

Mayor Salvatore J. Panto, Jr.
Mayor's 2018 Budget Message
October 2, 2017

As per the requirements of the City of Easton Charter, it is my honor to present my ninth proposed budget for calendar/fiscal year 2018. It was more even arduous this year because it is complicated by the indecisiveness of the federal and state governments and unknown union contract negotiations. The continuing national trends are for costs to increase, and for revenue to remain steady, as impacted by local trends and the legislative and legal conditions that prevail in Pennsylvania. The challenge is to find a way to make an antiquated revenue generating system yield adequate revenue to pay rising costs without further impoverishing the local population while, at the same time, struggling to wring every penny of savings from the City's expenditure obligations. Employee health care, public safety pensions, the Act 111 labor relations process, and the outdated and inadequate methods by which revenue is raised to pay for municipal services continue to challenge City officials' creativity in balancing revenue and expenditures.

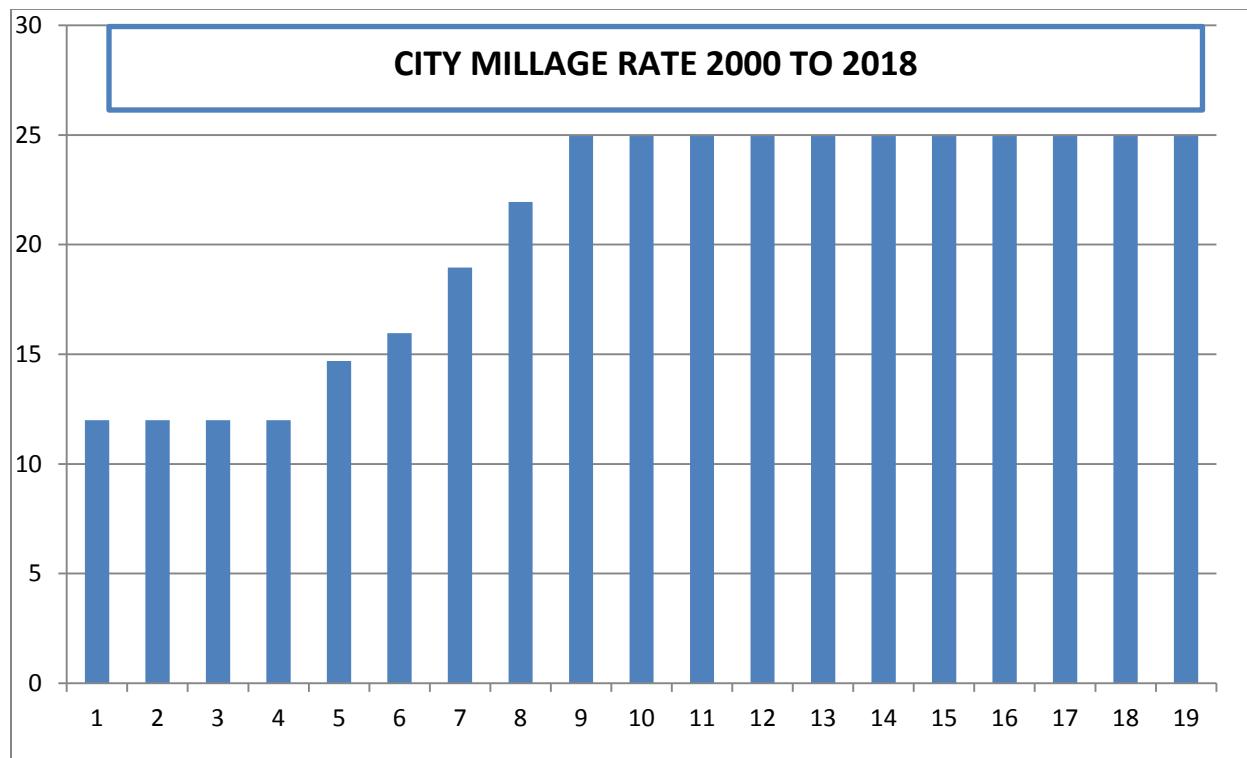
Historically, our financial problems stemmed from the implementation of unbalanced budgets and poor fiscal management. Rather than address our financial reality, in the past the City drained reserves and allocated fund balance to fill budget gaps. Assets were sold and proceeds were placed in the General Fund.

