



2017 City of Easton Budget Address

Mayor Salvatore J. Panto, Jr.

Good evening Members of Easton City Council and guests. As per the City of Easton Charter, I am here to present the Administration's recommended budget for 2017.

Today I present a proposed 2016 budget that is structurally balanced with existing revenues. It supports my belief in taking on tough issues and trying to solve problems. It prioritizes the county's core responsibility – public safety.

This is a budget that responds to what the residents of Easton expect and deserve: a city government that steps up to the plate and confronts serious issues without kicking them down the road to be someone else's problems in the future.

One of the great things about living in our small, walkable city like ours is the opportunity to connect with our residents on a regular basis. They help me with my decisions by keeping me informed of their needs and their wants as a resident. They have real issues they face daily but one thing that is constant is their optimism about the future of our city.

What do citizens want? If you listen, they'll tell you...and we listen: Councilmembers listen. I listen. Here's what we've been hearing:

Citizens want a safe city. They want a good job and economic opportunity for themselves, and their children. They love their parks and want programming for all ages. Citizens expect high performance of basic services. They want their investment...their tax dollars...to be used wisely...efficiently. And they want transparency and accountability. They demand a high quality of life and they want to be proud of their city which they say is starting to happen.

When we put together our budget, we always come back to these blocks that build Easton business and brand, each an essential part of the priorities we have lived by for the past eight years.

Our residents know that we are providing the full service city they want and they know that we have the fiscal restraint to find ways of funding our city without increasing their costs. We have not raised real estate taxes during our Administration and we have not raised their sewer rates nor have we raised their garbage rates in the last 7 years. For a city on the verge of Act 47 in 2007, this has been a remarkable achievement. Our collective sacrifices, fiscal responsibility and hard work have not been in vain. Above all else, my priority as Mayor has been to steer the city through its fiscal crisis and build a strong fiscal foundation for future generations.

Our goal in next year's budget is to continue that trend for as long as possible. The mission of City government is to provide open, honest, and pro-active services effectively and efficiently, focusing on the needs of today and planning for tomorrow. In 2017 we will continue to strive to exceed the service level expectations of our constituents.

Balancing the City's budget is no easy task and I appreciate the hard work our Department heads and staff have put into the preparation of this year's budget. I especially want to recognize our City Administrator Luis Campos for his leadership in this effort. Appreciation also goes to our Finance Director Cassandra Williams and the entire Finance Department for providing the needed data to assure a budget that reflects the revenues and expenses of the city.

Tonight I present to you a budget that for the ninth straight year holds the line on property taxes and all other fees paid for by our residents. I assure you that our goal was not reached without the full support of all of the Directors who worked hard to trim their expense side of the budget given the fact that our revenues are fairly static. And for those that say that we don't increase real estate taxes because we are at the state cap that is simply not true. We are nowhere near the cap. Back in the 80's the city's tax rate was based on 80% of appraised value. In reality we can go to 100% of appraised value and double real estate taxes. Today's budget is based on the normal 50% of appraised value.

Many have asked, how did you do it? We do it everyday the old fashioned way – we work hard. We did it internally with strong financial management and externally by implementing a strong economic development program that has seen more than \$450 million of investment and building a city that for the first time in decades is actually increasing its total assessed value and our population. And remember, most of the development has been in LERTA or KOZ areas but come 2023 when the state legislation ends the city will be on an even stronger financial foundation. When these KOZ projects come online in 2023 they will also increase the Earned Income Tax considerably.

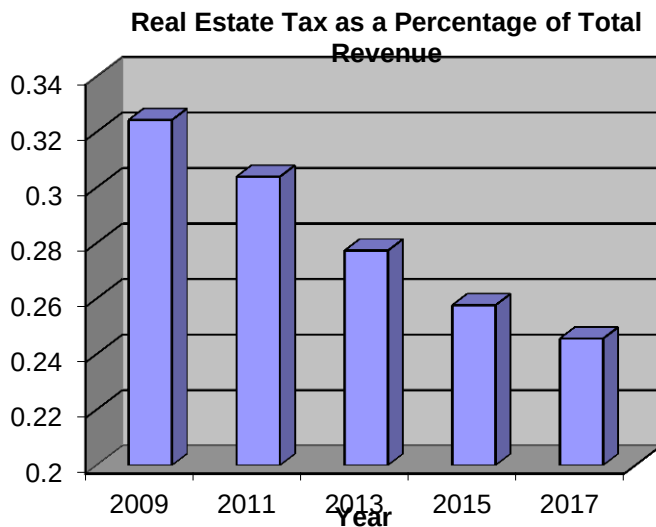
The momentum is building and people are feeling good about their city. Visitors to our city have also increased and they are coming from further and further away. We are becoming the destination city I discussed back in 2008 when we took office.

