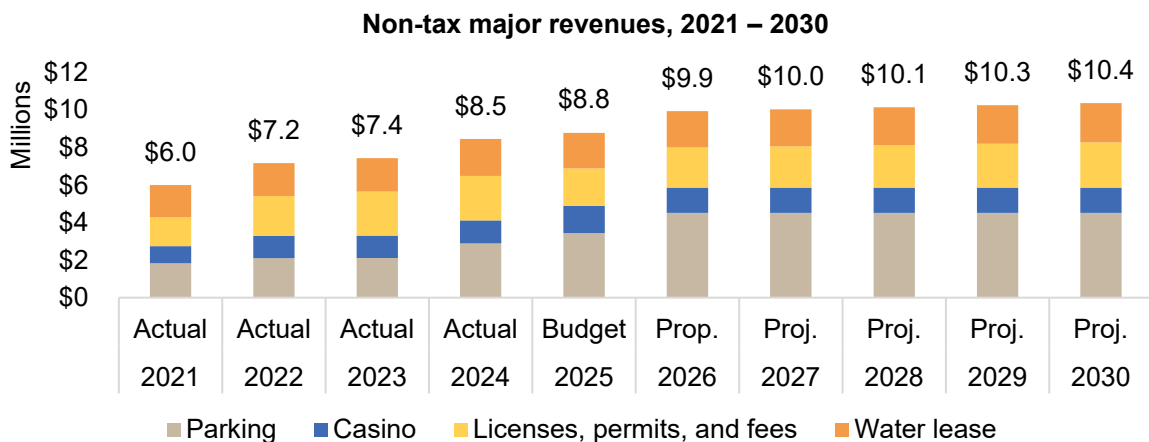
The 2025 budget anticipated revenues would increase to \$1.4 million, but mid-year results suggest 2025 revenues will finish closer to recent years. Therefore, the City dropped this revenue to \$1.3 million in the 2026 proposed budget. While the baseline methodology holds this revenue constant through 2030, Wind Creek has been expanding in recent years, adding hotel rooms and growing its recreational offerings. If casino revenues continue to grow, payments to the City of Easton would outperform the baseline projection.

Licenses, permits, and fees

Building permit revenues surged from \$489,000 in 2021 to \$1.0 million in 2023 and then finished at \$866,000 in 2024. The City's proposed budget in 2026 includes \$734,000 for this revenue, which is consistent with the five-year average for 2020 through 2024. The baseline then grows building permit revenue by 5.0 percent to capture some natural growth that has been occurring historically.

Residential rental permit revenues jumped from \$396,000 in 2023 to \$539,000 in 2024. The 2026 proposed budget is more conservative in its assumption (\$478,000), meanwhile the City is expected to add 1,200 to 1,500 new rental units in 2026. To account for some of this continued growth, the baseline grows revenue by 5.0 percent annually through 2030.

New residential properties should increase utility related revenue. More residents should translate to higher water usage and boost revenue associated with that system, though the City's share of revenues are set by its lease agreement with the Easton Suburban Water Authority (ESWA). The General Fund receives \$2.0 million according to the **water lease**, and the baseline projects 2.0 percent increases without accounting for any changes in the lease terms.



Personnel costs

Like most local governments, the City allocates much of its operating budget to employee compensation. Expenditures for employee salaries and wages, health insurance, pension, and other personnel expenses make up 65.3 percent of the 2026 combined General, Debt, and Recreation fund budget.

Most City employees are members of one of the three collective bargaining units: the Fraternal Order of Police (FOP) Easton and Washington Lodge No. 17; the International Association of Firefighters (IAFF) Local 713; and the American Federation of State and County Municipal Officials (AFSCME) Local 447. The collective bargaining agreements between the City and unions govern the compensation and benefit provisions that drive personnel costs.