When I took office in January 2008, the financial outlook for the City of Easton was bleak at best. The fund balance was nearly \$4 million in the red and we had entered into the Act 47 Early Intervention Plan process. If the City did not change its ways we would have succumbed to the direction of a state control board under PA Act 47. In the past eight years we have done an extremely good job of managing our financial resources. Indicative of that is our bond rating increasing from a triple B to an A- to an A+ which we still maintain.

This budget reflects our team's commitment to maintaining a diversified and stable revenue system with careful consideration of all fees and charges related to the costs of providing services, as well as our dedication to creating a more sustainable Easton.

This past decade of budgeting has been about getting our fiscal house in order so that our growth and vitality are equally sound and sustainable. Therefore, this budget makes no assumptions regarding state and federal programs nor does it include any funding for potential increases in any of the three union Collective Bargaining Agreements. Tonight I present the budget based on the continuation of the program amounts we received this year and in years past. It also includes all unionized salaries at their current level and all non-union salaries at a 1.5% increase.

When I became Mayor 10 years ago, we set out to achieve a structurally balanced budget in four years – we achieved it in three. Even throughout the “Great Recession,” we attained increased credit rating to our current A+ rating. Since 2012, we have increased and stabilized the city’s reserves to ensure long-term sustainability.



We inherited a city that was not only poor but was the equivalent of buying groceries on a credit card. Our millage rate was 12.0 mills in 2000 and increased to 24.95 in 2008 which we have maintained for the last 10 years. Prior to taking office the previous four years had a devastating impact on our residents and businesses as our millage increased from 14.69 mills in 2008 to 24.95 mills in 2008, or an increase of 59% in just 4 years. Our residents and businesses couldn't afford to be here and we weren't going to attract businesses that create jobs when our taxes were going up by more than 15-20% per year.

At the local level we are losing all of the social services programs and domestic programs that were funded by the state and federal government. The federal budget submitted by President Trump attacked the .25% of the federal budget that funds domestic programs and has even eliminated the state and local tax deduction in his tax reform plan. This is "double taxation." We need to lobby against the loss of the state and local tax federal exemption (SALT).

America's cities agree that our tax code is overly-complicated and in need of reform. We are glad to see Congress and the administration willing to streamline the tax system and lower tax rates, but reform isn't a true reform if the changes lessen our ability to improve our communities, invest in our decaying infrastructure make our urban areas clean and safe.

Mayors around the country understand the need for increased state and federal investment in our urban areas. We've innovated and we've cut, and we've done so thoughtfully and repeatedly. But even as local cities and municipalities are squeezed, we must do everything we can with our city's limited resources to increase the quality of life for our residents.

The frustration for next year's budget is based on several factors --- rising labor costs, legacy pension costs and healthcare. These three areas account for the largest portion of our budget. Our Minimum Municipal Obligation for pension legacy costs continues to increase annually. In 2008 our MMO was less than \$1.5 million and next year it is

budgeted at \$5.2 million. It continues to increase with adjustments based on actuarial findings. Since 2015 alone the MMO has increased by more than \$725,000 and again it has been absorbed without increases in real estate taxes or fees

Labor costs have far outweighed the Cost of Living rates during the last ten years and healthcare, including pharmaceuticals, are being managed as efficiently as possible with employees being asked to pick up more of their share.

