



Salvatore J. Panto, Jr.
Mayor, City of Easton PA

2019 Budget Message

Dear Residents, Taxpayers, and Members of the City Council:

When I campaigned for this Office in 2007 – I promised a major course correction. I promised to fully review the City’s financial situation, identify the most immediate problems, and prioritize a path forward that will serve as our roadmap for the years ahead. I am pleased to report that we have seen significant progress on the central issue of stabilizing our finances. We have reversed the negative trend that permeated our city. And outside agencies like S&P now calls us financially “stable.” Our efforts were in the response to the 2005 and 2007, State-funded financial analysis and operations audit conducted initially by Public Financial Management (PFM) and the follow up by David Woglum warned that unless immediate reforms were implemented we would find Easton in Act 47.

Over the past decade, our Administration has implemented many of the recommendations that were contained in those reports. Some didn’t make sense for our community. For example, we did not close the neighborhood fire stations or close our two pools. However, at the same time, we have made substantial changes how resources are allocated, how departments are managed, and in how City government responds to the public service needs of our residents and businesses. We have also looked for new sources of revenue and ways of increasing revenues that are not paid directly by our residents.

My goals remain the same. Easton should be a safe community with accessible and affordable housing, cost-effective modes of transportation, expanding job opportunities, enjoyable recreational and cultural opportunities, and a strong infrastructure to support these efforts. We should protect our most vulnerable residents – children and the elderly – and provide the services they need to prosper. We constantly strive to attract visitors and business to our community. We must plan for the future and enforce rules that protect our environment, ensure the safety of our structures and reduce our vulnerabilities to the effects of climate change.

Today, our city workforce is more efficient; our culture is driven by collaboration and customer service; and our governing model is focused, deliberate and forward-thinking. The result has been stable City financial management with steadily increasing Earned Income Tax revenues and business taxes; and Real Estate Transfer Tax revenues that have increased over the past five years due to our economic development efforts that have witnessed an increase in property taxes without an increase in the millage to our current residents.

The budgeting path we’ve followed over the past decade has taken us from uncertainty to stability. With the state’s failure to deliver comprehensive local tax reform, we have taken responsibility for

own destiny and have been able to restore General Fund reserves to nearly \$4.5 million; we've avoided property tax increases every year and our bond rating from Standard and Poor increased from a BBB to an A+. And we have ended every year with a budget surplus.

Good budgeting is the cornerstone of good government. As I have said many times, the key to our being able to address important quality of life issues rests with good budgeting and fiscal responsibility. Before I took office, our city was bleeding money with deficit in the millions. The City's Bond Rating was poor, and the City's outlook was classified as negative. The historical pattern had been to raise real estate taxes and fees to raise revenue. However, in the long term this further reduces property values, stymies economic development and further perpetuates the never ending vicious cycle of a city trying to tax its' way out of a hole.

Unlike the previous four years before our administration when property tax rate that increased from 14 mils to 24.95 mils, we have worked diligently worked with cabinet members, and the Budget Team to develop this balanced budget; yes, our 11th budget ***without an increase in real estate taxes*** and our tenth year without any increase in other major fees paid by our residents. The rate for our senior citizens has never increased in the eleven year tenure of our Administration.

Yet we are also mindful of our City's needs to provide the best and most effective and efficient services to our residents. I am proud to present a balanced budget that lives within our residents' means but also continues all the services our residents want and deserve. This budget also continues to invest in our capital and infrastructure needs.

Like most Pennsylvania cities of the Third Class the City's revenues simply do not keep pace with the growing costs of healthcare, pension liabilities and normal inflationary increases. All 3rd Class Cities in Pennsylvania continue the difficult challenge of paying for necessary services with revenue from an antiquated and inadequate revenue generating system.

As your Mayor and as President of the Pennsylvania Municipal League, I am prepared to demand that these issues be addressed and that we not continue to sit idle while our Commonwealth's core communities continue to struggle to conduct the business of government. We will continue to work with City Council to minimize the impact going forward and continue to provide the absolute best possible service to you, our citizens.

The thrust of our fiscal plan for 2019 relies on efficiencies and reorganization that will allow us to invest in our City and to renew local government's commitment to serving its citizens – to public safety, to cleaner streets, to better-maintained parks, and to simply being more responsive to the needs of our residents. We continue to invest in equipment and more fuel efficient vehicles; upgrade essential fire apparatus; and we will be making significant investment in our Department of Public Works, the important infrastructure our residents rely on daily.