REVENUE HIGHLIGHTS

As we look to next year we also need to look back at 2015. This Administration has prided us on a strong financial management process. After eight straight years of budget surpluses we are expecting that the 2015 year end will result in another surplus.

Unfortunately, given the state tax-deferment programs which have helped us produce great

economic development projects over \$450 million, our real estate tax revenues have increased but ever so slightly. The chart to the left further illustrates that less and less of our budget revenues is generated by real estate taxes.



However, the 2016 budget was created on escalated calculations in 6 areas – real estate tax, admission tax, business privilege tax, and health licenses were exaggerated more than \$200,000 and two programs were not implemented at the beginning of the year – Commercial Fire Inspections and the Quality of Life ticketing program which may result in another \$200,000 in revenues that will not be received this year. All of these line items have been projected at more reasonable expectations for next year.

We also eliminated the Prior Year Undesignated line item which last year had a \$500,000 value. This basically meant that we needed to reduce the budget by that amount. There is no undesignated prior year in the current budget I am presenting. This budget is balanced unlike last year's budget which was \$500,000 over budget that needed to be saved or revenue that had to be increased throughout the year.

Increases in revenues were received this year as a result of our aggressive economic development program, increase in the number of people visiting our city and the increase in our population. Even with our LERTA and KOZ tax abatement programs this results in more revenues received.

These increases occurred in our business taxes, parking fees and building permits. As a result of the need for increased parking the city will be re-thinking our parking strategy over the next few months. We already know that the 350-car parking deck proposed on North Fourth Parking Deck is too small and must be increased. A full study will be done later this year before plans are developed.

General Fund Revenues are projected to be \$35,205,162 next year as opposed to \$34,385,294 this year. This represents an \$819,868 increase or less than a 2.5% increase to provide for our full service city. As you will see in my Expense highlights, more than half of that number is solely related to the increase in our state mandated pension costs attributed to our pension legacy costs.

Specifically we will see major increases in Earned Income Taxes due to our population growth; Casino revenue continues to grow and we appreciate the good news about the expansion of table games at the Sands. The City of Easton is not a participant in the host fee that is paid and currently in question with the most recent ruling by the Pennsylvania Supreme Court.

Parking revenues continue to increase due to the increase in visitors to our city. The budget projection is also based on the fact that we anticipate that next year all meters will be credit card meters making it easier for our visitors to use a credit or debit card. We will also increase the marketing efforts for the MobileNow app making it easier for visitors to use our meters without getting a ticket. The Administration is also working on a segregated parking budget which indicates revenue and expenses associated with the parking system. Although the numbers look large, and they are, due to the large increase of people coming to our city, the segregated budget will actually indicate a loss to the city when all costs are factored, including debt service on parking decks.