Cash compensation

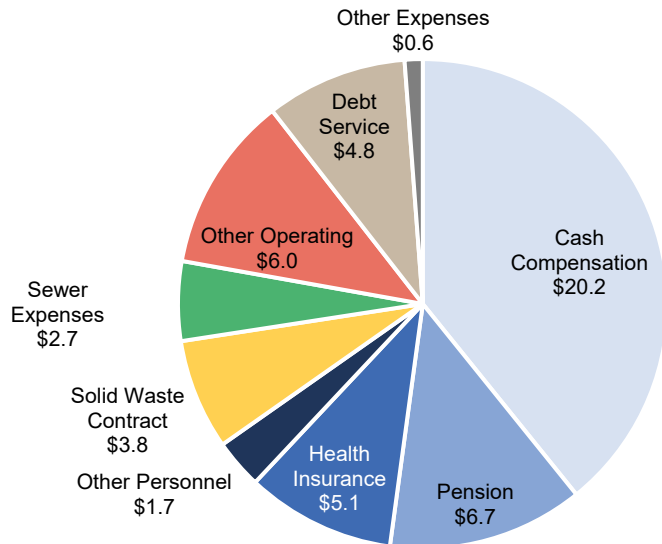
Cash compensation, including base salaries and wages, tenure-based longevity payments, and overtime, is the largest component of personnel costs, totaling \$20.2 million in the proposed 2026 budget (or more than half of the budgeted personnel costs in that year). In 2020, the City furloughed 81 employees for 10 weeks at the outset of the COVID-19 pandemic to help close a projected \$5.5 million budget gap. Since then, cash compensation has grown by 5.1 percent annually.¹³

The City recently negotiated a four-year contract with its police union that includes 4.5 percent wage increases in 2025 and 2026, 4.25 percent in 2027, and 4.0 percent in 2028. In addition to these base wage increase, uniformed police officers will also receive a \$2,000 base wage adjustment in 2026 and 2027.

At the time of analysis, the City was negotiating a new agreement with the firefighters that would run through the end of 2028, and the collective bargaining agreement with AFSCME members expired in 2024. The baseline carries the most recent wage increase forward throughout the projection period.¹⁴

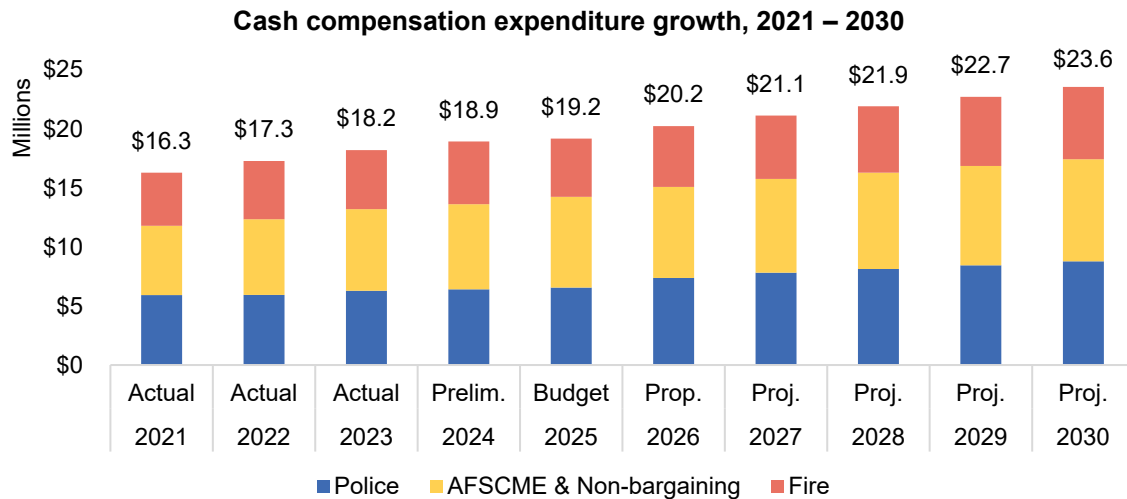
The resulting projection shows total cash compensation increasing from \$20.2 million in the proposed 2026 budget to \$23.6 million by 2030 (a 3.9 percent average annual increase).

**General Fund Expenditures
2026 Proposed Budget (\$ million)**



¹³ The management review section will discuss changes in headcount over the review period. The baseline carries the 2026 proposed budgeted headcount forward.

¹⁴ Projected base wage increases used in the model are not recommendations or collective bargaining proposals, but are illustrative of the baseline, status quo methodology.



Key trend: More than a third of projected expenditure growth comes from anticipated growth in cash compensation, which is largely driven by collective bargaining.