We are moving in the right direction and Easton is a very different City today than it was just a short decade ago. But change is sometimes hard to accept. But if we don't change we will surely succumb to the same hard times we lived through in the past.

Looking ahead, we must continue to invest in adequate public safety, neighborhood improvement and economic development. To do so, we must be willing to develop new and innovative ways to attract private investment and the economic activity that produces positive results. We must continue to rely on and build partnerships with the business and non-profit community. Partnerships such as those established with the Greater Easton Development Partnership; the Greater Lehigh Valley Chamber of Commerce; Lafayette College; all of our corporate sponsors; and non-profit organizations provide program and staffing support that would otherwise cost City taxpayers millions of dollars.

I take the responsibility of being your Mayor very seriously. It is essential that we manage to the budgets we adopt. This is a balanced and achievable budget. It sends a strong message that Easton is getting its house in order. After all, it is our own investment in our City which will attract the investment of others.

Easton has been recognized as a great place to live – we have found ways to be both prudent and forward-thinking. We also face many challenges in ensuring our City is a great place for all residents.

My enthusiasm for this year's budget can be credited to several factors. Primarily, we are 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 as last year. I'd like to address a few of the high points pertaining to our short and long term spending.

Each year we have increased the number of streets that are repaired and we have a long way to go. In 2008 we did away with the old "oil and chip" method and today we are milling and paving our streets. Next year's budget continues the goal of having all city streets paved in the next 10 years.

We continue to spend money repairing and replacing our underground infrastructure -- it isn't glitzy but it is necessary. You will recall three major infrastructure repairs recently were the issues of the retaining wall on State Highway 611 and the Southside storm sewer culvert that goes under the Lehigh Canal and serves more than 75% of the Southside and needed safety repairs to the Pine Street Garage.. Within the next few months we will provide City Council with a five-year Capital Improvement Plan so we can be more proactive rather than reactive. Top on the list is the continued upgrade and replacement of fire apparatus, a new Southside fire station as well as upgrades at fire central to accommodate female firefighters and newer equipment; equipment and vehicles and the all-important replacement of storm and sanitary sewer lines as well as street improvements. But I remind you that no matter how proactive we are, our infrastructure is old so there will always be unforeseen emergencies. When that happens we re-evaluate the budget and make the necessary repairs within the approved budget.

I would like to express me thanks to the Commonwealth of Pennsylvania, particularly Governor Wolf, Senator Boscola Representative Freeman and the administrative staff at the State because we could not do many of our improvement projects without their assistance. The State makes grants available to communities and possibly our biggest achievement in finance is the securing of these grants. We have received tens of millions of dollars in state grants for playground and parks updates; blight

elimination; road improvements; economic development projects; infrastructure improvements and more. Just this past week we received a TreeVitalize grant to purchase and plant trees in the neighborhoods. To date that our grants received totals more than \$80 million.

Other major capital improvement projects planned for next year include the total upgrade of the 13th Street Route 22 interchange; the planning and engineering for a total makeover for Wood Avenue and the engineering and planning for upgrades to Centre Square.

With this budget, we are creating a path toward greater fiscal sustainability that achieves improvements for our residents, property owners, businesses and visitors while working to advance the City of Easton's positives and working to improve any weaknesses. Strong financial foundation also encourages further development in our city. Our vision maintains a strong central business district while delivering clean and safe neighborhoods that will attract young families to raise their children. Creating jobs, expanding our tax base and growing our population are important objectives to reach those goals as we strive to be a full service city without increasing demand on our residents.