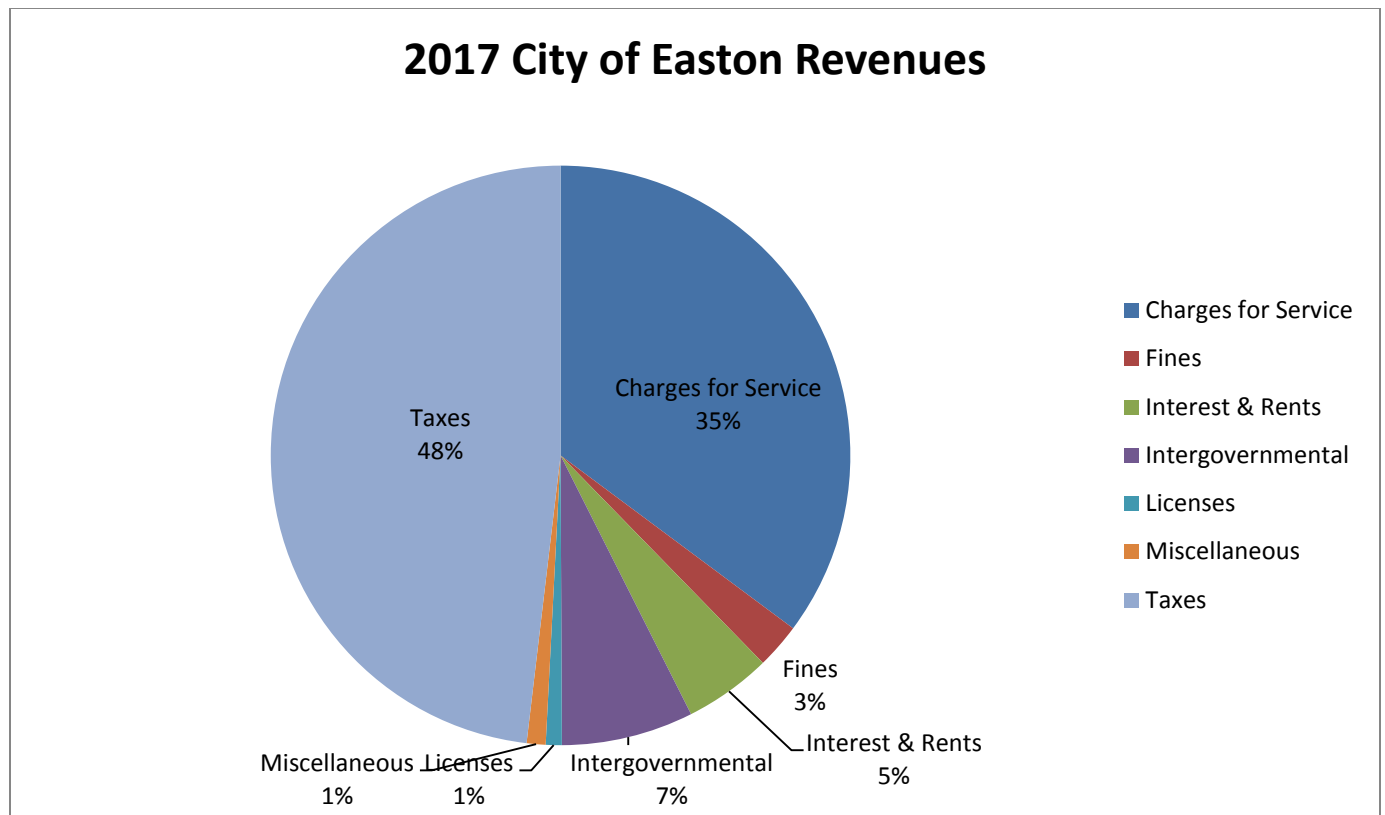
You will note that the Pine Street Garage budget is decreased by \$200,000. This facility has outlived its productive use. We are spending several hundred thousand dollars a year to maintain it and those costs are expected to drastically increase based on an engineering study we had done this year. For the next year, we are going to stall the needed repairs for one year and we are recommending an amount of money for a more thorough study to determine its future. We will concentrate on the North Fourth Street Garage construction and determine the best possible outcome for the Pine Street Garage. We will certainly involve the Crayola Experience in our study and decisions before moving forward.

The good news about parking is that we don't have enough. As a Mayor in the 80's I remember losing \$250,000 per year on the Pine Street Garage. So, in the near future we will be presenting City Council with a comprehensive parking program to address the needs of our city as well as the financial impact of the plan.

Building permit income continues to climb due to our aggressive economic development activity in the city including large projects anticipated by Lafayette College. I specifically want to thank Lafayette College for their commitment to our city and our downtown. The dedication of the William C. Buck Hall on Friday evening was a beautiful tribute to their North Third Street Campus. Alumni from far and wide attended and after I spoke it was nice to hear so many of them remark on the progress of our city and the partnership with Lafayette.

Vacant property fees are also trending higher than budgeted thanks to a program that Councilman Ruggles brought forth several years ago to have all vacant properties registered and an escalating fee to discourage continued vacancy.

The chart below indicates the sources of our revenues.



