



Allentown



Rebuilding the Foundations



# + Repairing a Broken Foundation

## Addressing Allentown's Legacy Costs

- Long term labor contracts
- Crippling pension costs due to early retirement of police and fire
- Increasing health care costs

### The Recession of 2008

- Decrease in Revenues
- Stock Market plunge resulted in less revenue through returns on investments



# Rebuilding the City's Fiscal Base



# **+ Rebuilding the City's Fiscal Base**

## **2006**

**Implementation Emergency & Municipal Services Tax to Local Services Tax  
(\$3.6 million increase in revenues)**

**Tackled FOP Pension Costs  
(Settled Aug 2006~ \$1 million/yr)**

**Re-Balanced Budget  
(Feb 2006--Cut \$2.2 million in Expenses)**

## **2007**

**Addressed Debt Spike-restructuring to level out payments (Reduced debt payments by \$19 million over 7 yrs.)**

**2006: Beat Budget Projections (\$5 million)**

**2007: Beat Budget Projections (\$3 million)**



# + Rebuilding the City's Fiscal Base

## 2008

General directive to departments to cut costs

Delay in filling vacant positions

Refinanced Bonds (Saved \$680,000)

Crafted Casino Revenue Sharing Arrangement with Bethlehem

Successfully restructured long term retirement benefits in FOP contract

## 2009

Increased rental inspection fee to reflect costs (\$1.3 million increase in revenue)

Further Reduced workforce levels

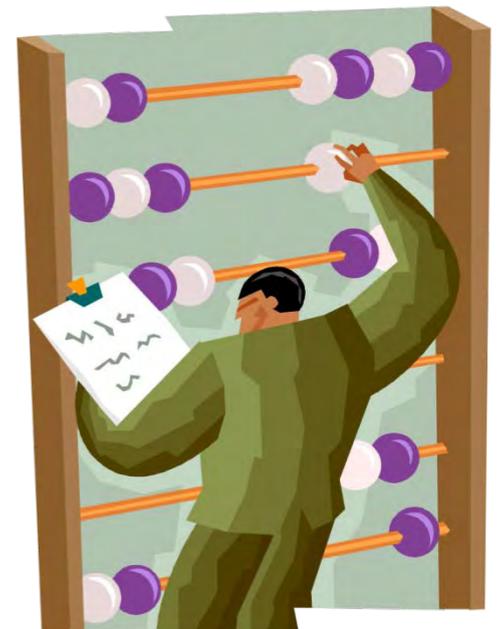
\$780,000 in new casino revenue fees

Fiscal Stability Plan (Cuts and reductions \$1.1 million in General Fund---\$3.8 million in Enterprise Funds)

Water Sales Agreement w/ LCA (~ \$1.5 million per year for 20 years)

2008: Beat Budget Projections (\$3.8 million)

2009: Beat Budget Projections (\$2.5 million)



# + Rebuilding the City's Fiscal Base

2010

Enacted .35% pension EIT to be effective for 2011

Casino revenues rise to \$2.9 million (full impact)

Limitation on SEIU wage increases (1.5% per year)

\$9 million in savings over length of contract by moving SEIU employees to national health care trust

Temporary 25% MMO relief as a result of classification as Distressed Level 2 City

\$1.1 million in revenues through sale of excess property

FOP took wage freezes instead of due 4% increases in contract renegotiation

Lowest amount of staff in almost 30 years



# + Rebuilding the City's Fiscal Base

## 2011

Full year (four quarters of .35 EIT Act 205 receipts)

Recapture of EIT escrow adds \$400,000 to revenue for 2012

Refinanced Bonds (Saved \$525,000)

State increases PMRS payment by \$2.5 million in 2011 (reduction in MMO)