Health insurance

The City is self-insured for active and retired employee health insurance coverage, meaning it pays the cost of claims when employees use health care rather than a predetermined premium amount. The City uses an internal service fund (ISF) called the Health Benefits Insurance Fund that receives contributions from multiple funds (including the General Fund); collects employees' premium contributions; and then pays claims costs.

For the past five years, the General Fund contributions into the ISF were held flat at around \$3.2 million. Audit results show that these contributions were insufficient to cover the growing claims costs in the Health Benefits Insurance Fund. **From 2020 through 2023, health care claim costs grew by more than 40 percent (a 13.1 percent average annual increase)**, and the Fund's net position was negative \$1.9 million at the end of 2023.

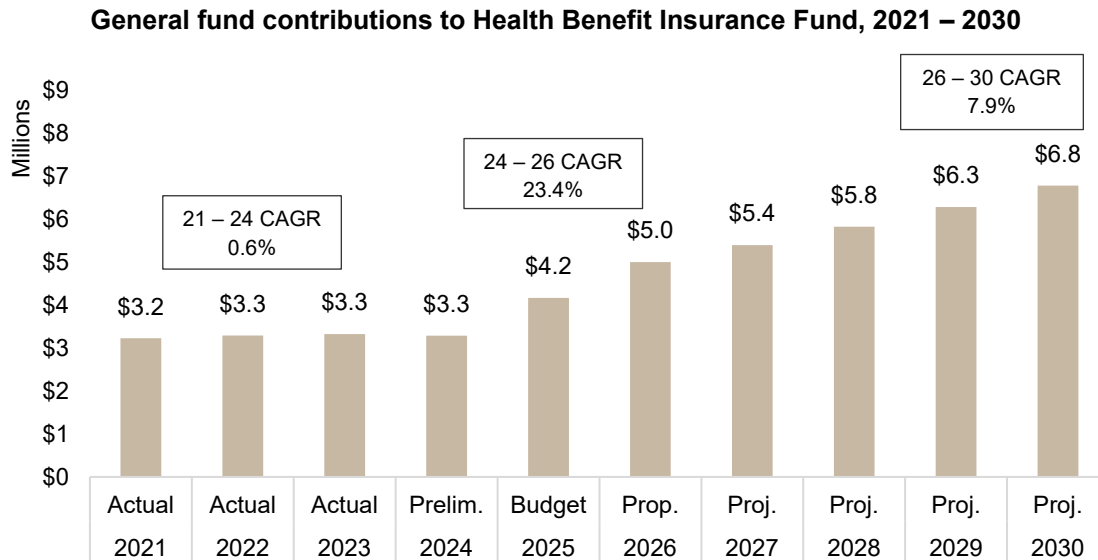
Health Benefit Insurance Fund, audited results 2020 – 2023 (\$ million)

	2020	2021	2022	2023
Total operating revenue	\$4.4	\$5.9	\$4.4	\$4.5
Health claim payments	\$4.6	\$4.8	\$5.2	\$6.6
Operating income / (loss)	(\$0.2)	\$1.1	(\$0.8)	(\$2.2)
<i>Total Net Position</i>	<i>(\$0.0)</i>	<i>\$1.0</i>	<i>\$0.2</i>	<i>(\$1.9)</i>

The City has been working with a new health insurance broker since 2024 to right-size contributions based on actual claims spending out of the Internal Service Fund. The 2025 budget increased the General Fund contributions to the Health Benefits Fund from \$3.3 million in 2024 to \$4.2 million (a 26.7 percent increase), and the proposed 2026 budget increases this amount further to \$5.0 million (another 20.1 percent increase).

The baseline assumes the City will increase these General Fund contributions to keep pace with the growing cost of insurance claims, currently projected at 7.9 percent per year following healthcare industry

cost projections.¹⁵ In the resulting projection, the General Fund's contribution toward the cost of employee health insurance increases from \$5.0 million in the 2026 budget to \$6.8 million by 2030.



Key trend: The City previously understated its General Fund spending on employee health insurance by underfunding the contributions required to the Health Insurance Fund to pay claims. The City addressed this issue in the 2025 and 2026 budgets, and the baseline ties General Fund contributions to projected claims costs that grow by 7.9 percent per year

Outside of these contributions, the City helps some retirees purchase either medical insurance or Medicare supplemental plans. The 2026 proposed budget includes \$80,000 for these payments.