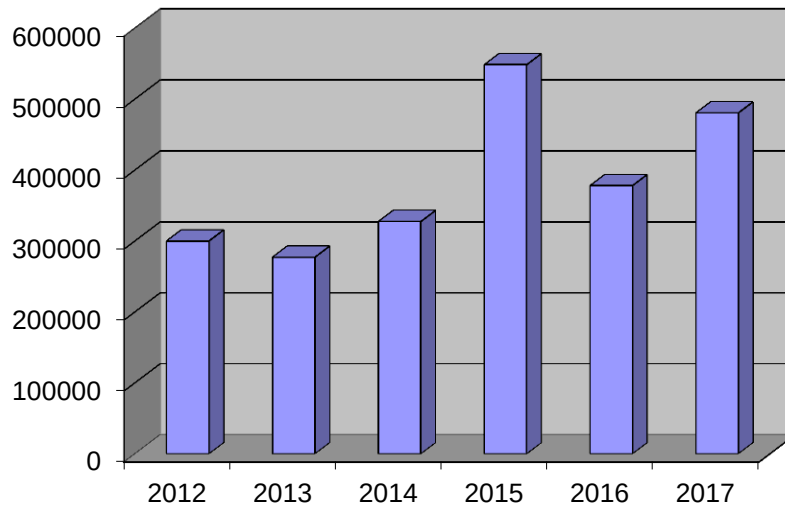
EXPENSE HIGHLIGHTS

While the revenue side of the budget remains static the expense side continues to increase. We have little control over expenses like our MMO; utilities, Collective Bargaining Agreements, debt service, etc. The discretionary portion of the budget is less than 2%. Allow me to highlight the crucial expense areas affecting this budget.

The Human Resources legal fees are increased \$70,000 due to the upcoming arbitration with the IAFF firefighter union. However, this budget does not include any increase in salaries or benefits that may be awarded. City Council made us aware of the City's position expressed earlier this year in an Executive Session. The increase salary line items in the police, non-uniformed and non-union positions total \$143,781 for next year.

Our work-related injury rate increased substantially this year, almost twice what was budgeted in 2015. Next year's budget reflects this year's experience and to address this line item proactively we are currently interviewing potential Third Party Administrators for this program and we may make a change based on the interviews and our insurance consultants.