Year	COLA	FOP	IAFF	AFSCME	Admin
2013	1.70%	2%	2%	2%	2%
2014	1.50%	2%	3%	2%	2%
2015	1.05%	3%	3%	3%	3%
2016	1.05%	3%	3%	3%	3%
2017	2.00%	3%	3%	3%	3%
	7.30%	13.00%	13.50%	13.00%	13.00%

The good news is that I also have a comfort level for next year's budget as well. It is based on several factors. Primarily, we have been able to achieve our short term goals, as well as make some long term investments in our future, while keeping the current property tax rate the same for the ninth straight year and no increases in fees for the eighth straight year. We eliminated the structural deficit that permeated this budget prior to 2008 and we have accomplished a fundamental goal of good government – ***learning to live within our means***. We continue to fund our 151 Capital Fund with one-shot revenues that should not be placed in the General Fund as was previously the practice.

Over the past nine years we have stayed true to our recovery plan and made difficult, and sometimes not very popular, decisions, at the same time continuing our campaign for a Clean and Safe city -- we added 11 police officers, 2 firefighters and 4 in the Codes department. Our campaign is working as the crime rate has decreased each of the last nine years to historic rates dating back to the 1980's.

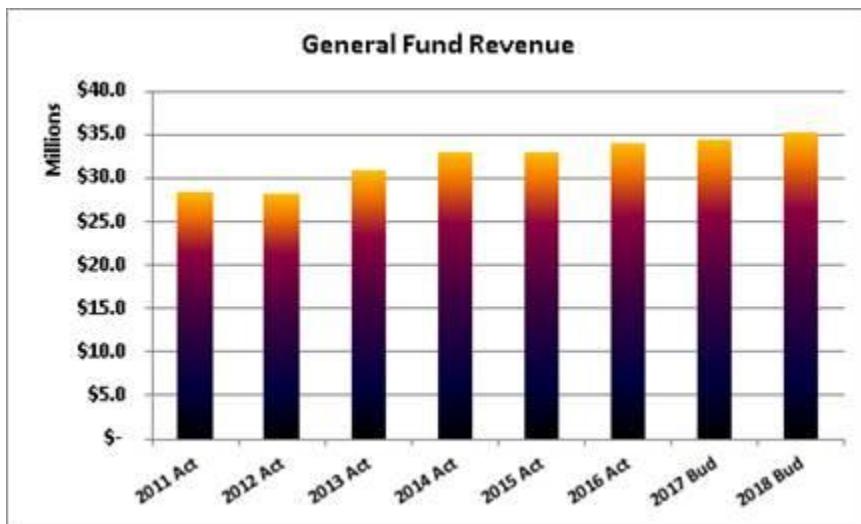
Our residents want a city that is safe, attractive, enjoyable, innovative and nurturing; an exciting place to live and work and a city that is financially strong. This budget reflects our community's highest priorities and plans for a fiscally uncertain future.

I am proud of the 2018 Proposed Budget and my staff who worked diligently to put it together. They are dedicated, passionate public employees who care deeply about their government and their community. Of course there will be adjustments and the budget adopted by City Council may be different to some extent. I look forward to spending the next two months working with the Council and with the community to make sure we meet everyone's expectations to the greatest extent possible. My administration and I will continue working to ensure that Easton remains on a path toward continued financial sustainability and overall resiliency for all residents of Easton.

Economic development and growth in the city is key to obtaining enough tax revenue to be able to provide the services that our residents need and desire without making government more unaffordable. If you look nationwide at the cities that are in good financial shape and the ones that are not, the pro-growth cities, the cities that are encouraging new growth, new residents and new businesses, they are the ones that are thriving.

I'd like to address a few of revenue and expenditure highlights of the proposed budget.

REVENUE HIGHLIGHTS



The overall increase in the General Fund spending was approximately \$7 million over the last 7 years or an increase of less than 1% per year.

As you can see from the chart, the General Fund has remained flat mostly flat and certainly below inflationary rates. Our team has worked within our means and the City continues to prosper. Most of the increase in the General Fund is related to the increases in our Mandatory Municipal Obligation to pay now for legacy pension costs incurred decades ago. For next year the General Fund indicates a very small increase because several items were moved to the Capital Fund in anticipation of continued growth in our development impact fees and also the creation and movement of all storm sewer expenses to their own fund as required by the MS4 program.