## 2012

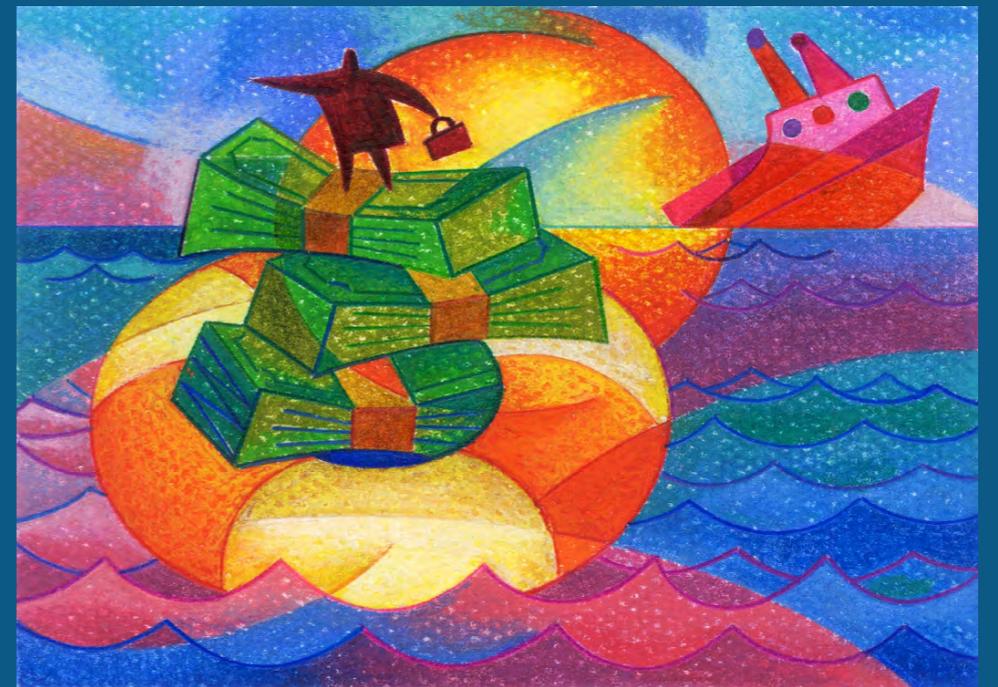
Refinanced Bonds (Saved \$310,000)