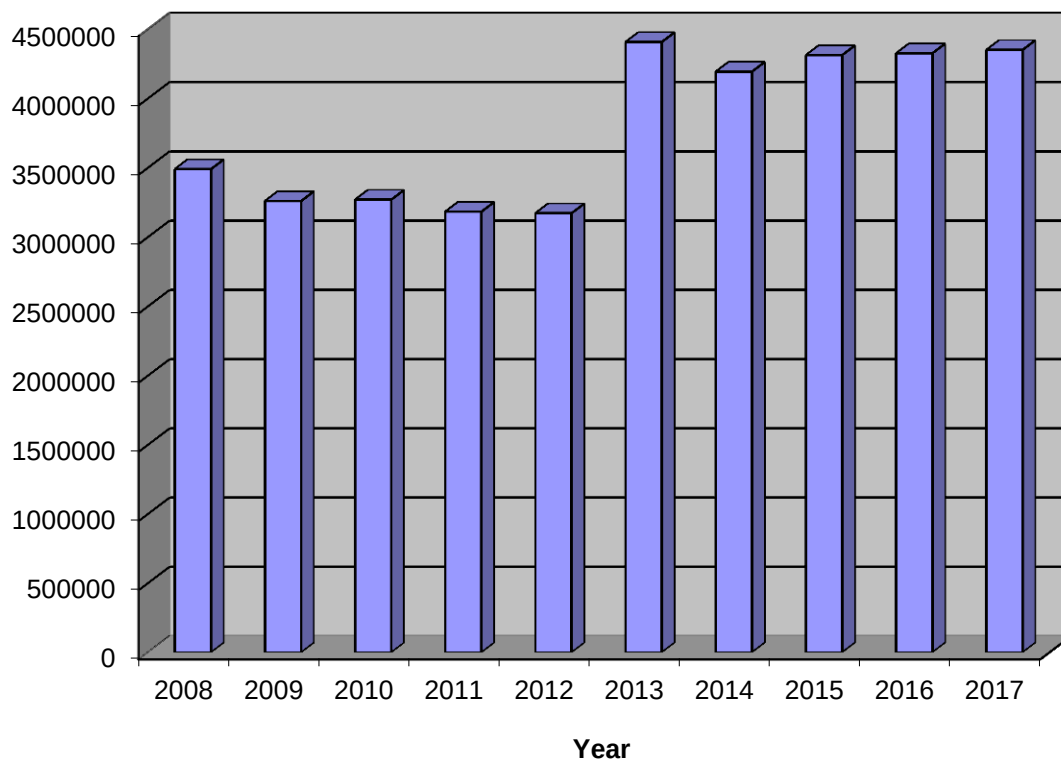
Workers Compensation Expense



The expense side of the budget includes the reduction of one non-union position – the Deputy Director of Codes. During the next year the Administration will be re-evaluating the department and may recommend some organizational changes.

Another major area of expense to the city is the cost of providing healthcare. Fortunately through sound management practice and the support of our employees we have been able to hold the cost of healthcare steady for the last three years as the chart indicates.

Health Care Costs (Ten Year History)



In your budget packet I also included the Administration's recommendations for the next CDBG budget. There are so many needs but yet our resources continue to get cut by the Federal government. These needs are real and certainly justified but the recommendations stay within the funding amount and the federal guidelines for how the money is spent.

The 2017 recommended budget includes a decrease in the Greater Easton Development Partnership contribution from \$375,000 to \$310,000. Our recommendation from the CDBG allocation remains at \$50,000. This amount does not factor in the in-kind services provided to the various programs including free rent for the Main Street Offices; computer and internet; point of sales support at the new Market, etc. These in-kind services have a value of more than \$10,000 per year plus an annual bond payment of approximately \$65,000 for the Public Market grant.

The two remaining expenses in the budget that I would like to highlight are possibly the two largest and are the most challenging. One you have been aware of – pension legacy costs – but the second is something new that many municipalities and counties are already experiencing ---- stormwater management or what is sometimes known as MS4. Here in the northeast we take water for granted, but I assure you that is not the case in many parts of our country. The Commonwealth of Pennsylvania passed Act 167 based on EPA's regulations that require municipalities to manage their stormwater.

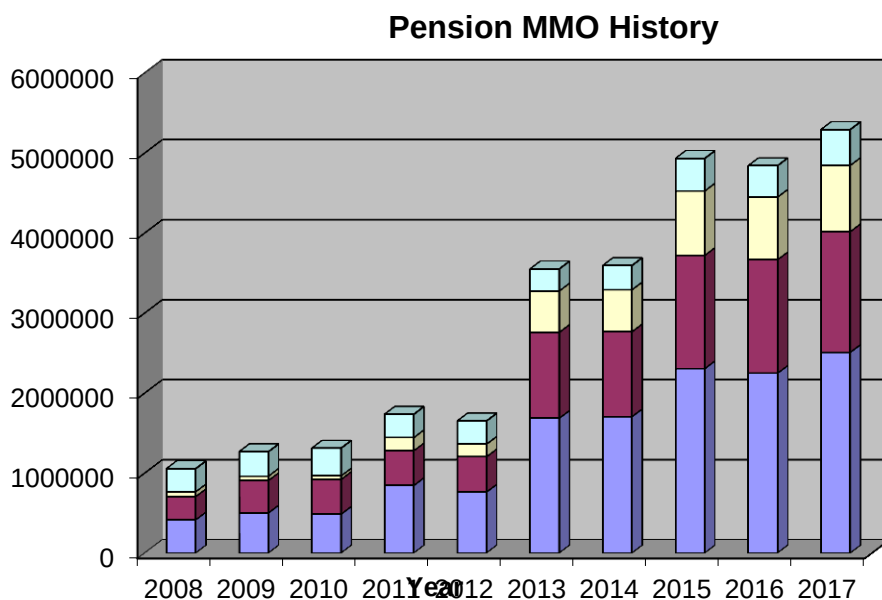
The City of Lancaster, which Councilman Melan and I will be visiting later this week, has an aggressive program that has already started. Their Green infrastructure program is a network of decentralized stormwater management practices, such as green roofs, trees, rain gardens and permeable pavement, which can capture and infiltrate rain where it falls, reducing stormwater runoff and improving the health of surrounding waterways. We too are talking about bio-swales and rain gardens in upcoming street projects and impervious basketball courts, etc.