Pension

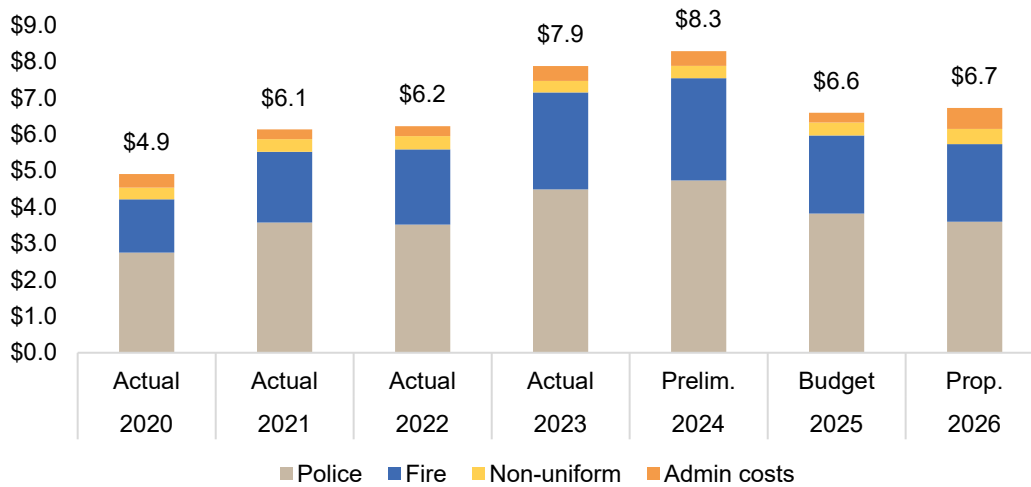
Easton has three employee pension plans: one for police, one for fire, and one for non-uniform employees. The City makes annual required contributions called Minimum Municipal Obligation (MMO) payments to each pension plan as calculated by its actuaries. Total MMO costs increased from \$6.1 million in 2021 to \$8.3 million in 2024, which is a 10.5 percent annual increase.

In 2025, the City's pension plans moved from being designated moderately distressed (i.e. funding ratio between 50 and 60 percent) to minimally distressed (funding ratio between 70 and 89 percent). In the same year, the MMO dropped by \$1.7 million.

The 2026 projected budget shows that this decrease will be sustained next year, with a \$0.1 million increase concentrated in the Pension Municipal Retirement System (PMRS) administrative costs. The baseline projection keeps MMO costs flat through 2030 in the absence of actuarial projections.

¹⁵ Segal Health Trends Study, 2025. Per person cost projections for PPO and POS plans.

Pension Minimum Municipal Obligation, 2020 – 2026



Key trend: Pension costs dropped sharply in 2025, and the proposed budget shows that the 2026 MMO payments will remain roughly at this level.

Operating expenses

The City's operating expenditures cover contracted services; equipment, materials and supplies; and utilities. Like the City's health insurance process, Easton uses an internal service fund to pay for **liability insurance**. The General Fund contributions to the Liability Insurance Fund were flat from 2020 through 2024. The City budgeted a 28.6 percent increase in this contribution in 2025, and a 1.2 percent increase in 2026. The baseline accounts for annual inflationary increases.

The proposed budget reduces projected expenditures on **contracted services** in 2026 since the 2025 budget allocated money for legal services related to collective bargaining. The baseline projection assumes operating costs continue at the current, status quo levels, and grow these costs along with consumer price inflation (2.5 percent) or utility price projections¹⁶ through 2030.

Other operating expenses, 2025 – 2030 (\$ million)