Successfully restructured long term retirement benefits in IAFF contract

Legacy Costs  
+  
Recession  
+  
Less Revenue



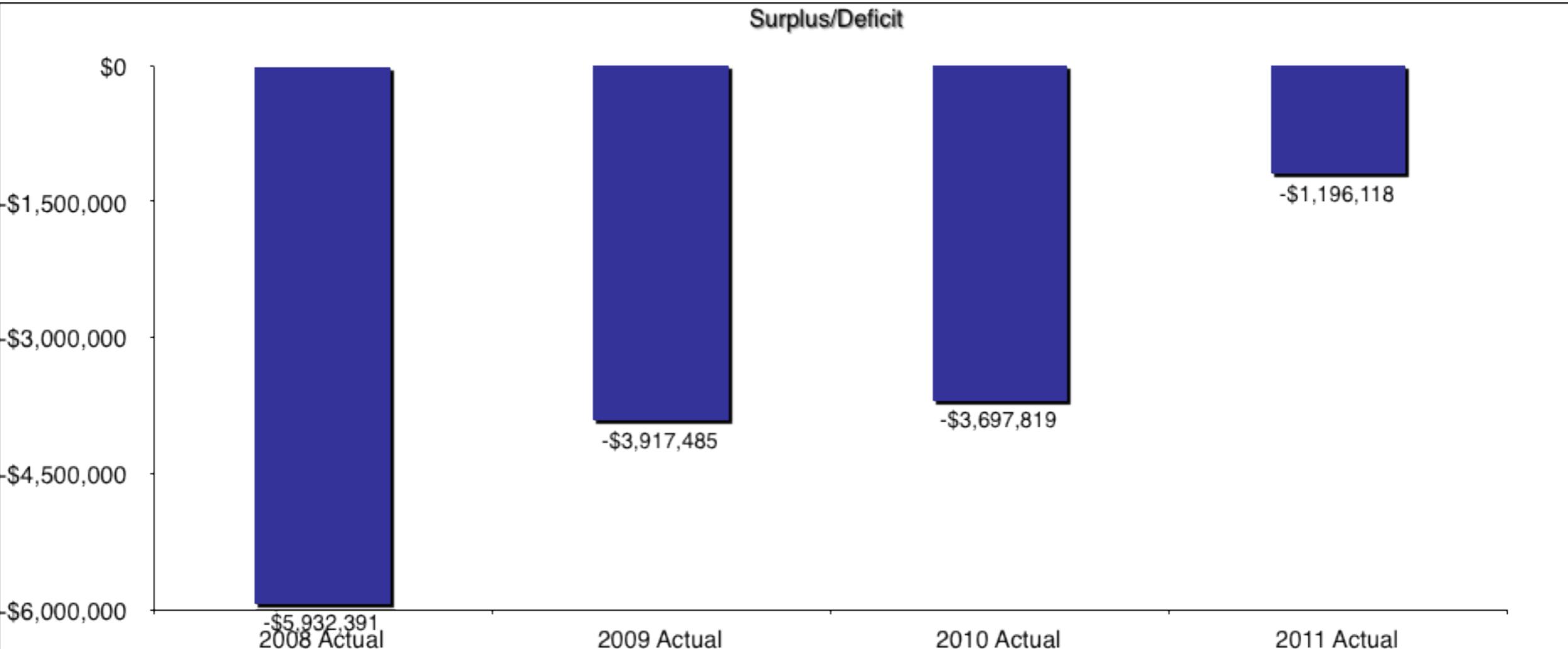
# Fiscal Challenges



# Budget Revenue Shortfall Over the Last Four Years

The City has taken significant cost savings measures over the past few years. If those actions weren't taken, the general fund deficit be much worse.