City Revenues continue to increase in those areas attached to our current renaissance in both building restoration, new construction and business development. Although some of our large economic development projects are in the Keystone Opportunity Zone, we are still experiencing an upswing in building permits and other revenues generated by these projects. We are also conservative in our real estate assessment, business privilege taxes, admission taxes, and parking revenues; we believe we will continue to see modest growth next year but have budgeted only slight increases over this year.

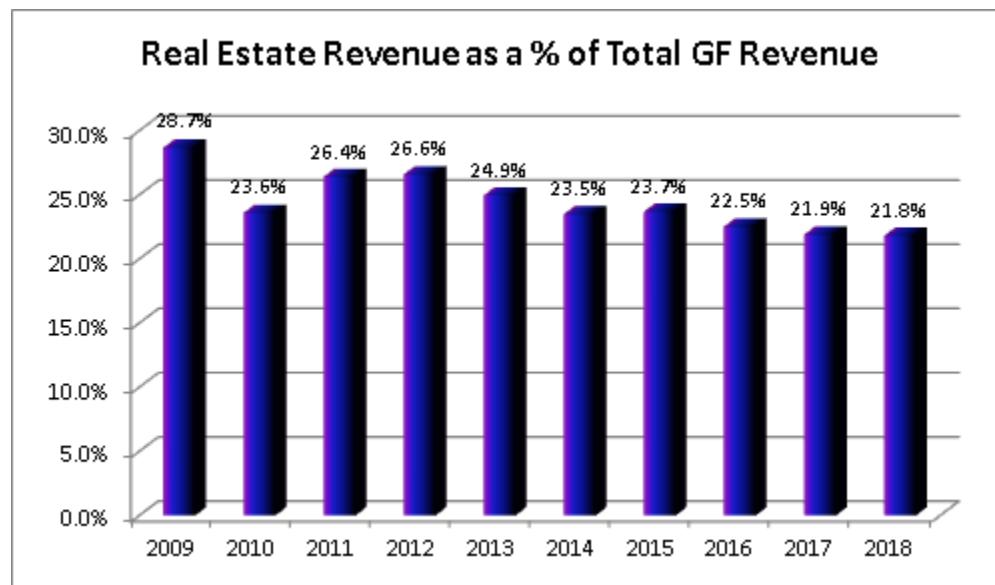
Our team has done a good job of collecting delinquents and managing the receivables. Next year we must be more diligent in collecting money that is being left on the street. If you look at the historic figures of revenue to the city you will see that even though our economy is increasing and our population is growing there are revenue lines that do not reflect this growth.

Overall city revenues are not keeping up with the increase in the day to day costs of providing our services to our residents. Revenue projections have been diminished to some extent due to the challenges expected with the Lafayette project. The capital budget for the city has been affected the most since the general fund increases from pledges real estate taxes were not budgeted for 2018 but expected in 2019. The Capital budget, for much needed repairs and improvements will only be funded to approximately half of the projected budget. The Capital Budget does not include any frills, but rather items necessary to the future operation of the city. Projects like underground sanitary sewer Infrastructure projects; a water spray park in the West