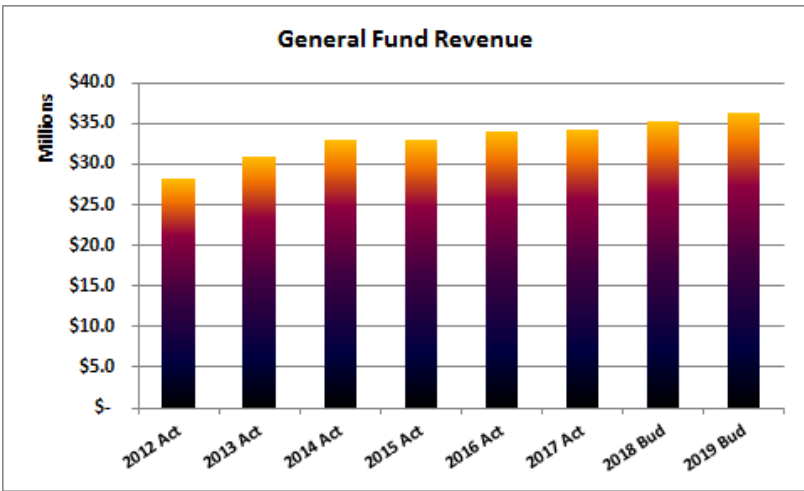
1. We are committed to sustainable change that will have lasting positive effects.
2. We must continue to grow and reinvest in ourselves as a City.
3. Continuous improvement in all that we do.
4. Improving the Lives and increasing the earning capacity of our residents..
5. Continuing to build a city that a diverse population wants to live, work and play that is accessible to all people, regardless of race, color, religion or socio-economic status.

REVENUE HIGHLIGHTS

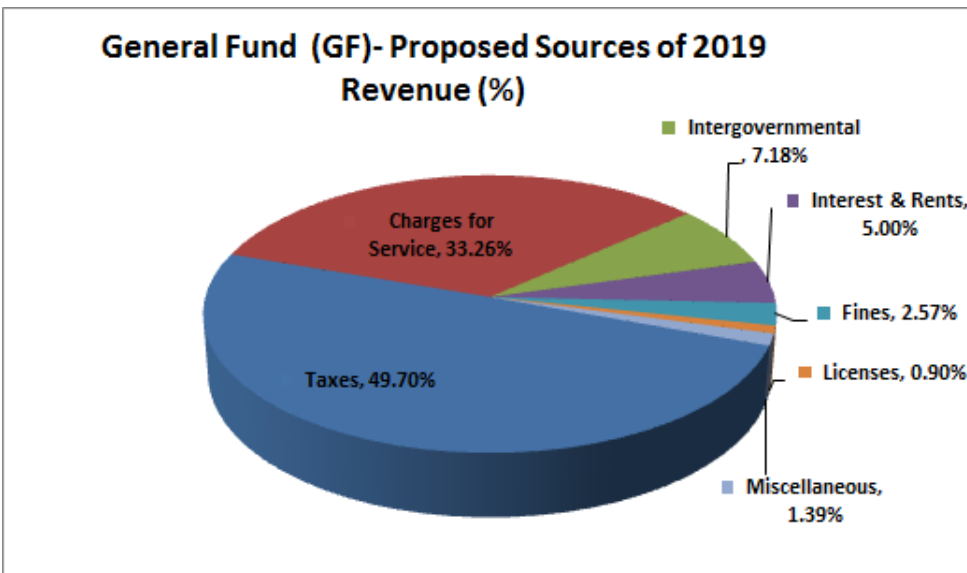
City Council and residents will notice the following revenue highlights. Our revenues continue to grow due to our economic development emphasis and business growth. Taxes like the Business Privilege Tax, Earned Income Tax and Admission Tax continue to increase

Total Revenues

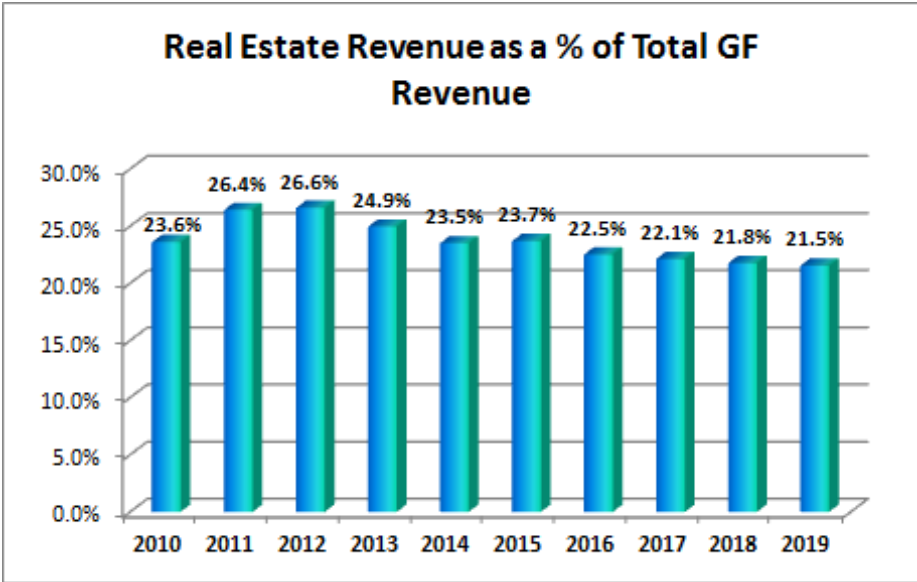
2015	\$32,611,665.00
2016	\$34,010,153.00
2017	\$34,337,709.00
2018	\$35,291,017.00
2019	\$35,871,222.00