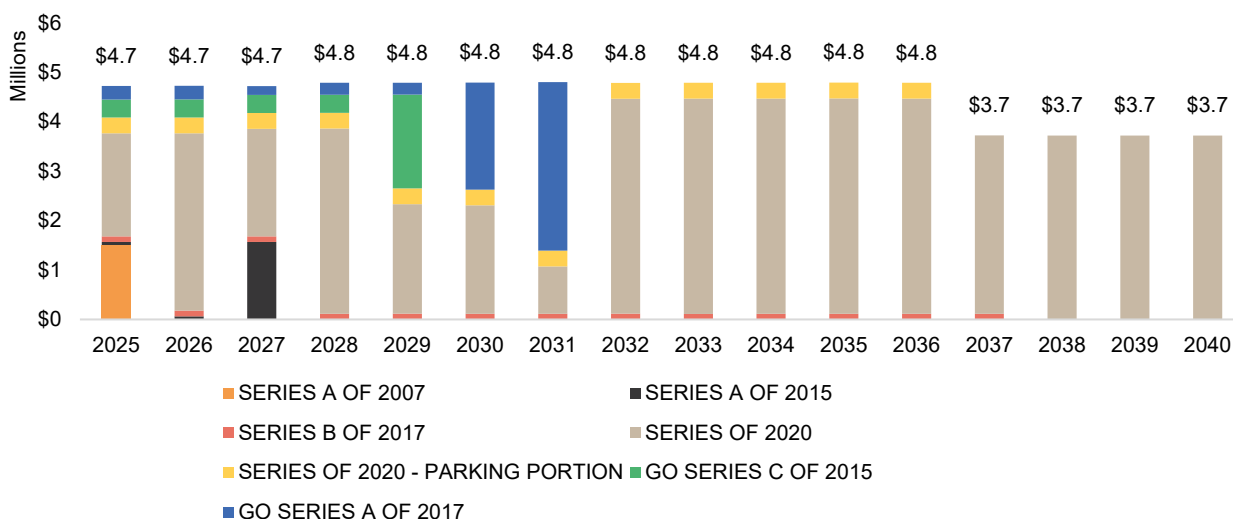
	2025 Budget	2026 Prop.	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.	2025 - 30 CAGR
Contracted Services	\$2.4	\$2.1	\$2.1	\$2.2	\$2.3	\$2.3	-1.2%
Equipment and Repairs	\$1.4	\$1.4	\$1.5	\$1.5	\$1.6	\$1.6	2.1%
Materials and Supplies	\$0.8	\$0.9	\$0.9	\$0.9	\$0.9	\$0.9	2.3%
Liability & General Insurance	\$0.6	\$0.6	\$0.6	\$0.6	\$0.7	\$0.7	2.3%
Utilities	\$0.7	\$0.4	\$0.7	\$0.7	\$0.7	\$0.7	1.9%
Other Miscellaneous	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	0.8%
Total other operating	\$6.6	\$6.0	\$6.4	\$6.6	\$6.7	\$6.9	0.8%

¹⁶ Blended growth rate using cost projections from U.S. EIA Annual Energy Outlook 2025- Table 3. Energy Prices by Sector and Source. For electricity costs, the baseline assumes a 5 percent increase annually, consistent with historical results. This factors in regional differences in electrical and other utility cost trends for Pennsylvania.

Debt

The City makes annual debt service payments toward its General Obligation (GO) and Pension Bond liabilities. Debt costs dropped in 2023 following a restructuring and have since remained around \$4.7 million. The City has level debt service through 2036 when it drops to \$3.7 million through 2040. **Please note that the baseline does not assume any new debt issuances that the City may need over this period.**

City of Easton, Debt Schedule 2025 – 2040



One measure that credit rating agencies use to evaluate municipalities' creditworthiness is debt's share of total expenditures – in other words *how much of the City's obligations are fixed today because of yesterday's costs?* In 2026, the City plans to spend 9.3 percent of the combined General, Debt, and Recreation Fund budget on these fixed costs and that percentage only drops because other expenditures are expected to rise. Debt payments themselves will stay at the current, relatively high levels absent any debt restructuring or early repayment.

Key trend: Debt costs are expected to remain a significant portion of the City's annual budget. These higher levels of fixed costs leave the City with less flexibility to respond to shortfalls and make strategic investments without raising taxes.

Utility functions

Solid Waste and Recycling

The City collects fees for its solid waste and recycling program from residential property owners as part of their monthly utility bills.¹⁷ The City charges a collection fee (\$42 per month per property in 2025) and a trash service fee (\$2 per month per property). The City uses this revenue to pay its contracted private hauler who collects trash and recycling in Easton each week, and other sanitation expenses.

¹⁷ The City's contract covers residential properties including apartments with six units or less on a single lot. Larger apartments, commercial, mixed use and other property owners contract directly with private haulers.

In 2024, the City began a new three-year contract with its hauler that increased costs by nearly 25 percent in 2025. In 2026, the contract is set to increase again by 3.0 percent, tied to price inflation. Rather than increase fees to customers by a very large amount in one year, the City spread the increase over multiple years, raising the collection fee from \$33 per month in 2023 and to \$41 per month in 2025. In 2026, the City is proposing another \$2 increase to \$43 to cover the contract cost growth.