### Allentown General Fund Shortfall, 2008-2011



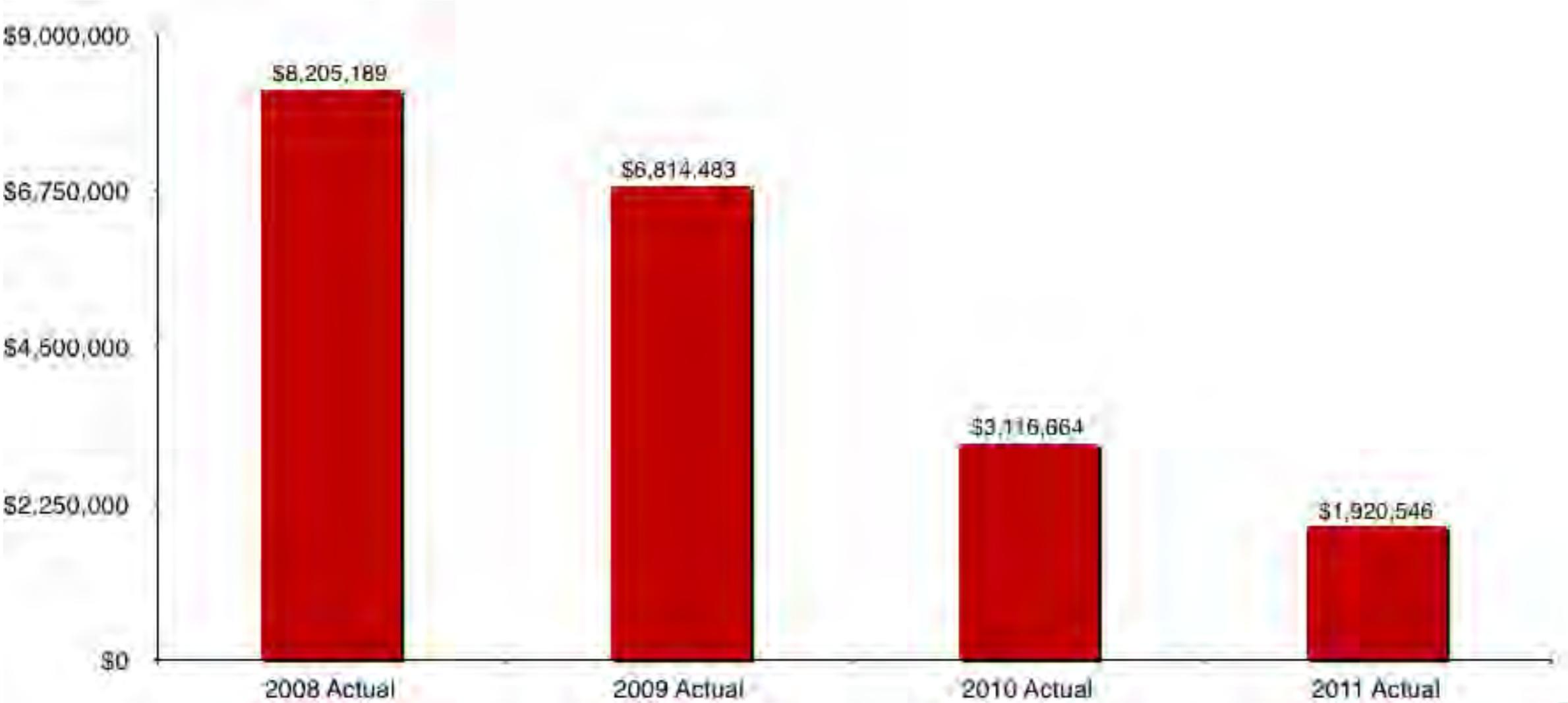
Source: City of Allentown CAFR



# Allentown's General Fund Account Soon Will Be Empty

As of 2011, the City's unrestricted General Fund balance is \$1,920,546

A 77% decline since 2008, due to consecutive years of collecting less revenue than debts paid



Source: City of Allentown, Department of Finance, 2011 CAFR



# **Pension Costs Will Soon Be 25%+ of City's Budget**

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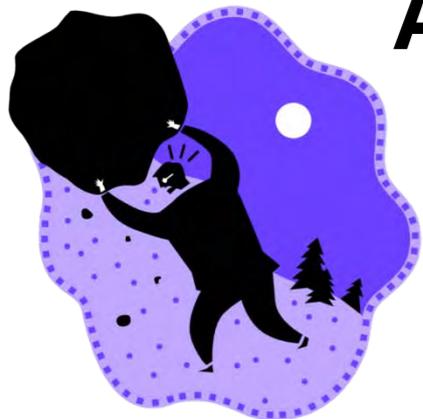
The unfunded liability of the City's Fire and Police pension plans is forcing the City's mandatory contribution to these plans -- called the Minimum Municipal Obligation (MMO) -- to rise

**As of the January 1, 2011 valuation reports, the City of Allentown's pension plans had a total unfunded actuarial liability of \$130,241,710 and were 51.5% funded**

The City is legally required to pay its MMO annually

The City's pension debt service for Fiscal Year 2011 is approximately \$2.4 million in addition to the MMO