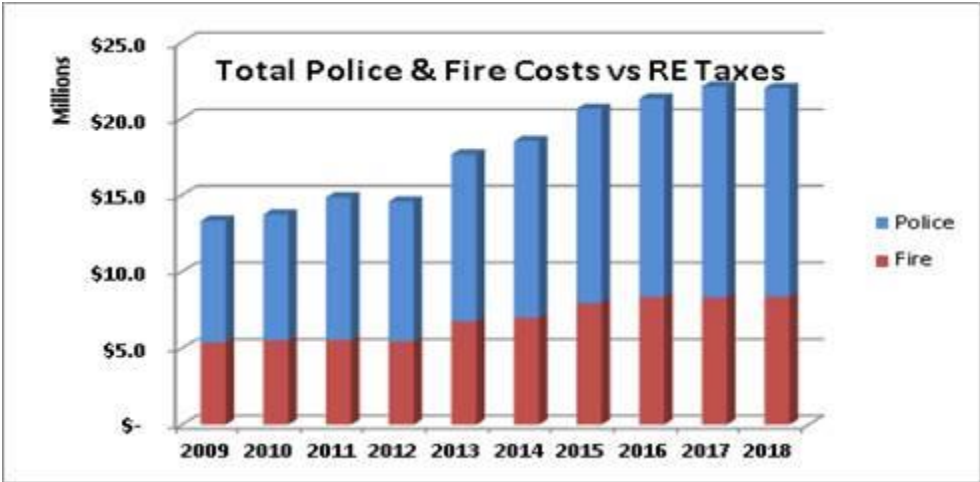
The above chart indicates an increase of \$3,259,557 over the last five years or an average increase of just \$651,911 annually.



The most critical revenue observation is the continued decrease in the percentage of the budget attributed to the real estate tax revenue.



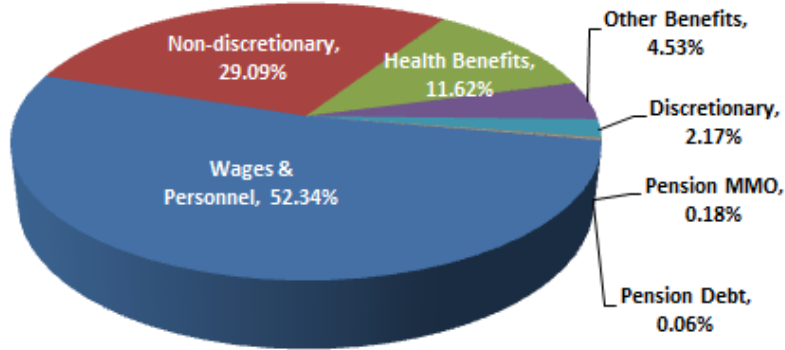
In regards to future budgets the City cannot rely on real estate taxes to fund the public safety of our residents. As we maintain level property taxes our public safety costs continue to increase. Next year the police and fire budgets will exceed \$20 million and real estate taxes generates just north of \$8 million. This is not sustainable.