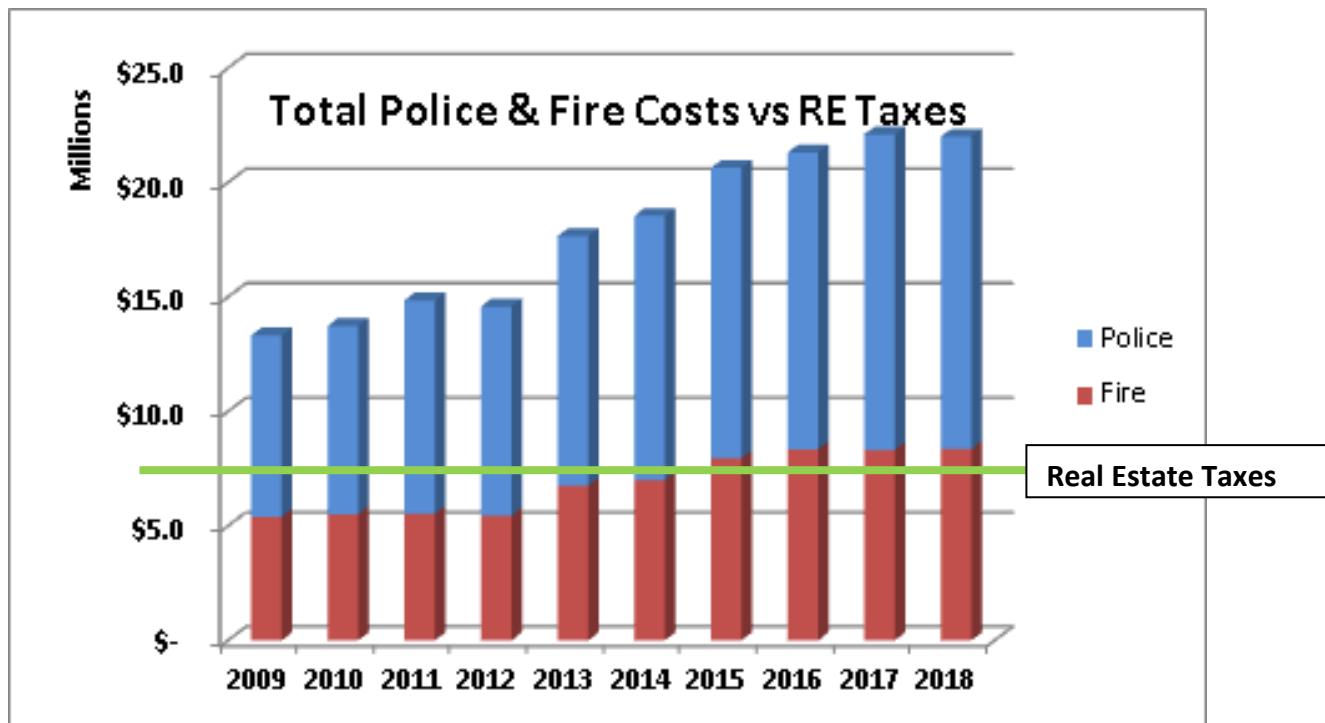
Ward; purchase of another fire pumper, a new South Side fire station, a new parking structure and others will not happen in the near future and may be put off indefinitely. .

The debate about how we enhance future earnings in our city will continue indefinitely since we are landlocked and any additional tax revenues must come from redevelopment of existing buildings and previously used land within the city. Unlike our suburban neighbors we don't have the luxury of growing our revenues by new developments. We must grow from within.

Therefore there will be debate over new construction for a long time. I can assure you that my Administration will continue to protect our historic landmarks and streetscapes that have made our city walkable and enjoyable and attractive to residents, business and visitors; but we will balance the need to keep taxes level and hopefully lower with all new developments proposed. Simply stated, we must grow revenues, not increase taxes. We must be pragmatic in our preservation of things as they are and balance the needs of the future with the best of the past.



The City cannot continue to fund services as the ratio of real estate taxes continues to decline every year. For example, the barometer for most cities is that real estate taxes pays for public safety. Our Public Safety budget next year is \$11 million for police and \$7 milion for fire, for a total of \$19 million while real estate taxes are projected at only \$8,634,575 or less than half of the amount required for public safety.