**A dramatic increase in revenue is needed to fill the pension gap**



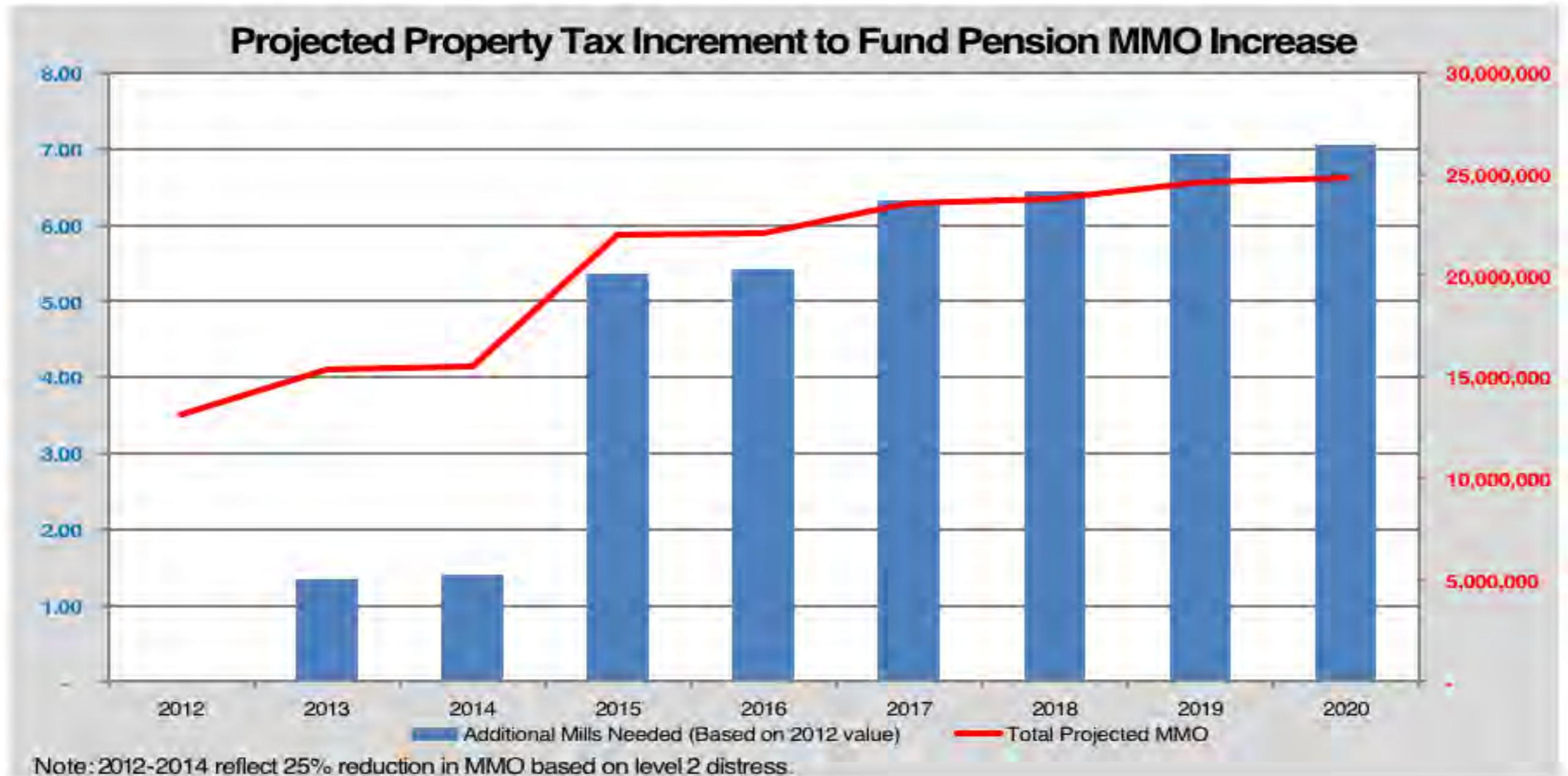
# Pension Obligation COSTS \$millions

2005 Base Year		\$ 6.567	Cumulative Impact
2006		\$ 7.074	\$ .507
2007		\$ 13.059	\$ 6.999
2008		\$ 13.236	\$13.668
2009		\$ 13.946	\$21.047
2010		\$ 11.986(act 44)	\$26.466
2011		\$ 15.561(act 44)	\$35.460

- The above increase is equivalent to approximately 5 mills (assumes value of 1 mill - \$1.6 million)