EXPENSE HIGHLIGHTS

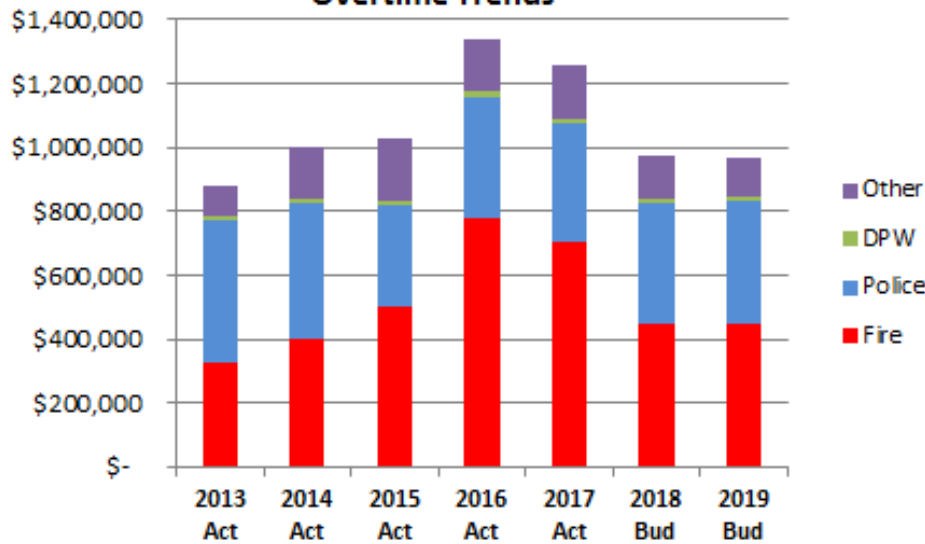
There are few highlights on the expense side of the budget since all departments are relatively the same but for salaries ad benefits and there is no flexibility in them in that they are controlled by the Collective Bargaining Agreements. Our sanitary sewer charges increased by more than \$100,000 and trash is up by more than \$50,000 but cutbacks in other areas offset those contracted increases. We also have increases in healthcare and pension costs that are beyond the normal inflationary increases.

General Fund (GF)- Proposed 2019 Expense Uses (%)



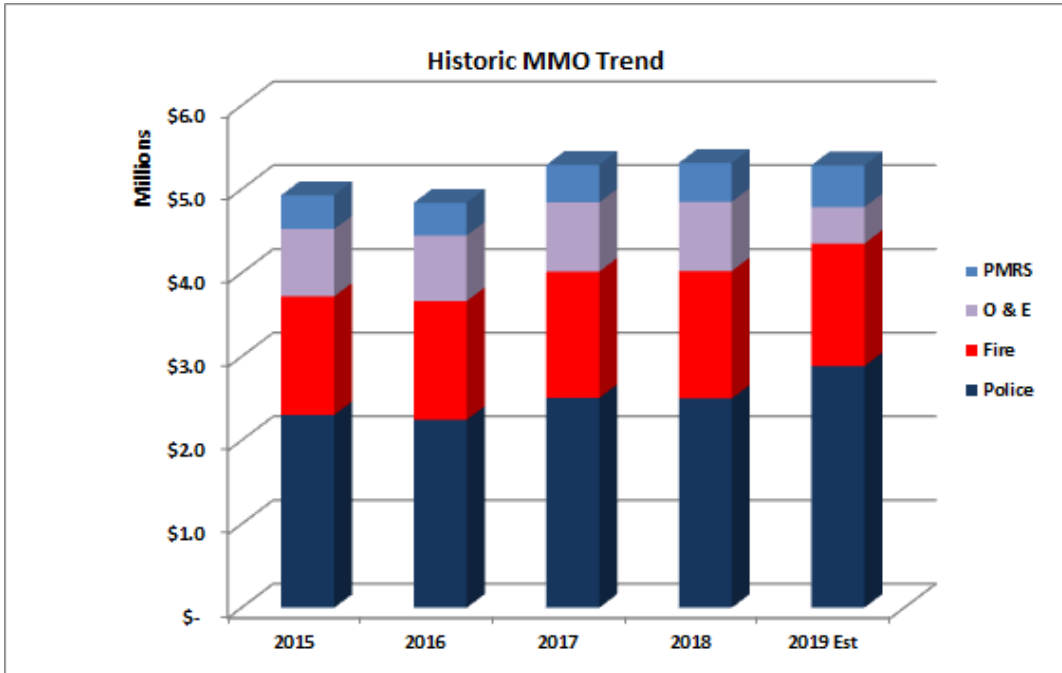
Overtime, particularly in the fire department continues to be a concern for the Administration. Every year we try to get a handle on the budget for their overtime and every year we exceed the budgeted amount. You will note in the chart below that our budgeted amount is always exceeded by the actuals. The department is currently at full compliment which will help and we are also moving forward on the promotion of a Lieutenant which will help us further control the overtime. You will see that the proposed budget for this current year and next year does not indicate actuals. Although we hired the two new firefighters and the Lieutenant's position will be filled we believe we will go over the \$450,000 that is budgeted again next year.