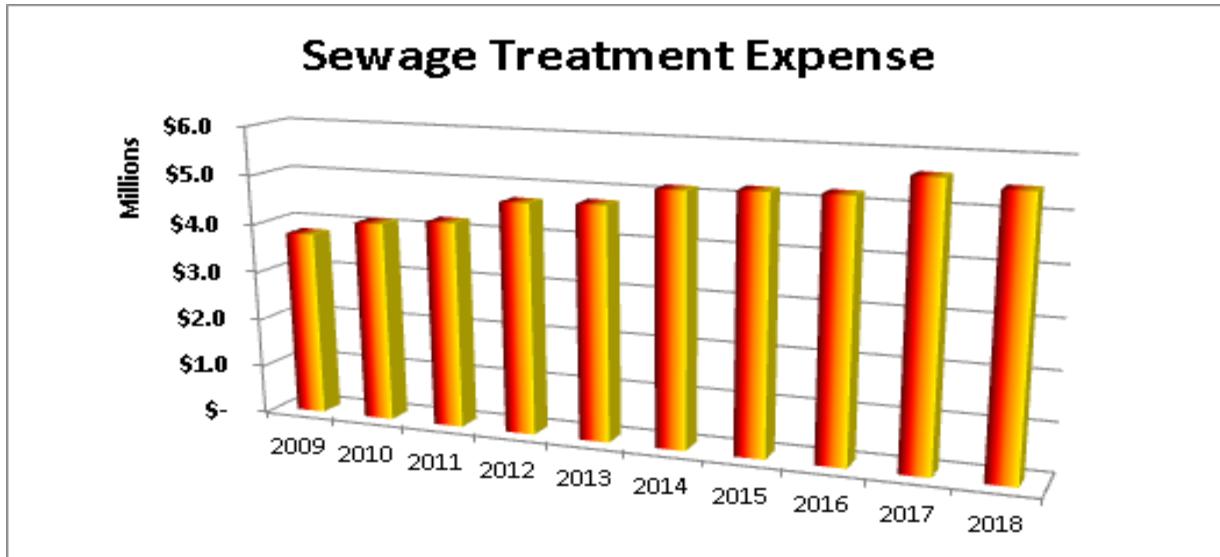
EXPENSE HIGHLIGHTS

As I indicated, labor, healthcare and legacy pension costs continue to rise at a greater rate than our revenues. Economic and community development and growth in the city is key to obtaining enough tax revenue to be able to provide the services that our residents need and desire without making government more unaffordable.

We will also continue to facilitate and promote cultural and community activities for our residents. Our new Neighborhood Programs department initiated many new programs this year and we look to even more next year. The Mayor's Office of Special Events continues to provide events for our residents and this past weekend's Movies at the Mill was a tremendous success. All of our special events have grew this year and have brought more and more visitors to our city, visitors who have remarked at the positive changes we are experiencing. These events continue to grow and come at a cost to the city but the return is over the long term as these festival goers are more inclined to return.

Every homeowner knows that costs go up year after year, so does the city's costs. For example, the chart below indicates the sanitary sewer charges from the Easton Area

Joint Sewer Authority to the city have gone up by \$1 million since 2009. Since that time our team has absorbed those rates into the General Fund --- without raising rates or taxes.