The baseline grows trash hauler contract costs by 16.1 percent annually, mirroring the historical annual average growth from 2020 through 2024. Other sanitation expenses are expected to grow along with salaries and wages, health insurance, and other operating costs. On the revenue side, the baseline assumes the City will continue its practice of increasing fees to cover rising contractual costs, as it has done in the past.

The chart below shows net solid waste revenues in a baseline scenario (assuming continued fee adjustment practices) and a flat fee scenario (which keeps rates at 2025 levels through 2030). If the City discontinued its fee increase practice and instead kept fees flat as trash hauler rates increased, the General Fund would eventually need to subsidize solid waste and recycling services using other sources like the real estate tax.

Net solid waste revenue, 2025 – 2030 (\$ million)

	2025 Budget	2026 Proposed	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
Solid waste fee revenue	\$4.2	\$4.4	\$4.8	\$5.5	\$6.3	\$7.3
Trash hauler contract expense	\$3.7	\$3.8	\$4.4	\$5.1	\$5.9	\$6.9
Other sanitation expense	\$0.3	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4
Net solid waste revenue - baseline	\$0.2	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0
<i>Net solid waste revenue - flat fees</i>	<i>\$0.2</i>	<i>\$0.3</i>	<i>(\$0.4)</i>	<i>(\$1.1)</i>	<i>(\$1.9)</i>	<i>(\$2.9)</i>

Sanitary Sewer System

The City is a participating member in the Easton Area Joint Sewer Authority (EAJSA) along with Forks and Palmer Townships, and the Boroughs of West Easton, Tatamy, and Wilson. EAJSA operates the wastewater treatment plant that sits south of Easton while the City Public Works staff maintain the sewer conveyance lines within Easton's borders.

The City bills residential, commercial, and institutional sewer customers for service based on their water usage. The City includes these **sewer charges** on its monthly utility bills, collects the resulting revenue in the General Fund, and then transfers that money into a separate sewer fund. The revenues paid into the General Fund and associated transfer out of the General Fund offset each other at \$6.0 million in the proposed 2026 budget, and the baseline assumes they remain cost-neutral to the General Fund.

As an Authority member, the City makes **quarterly payments to EASJA** for Easton's share of the Authority's capital and operating expenses. Authority payments grew from \$2.6 million in 2021 to \$2.9 million in 2024. The City budgeted a slight decline in 2025 and 2026 (\$2.7 million), and baseline projection assumes a 2.5 percent inflationary growth rate that is close to historical performance.

The General Fund covers the **operating costs associated with maintaining sewer conveyance lines** throughout Easton, most of which is employee compensation for Public Works staff. The City then transfers money from the Sewer Fund into the General Fund to offset most of its sewer operations costs. The baseline grows operating costs within the General Fund using the same assumptions described above and then increases the offsetting interfund transfer by a comparable percentage.

The City receives **reimbursements and rebates from EAJSA** that ranged from \$809,000 in 2022 to \$2.2 million in 2024. The 2026 budget anticipates \$934,000 from these revenues, which is close to the four-year average for 2020 through 2023 (\$919,000), and the baseline assumes they grow by a sufficient rate to reimburse the City for the associated costs.

Finally, the City transfers money from the Sewer Fund to the General Fund to offset various expenses associated with the system. The City's proposed 2026 budget includes \$6.1 million for these transfers and the baseline assumes they grow by 2.8 percent tied to cost growth.

Key trend: The City has historically collected or transferred enough money into the General Fund to cover the rising operating costs of its solid waste and sewer services that are currently paid out of the General Fund. In the near term, if the utility expenditures remain in the General Fund, the City should continue its vigilant cost recovery approach. In the longer term, the City should consider recording utility revenues and expenses in enterprise funds to simplify the accounting.

Conclusion

City leadership has positioned Easton well financially, with a history of operating surpluses and a baseline projection that shows relatively small, manageable deficits. A May 2024 report from S&P Global ratings described the City's financial position as "healthy" with "strong reserves and liquidity position."