Overtime Trends

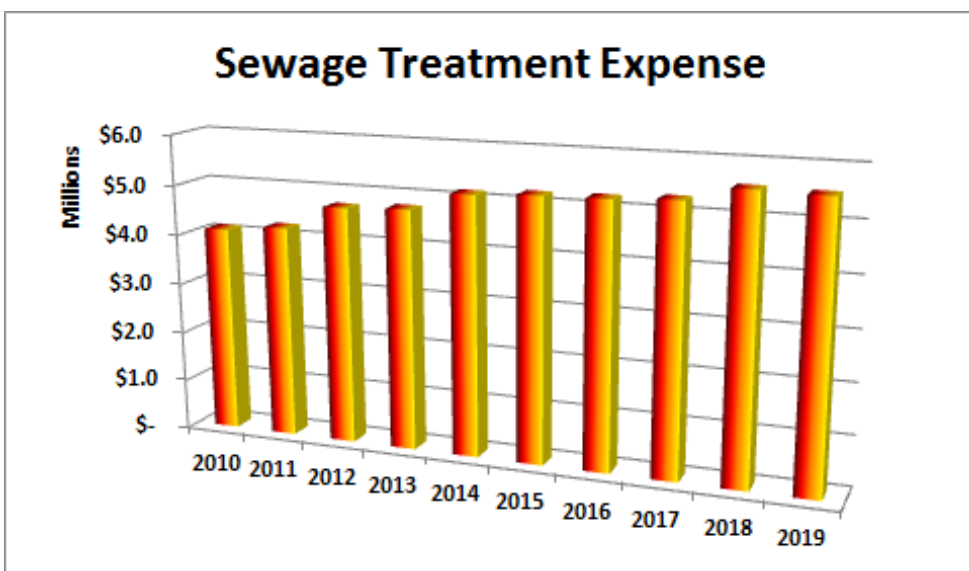


Dept	2013 Act	2014 Act	2015 Act	2016 Act	2017 Act
Fire	\$ 326,161	\$ 402,044	\$ 500,293	\$ 780,225	\$ 704,184
Police	\$ 447,771	\$ 424,010	\$ 316,961	\$ 372,972	\$ 368,511
DPW	\$ 98,134	\$ 159,882	\$ 198,451	\$ 183,129	\$ 179,835
Other	\$ 5,428	\$ 12,287	\$ 9,225	\$ 1,916	\$ 2,468
Total	\$ 877,495	\$ 998,223	\$ 1,024,930	\$ 1,338,243	\$ 1,254,998

Not to belabor the point about pensions but as you can see from the chart below more than \$5 million a year goes to fund our pension legacy costs. If it were not for these costs that were constantly kicked down to future generations we could lower real estate taxes from 24.95 mils to less than 11 mils. Pension legacy costs consume more than 60% of the real estate taxes. Every session, our state legislature says they are going to address this extremely important issue and every year they fail to implement meaningful pension reform. The problem is only exasperated with time.



The good news about our city pension funds is that our investments are doing well. When we took office in 2008 we realized the slow growth in our investments and issued a RFP for investors. Our pension fund was at approximately \$32 million then and today it is in excess of \$54 million. We are getting ready to issue another RFP for the investments.