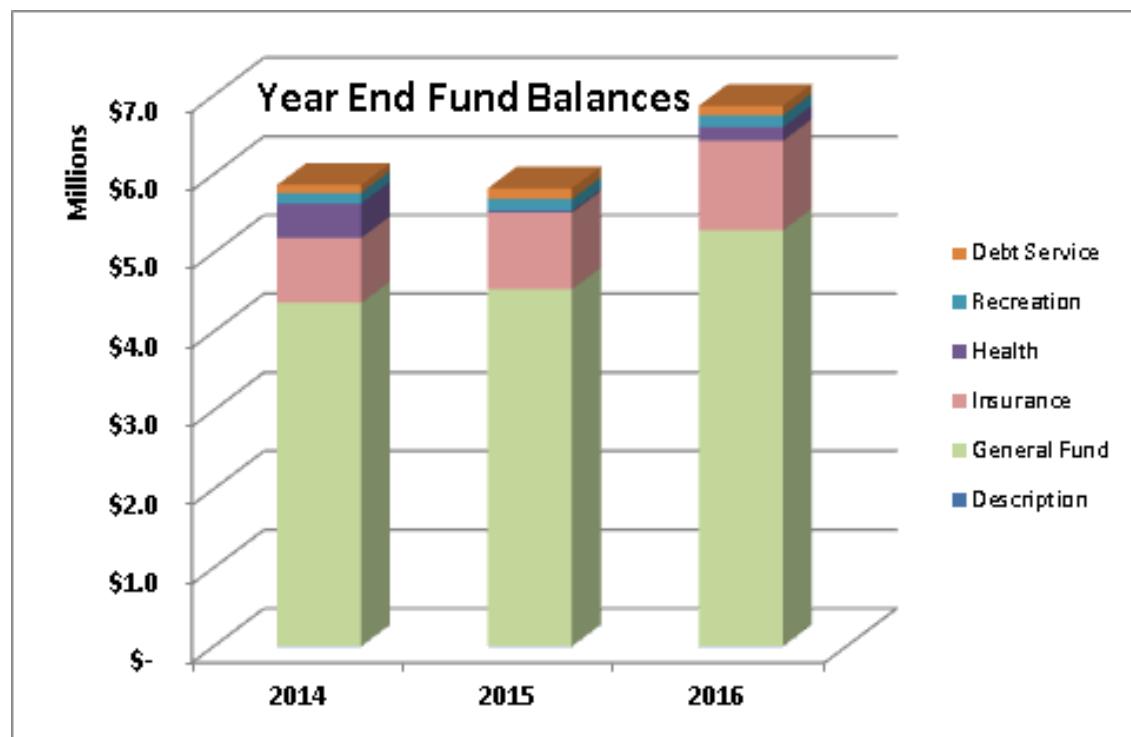


Speaking of sewers, the new storm on the horizon concerns storm water and combined sewer overflows (CSO's). I have spoken about this to city council and the public before, but the moment of truth is fast approaching. Our MS4 study is almost complete and we expect to commence the fee sometime in the first quarter of the new year. This is yet another unfunded mandate of the federal government that will cost the city residents millions of dollars.

We believe, and most cities believe, that the proposed EPA storm water and CSO requirements are unreasonable, unduly burdensome and will unnecessarily cost our tax payers and ratepayers millions of dollars that they can ill afford for work that provides only a marginal benefit to cleaning the rivers but we are committed to doing our best for cleaner water, cleaner air and an overall improvement to our environment. As Chairman of the National League of Cities I have spoken and testified before House and Senate committees and have met with EPA administrators and we have been successful in at least getting an affordability aspect into MOU's and mandates so that a community's ability to pay is factored into future MOU.

Our pension legacy costs in this city and in this Commonwealth MUST BE addressed. We simply cannot absorb any additional increase in our MMO. I again call on the State Legislature to act on common sense pension reform for municipal pensions and the state pensions. Kicking this can further down the road is simply being derelict of the responsibilities to good government. This is not a blue or red issue. It is a Pennsylvanian issue that shouldn't be borne by our great grand children. The following chart is staggering when you realize the tax decrease and the improvements that could be done with this money.

MMO	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police	500537	485312	843934	761291	1684086	1703854	2304171	2246363	2507894	2501073
Fire	405504	434626	434219	441521	1073905	1061666	1415945	1418639	1508983	1522361
O & E	54537	43788	164399	157440	516830	524433	804860.9	782506	827782.4	828255
PMRS	304583	345618	290556	288585	273801	302232	405658.5	391711	446854.8	464593.2
Total	1265161	1309344	1733108	1648837	3548622	3592185	4930634	4839219	5291514	5316282



I am really proud of the above chart which indicates our commitment to assuring the residents that we are financially sustainable for the future. Our cash reserves are at one might be an all-time high for the city. The General Fund cash balance is very good and we continue to invest more and more into the healthcare reserves and our insurance funds.