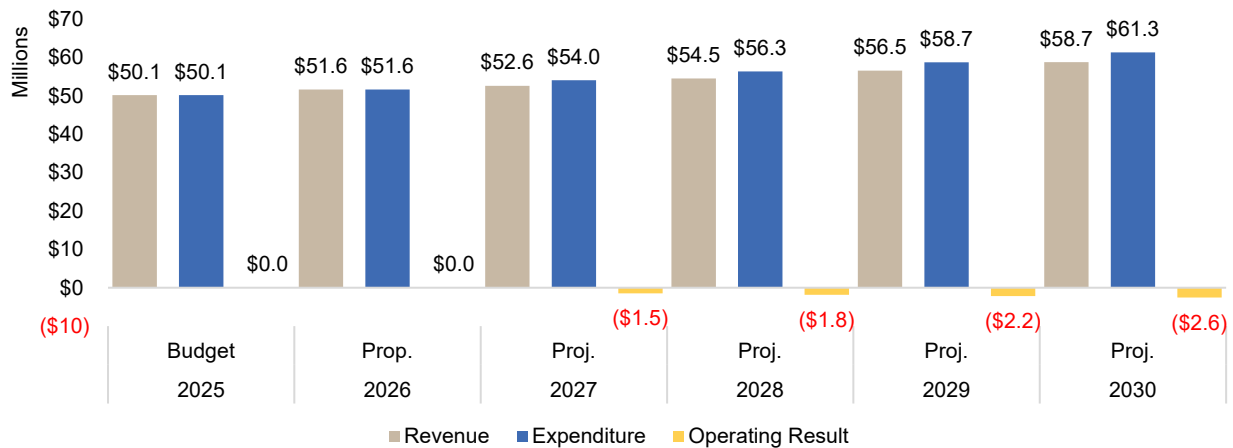
This success is fueled in part by tax base growth that has allowed City government to increase spending while holding real estate tax rates steady for the past 18 years. Again, City leadership deserves credit for helping to catalyze and then facilitate this growth, especially the work involved in creating opportunities for private developers to build multiple mixed-use and multi-family residential properties. Real estate tax and earned income tax data show that City government itself has reaped some of the rewards from these efforts since they have spurred very strong earned income tax growth. Easton has even experienced some real estate tax base growth, which is rare for Pennsylvania cities because of Pennsylvania's infrequent assessments.

The City has also been diligent in increasing its utility fees to maintain cost recovery in those systems. That has been important since the City records a lot of the financial activity associated with those systems in its General Fund. It will remain important since the City's contract with its trash hauler expires at the end of 2026, and another large rate increase (like the one enacted when the current contract began in 2024) is possible. The City is also exploring how to generate more revenue from the water system lease arrangement.

The baseline anticipates higher earned income tax revenues from residential development projects that are near completion, and it incorporates higher real estate tax revenues from properties participating in the LERTA program that will gradually become fully taxable. The baseline also assumes the City continues to raise solid waste fees to keep pace with anticipated growth in program expenditures, though those increases are not automatic – they must be enacted by City Council to take effect.

The baseline does not attempt to predict even higher revenue growth that could be generated by new development projects, beyond those near completion at the time of analysis. If recent history continues, the City would likely outperform the baseline revenue projection.

Baseline projection, 2025 – 2030



At the same time, if economic growth slows, the City will have less revenue than projected to spend on the operating and debt costs incorporated in the baseline. The City's debt service payments account for nearly 10 percent of its annual budget and that percentage will only drop because the City is projected to spend more in other areas. Absent corrective action, debt payment remain at this relatively high level for another decade, and that is without the City issuing any new debt over that period.

Other expenditures have risen rapidly, like health claims costs that grew by a very large amount from 2021 to 2023. And while the City has provided larger base wage increases in recent collective bargaining agreements, its ability to pay for future increases at those levels depends on it benefiting from new economic development projects.

Overall, the City is enjoying robust revenue growth and then spending rising revenues on higher employee compensation or other operating costs (trash hauler contract, equipment). The degree to which that is sustainable depends on economic growth.

In the near term, these risks manifest as small deficits in the baseline projection, which should be manageable if the City is proactive and takes a balanced, multi-year approach. Easton's leaders should continue to enact and support policies that encourage economic growth because City government relies on that level of growth to cover its operating and debt expenditures. The City needs to be especially vigilant in tracking the progress of new development projects and monitoring whether there is a pipeline of projects that will continue to grow the tax base.