Prior to our MS4 permit expiration in 2018, PADEP is requiring the City to submit a letter of intent to comply with the new MS4 permit regulations that will take effect in the next permit cycle beginning sometime in 2018. The new regulations require significant work items including a reduction in sediment to the Lehigh River by at least 10% as well as other nutrient reduction measures. We need to identify the best management practices that we intend to employ to reach the mandated goals (vegetated swales, storm basin, infiltration beds, etc) and also identify how we intend to fund them. We will also need to submit a detailed operations and maintenance plan which will become part of our permit responsibilities. It is anticipated that it will take a year to perform the supporting engineering to create the ordinance and then we would have the 5-year cycle to build out the mandated measures to meet the treatment goals. Therefore, this is a mandate and not really optional

As you know, we have implemented our street cleaning program several years ago to address the quality of our stormwater run off. Last year alone we removed more than 2,000 thousand cubic yards each season that would have entered our waterways in one of our more than 120 outfalls in the city. This General Fund budget does not create a Stormwater Fee or budget but it does provide \$100,000 for the needed stormwater study. That study will be commissioned in 2017 and will make a series of recommendations for our program and ways to pay for it. The cost over the next several years can be astronomic and many cities are already under mandate to treat their stormwater prior to it entering the waterways. As Vice-Chairman of the National League of Cities and a member of EPA's Local Government Advisory Council I hear horror stories from big and small municipalities alike. Many municipalities have already instituted the "rain tax" that charges that cover the costs. This fee charges property owners for the amount of impervious surface on their property.

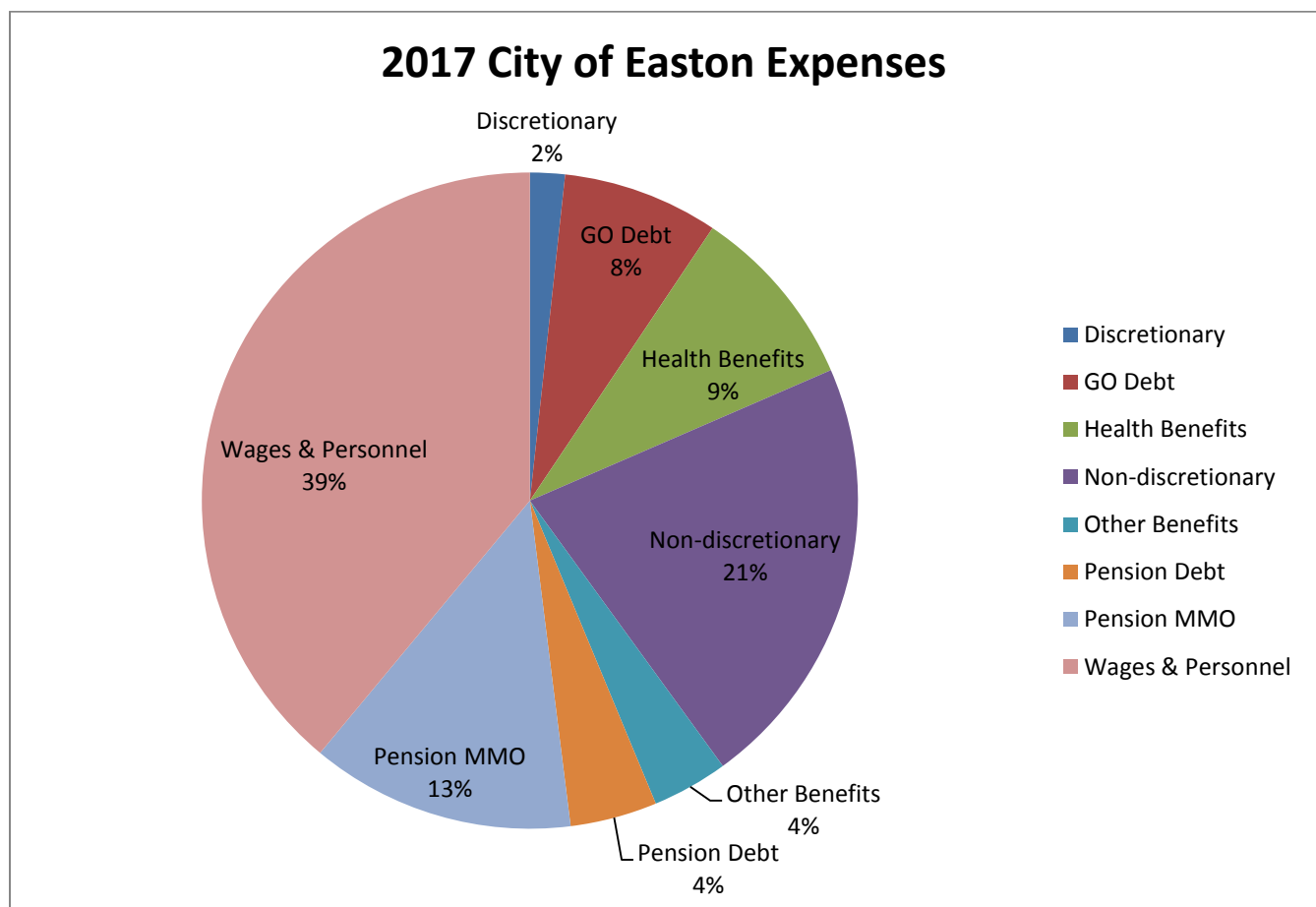
The remaining expense of course is our pension legacy costs associated with the city-managed pension funds including all police and fire and non-union employees hired before 1972. It is obvious to many that we will not get the much needed pension reform. We are closer than ever under the leadership of Governor Tom Wolf but partisanship, parochialism and special interests continue to thwart meaningful pension reform. Therefore it is up to us local officials to resolve the issues locally and pay more and more every year. This \$5 million plus would go along way in giving a tax break to our residents AND fix needed infrastructure, parks and streets. It could provide city-wide cameras, more police and fire, more jobs!