CONCLUSION

As per the Charter, last year we presented to City Council a preliminary budget for 2018 which indicated the need to fill a gap just north of \$1 million without factoring in any increases in the three union collective bargaining agreements. That gap actually grew this year. The total General Fund Budget was projected to be \$35,519,320. The budget we are proposing is \$332,000 less than projected helping to fill the gap presented last year but our overall budget is increasing by \$391,000 or point .7 % or less than 1% from \$55,656,000 to \$56,048,000.

The future for the City of Easton is exciting, challenging and filled with opportunity. I firmly believe that we can continue to meet the needs of our community while maintaining an efficient, cost effective city government. But make no mistake; my Administration is preparing to make the changes needed to continue to provide quality services to our residents and businesses without the constant increase in taxes that became the norm before we took office.

There is a buzz about the City of Easton. Dust is in the air as construction projects begin to revitalize our historic city. Simultaneously, pockets of development are occurring throughout the city in our neighborhoods.. The City has taken many proactive steps to improve its financial health and put in place the structure necessary for future economic growth. While the challenges are great, the City is fortunate to have a community of business leaders, a strong community foundation and City leaders who see the incredible potential of the City if its financial challenges can be managed. Notwithstanding the financial challenges that the City faces, citizens can be assured that the Administration will continually look for ways to improvise, improve and innovate. It is our vision that Easton will be the thriving urban community in which every person is

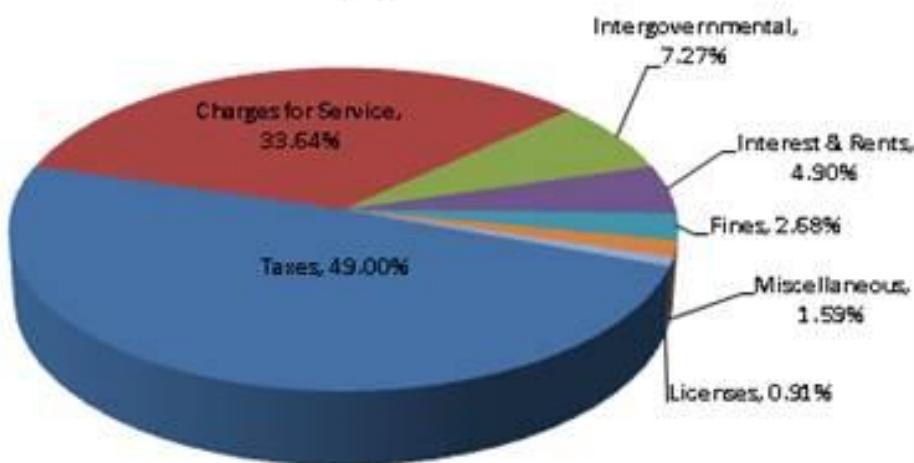
welcome to be safe, successful and happy. Citizens can be assured that the Panto Administration holds the long term welfare of the community as the guiding principle of our actions. Our goal is to build fiscal stability and a competitive tax structure while seeking creative solutions to improve and enhance services delivered by the City. I am proud to be a part of this bold movement.

I am proud of the 2018 Proposed Budget and my staff who worked diligently to put it together. They are dedicated, passionate public employees who care deeply about their government and their community. Of course there will be adjustments and the budget ultimately adopted by City Council will be different to some extent. I look forward to spending the next two months working with the Council and with the community to make sure we meet everyone's expectations to the greatest extent possible. My administration and I will continue working to ensure that Easton remains on a path toward continued financial sustainability and overall resiliency for all residents of Easton.

Thank you.

Salvatore J. Panto, Jr.
Mayor

General Fund (GF)- Proposed Sources of 2018 Revenue (%)



General Fund (GF)- Proposed 2018 Expense Uses (%)