City leaders should also take actions that will give Easton more flexibility to keep its budget balanced when revenue growth slows, so slower revenue growth does not precipitate large real estate tax increases or painful service cuts. This Plan will provide strategies to advance those near and long-term financial goals.

Appendix A

Historical and projected revenues (\$ millions), 2021 – 2030

	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Budget	2026 Proposed	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
Real Estate Taxes	\$9.2	\$8.7	\$8.8	\$9.5	\$9.8	\$10.1	\$9.3	\$9.3	\$9.4	\$9.4
Earned Income Tax	\$9.7	\$11.1	\$12.6	\$12.2	\$11.5	\$11.9	\$12.9	\$13.6	\$14.3	\$15.0
Other Taxes	\$3.3	\$3.6	\$3.5	\$3.8	\$3.7	\$2.5	\$2.5	\$2.5	\$2.6	\$2.6
Sewer Revenue	\$6.4	\$6.8	\$6.8	\$7.9	\$7.2	\$7.0	\$7.2	\$7.4	\$7.6	\$7.8
Solid Waste Collections	\$3.3	\$3.0	\$3.1	\$3.5	\$4.2	\$4.4	\$4.8	\$5.5	\$6.3	\$7.3
Parking Revenue	\$1.8	\$2.1	\$2.1	\$2.9	\$3.4	\$4.5	\$4.5	\$4.5	\$4.5	\$4.5
Water System Lease	\$1.7	\$1.8	\$1.8	\$2.0	\$1.9	\$1.9	\$2.0	\$2.0	\$2.0	\$2.1
Casino Revenue	\$0.9	\$1.2	\$1.2	\$1.2	\$1.4	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3
Licenses, Permits, and Fees	\$1.5	\$2.1	\$2.3	\$2.4	\$2.0	\$2.1	\$2.2	\$2.3	\$2.3	\$2.4
Police Fines	\$1.1	\$1.1	\$1.0	\$1.1	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3
Pension Aid	\$1.5	\$1.5	\$1.8	\$1.9	\$1.9	\$2.1	\$2.2	\$2.3	\$2.5	\$2.6
Other Revenue	\$3.8	\$1.6	\$5.2	\$0.6	\$1.7	\$2.3	\$2.3	\$2.3	\$2.3	\$2.3
Total Revenue	\$44.3	\$44.7	\$50.3	\$48.9	\$50.1	\$51.6	\$52.6	\$54.5	\$56.5	\$58.7

Appendix B

Historical and projected expenditures (\$ millions), 2021 – 2030

	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Budget	2026 Proposed	2027 Proj.	2028 Proj.	2029 Proj.	2030 Proj.
Cash Compensation	\$16.3	\$17.3	\$18.2	\$18.9	\$19.2	\$20.2	\$21.1	\$21.9	\$22.7	\$23.6
Pension	\$6.3	\$6.4	\$8.0	\$8.5	\$6.8	\$6.7	\$6.7	\$6.7	\$6.7	\$6.7
Health Insurance	\$3.4	\$3.5	\$3.5	\$3.5	\$4.4	\$5.1	\$5.5	\$5.9	\$6.4	\$6.9
Other Personnel	\$1.2	\$1.4	\$1.5	\$1.5	\$1.6	\$1.7	\$1.7	\$1.8	\$1.9	\$1.9
Solid Waste Contract	\$1.9	\$1.9	\$2.1	\$3.0	\$3.7	\$3.8	\$4.4	\$5.1	\$5.9	\$6.9
Sewer Expenses	\$2.6	\$2.8	\$2.9	\$2.9	\$2.7	\$2.7	\$2.8	\$2.8	\$2.9	\$3.0
Other Operating	\$5.2	\$6.0	\$5.9	\$5.9	\$6.6	\$6.0	\$6.4	\$6.6	\$6.7	\$6.9
Debt Service	\$7.1	\$4.5	\$4.7	\$4.7	\$4.7	\$4.8	\$4.8	\$4.9	\$4.9	\$4.9
Other Expenses	\$0.6	\$0.9	\$1.5	\$1.3	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6	\$0.6
Total Expenditure	\$44.6	\$44.5	\$48.4	\$50.1	\$50.1	\$51.6	\$54.0	\$56.3	\$58.7	\$61.3