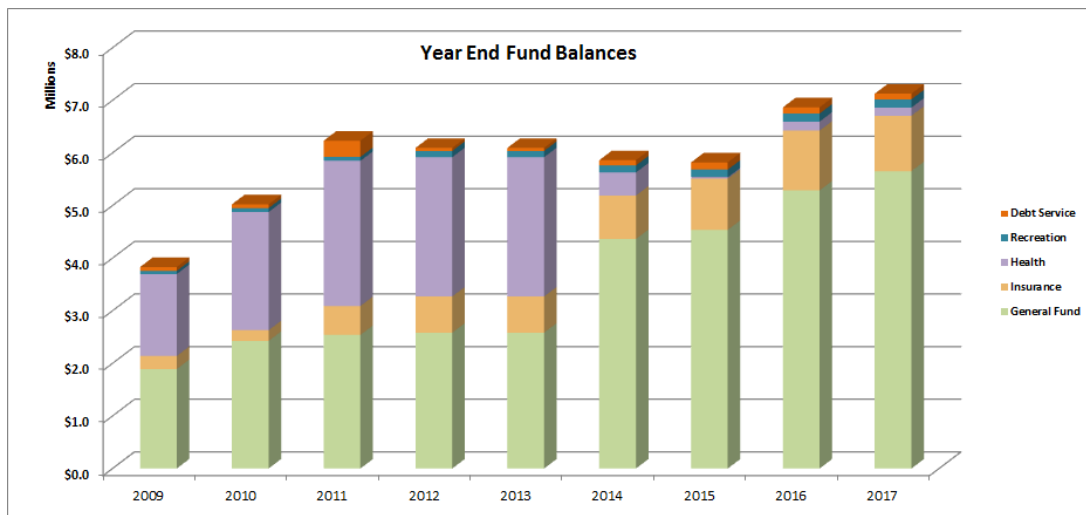


There is also a line item called Undesignated Contingencies in which the Administration will reduce expenses through healthcare changes that will reduce costs and maintaining open positions.

I don't think many residents realize how difficult it is to present a budget that calls for no increases. The chart above is for our sanitary sewer expenses invoiced from the EAJSA. Since 2008 they have gone up every year and by substantially more than a million dollars since 2010 yet we haven't raised the cost to our residents. The same is true of salaries, benefits, utilities, trash collection, etc.

CONCLUSION

One of the successes we have had as an Administration is growing our reserves. Like any homeowner or business owner, we all need a rainy day fund and the City is no different. These fund balances are critical to the future finances of our City and I commend the Members of City Council for having the commitment to grow these reserves to meet our financial goals.



Finding ways to do more with less is a constant challenge to any operation. Part of the strategy involves shifting resources from back office administration to areas of City government that citizens have identified as areas where more resources need to be allocated. To that end you will see a budget of more than \$580,000 for Information Technology. That department didn't exist in 2008 and today we need to make more investment in our information systems to give us better data to make better decisions and to provide our residents with the convenience they want to pay online. We also hope to implement our City Kiosks through out the city to make it more convenient for residents. A kiosk in every neighborhood in a business that is readily available is the goal.

There are serious threats to future budgets. We have not achieved meaningful pension reform at the State level. We worked hard and we were close, but we have nothing except an increasing Mandatory Municipal Obligation (MMO). We have achieved some relief through contract negotiations that will help the city in the long term, but we are still burdened with tremendous pension legacy costs. And to that end there is good news and there is bad news. The good news is that we have worked hard to achieve great returns on our investments and our pension fund, although still severely distressed has increased from \$32 million in 2008 to more than \$54 million today. The bad news is that we are very close to achieving the state's magic number of 70% funded and once that happens it triggers the end to the non-resident earned income tax which currently generates \$2 million. Once that goes away there will be no choice but the elimination of more jobs or services.

The bad news about our pension investments is that we are closing in on the state's magic number of 70% funded which will then no longer allow us to impose the non-resident earned income tax.

In closing, I want to thank the Directors, the Leadership Team, especially Luis Campos and Mark Lysynecky, and the entire City workforce for their unwavering pursuit of our common goals. It does not go unnoticed or underappreciated. Finally, to the residents, business community, non-profit leaders, and educational institutions – thank you for your support, your encouragement, and your participation over the past eleven years. Together, we have created a community united and optimistic about the ideal urban experience we call home.

We have a great City – I know we can make it greater – we can achieve more success by working together in pragmatic, sensible and prudent ways that support upward economic mobility for all residents at a price that is affordable to our tax payers. Our success over the last decade promises to bring economic opportunity and neighborhood revitalization throughout the City.

Unfortunately an unfunded federal mandate – the MS4 Program --- is a major part of our new sanitary sewer permit and it requires that in 2019 we bring a program that reduces stormwater pollution in our waterways. The burden of meeting this EPA mandate has been trickled down to the local governments and without funding or a funding stream. To finance the cost of the program and infrastructure upgrades of this federal mandate property owner will begin to pay a stormwater fee of \$6.75 per month which will be sent monthly with their sewer and trash fee. As I indicated, we are not proposing increases in any taxes or fees in this budget. This fee is directly related to a federal unfunded mandate. Since more than 45% of our property is tax exempt and since every property produces storm water we are recommending that the fee be imposed rather than adding it to the real estate tax. While I fully support the reasons and the benefits of cleaner water and waterways, the federal government is quick to pass legislation that they don't fund.

We have dedicated passionate public employees who care deeply about our community. I thank all of them for all they have accomplished with limited resources.

Thank you

Salvatore J. Panto, Jr., Mayor