This recommended budget includes the state mandated increase in our Mandatory Municipal Obligation of more than \$450,000. As this chart indicates, our Administration and Council have absorbed huge increases over the past seven years. The total amount is again absorbed by city residents; there is no increase in the non-resident Earned Income Tax.



Not addressed in this budget is those unexpected infrastructure related emergencies that seem to come up from time to time. And unfortunately I have to report three that came up just this past week. These three projects could total as much as \$400,000. It appears that the retaining walls at Heil Field, along Larry Holmes Drive, and Route 611 northern section of the city are failing. Obviously these hold back two important roadways in the city, namely route 611 and Packer Street as well as the Lehigh River wall. The Heil wall and Lehigh River wall are clearly our responsibility. The Route 611 wall is a state road and should be covered by the Commonwealth of PA but the Commonwealth has two sets of rules for local communities. In the suburbs they maintain right-of-way but in cities they only maintain curb to curb. This wall clearly holds up a state road that is pounded daily by tri-axles and tanker trucks. Yet the PADOT will not address the safety hazards that exist along that wall. The replacement value of the retaining wall holding up state route 611 could be as high as \$2 Million. The Packer Street wall that holds up the wall and creates Heil Park is pounded daily by LANTA buses. We will be working with LANTA to see if there is a way to make changes to their route.

The Administration is prepared to do the emergency work needed on all three walls and we will be doing a budget amendment to provide the money now to be repaid by the bond issue we float next year for the police station and parking deck.



CONCLUSION

I believe that we have demonstrated that together we can make a difference ... together we can make good things happen and together we can make prudent financial decisions that maintain our full-service city without increasing the tax burden on our residents. For how long, I truly don't know. But every year we will enter the budget deliberations with that goal. To achieve that goal we must continue to maximize our economic development effort which increases our revenues in many areas of the budget.

We have made significant progress during our time. While we have more work to do, this budget will allow us to continue to provide a high level of essential City services to the citizens of Easton.

The legendary Babe Ruth said, "Don't let the fear of striking out hold you back." I believe our elected officials hold true to this quote. We have proven time and time again that we aren't afraid to make the progressive decisions to move our city forward. We take chances and implement new ideas, programs and even borrow money for a public market.

I want to thank my partners on our City Council for your leadership as we, again, strive to be responsible stewards of the public's money and create for our residents a better place to live, work and raise a family.