# Option 1: Increase taxes by 35% to 40%, or 6+ mills, by 2020 JUST to Pay the MMO – *Not Recommended*

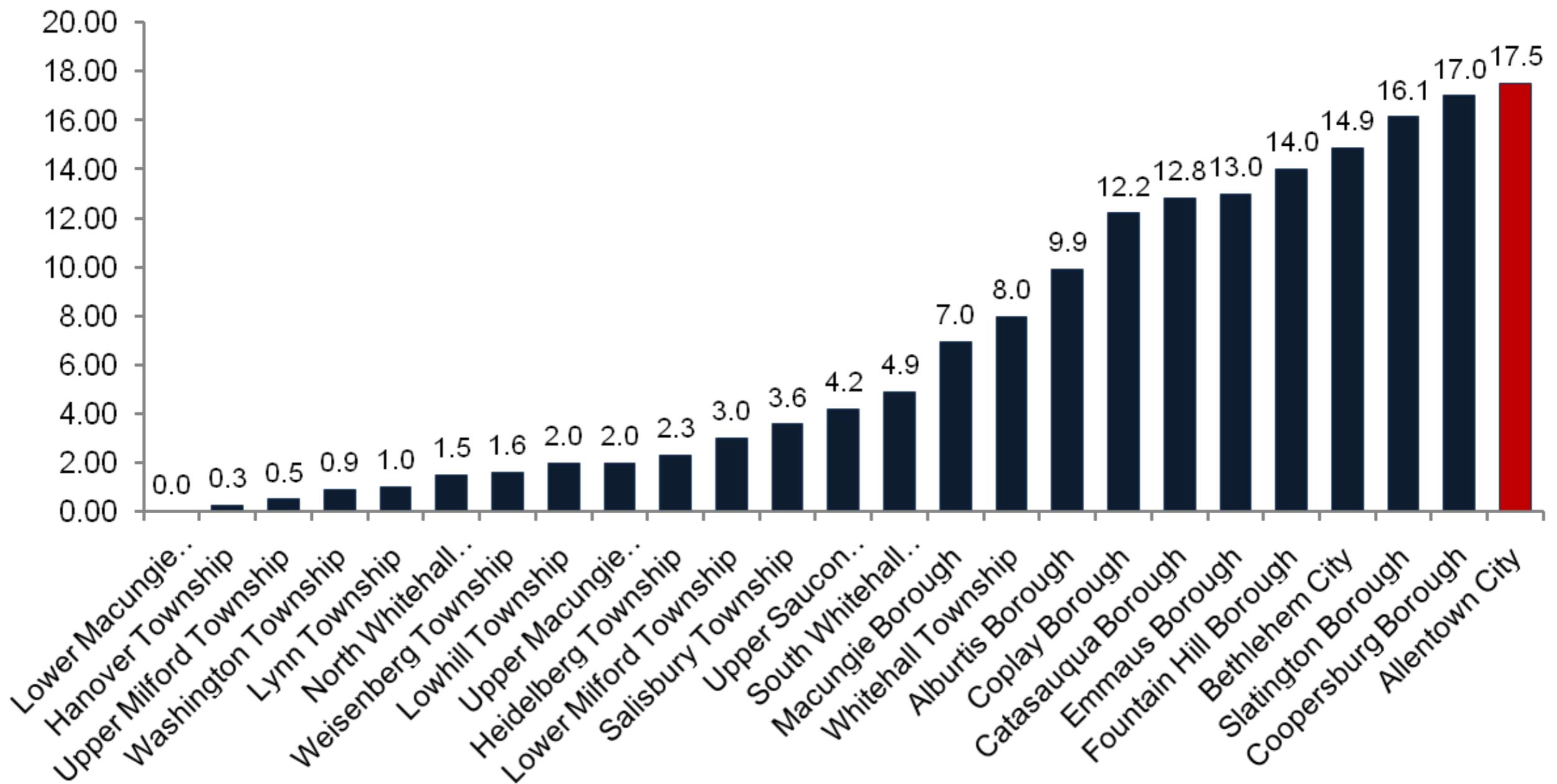
A tax increase of 6+ mills is NOT acceptable to this Administration or to City Council



# Real Estate Tax Burden

1. Allentown already has the highest municipal millage rate in the county
2. *School District continues to increase taxes each year*
3. Further reliance may cause a shift of residents to suburbs

Municipal Real Estate Millage Rate by Lehigh County Municipality 2011



# Recapping Allentown's Fiscal Situation

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## **Recession has negatively affected Allentown's economic stability**

Budget revenue shortfalls over the last four years

Mayor and City Council have restrained spending and enhanced revenue where applicable

## **Allentown's recovery is on track**

Budget deficit is shrinking

Economy is rebounding

## **The one obstacle to full recovery: a huge unfunded pension liability which forces the city to make significantly increasing annual deposits (MMO - Minimum Municipal Obligation) to the city's pension plans**

Without a dramatic infusion of funds to reduce that liability, the city's MMO will exceed \$23 million annually or over 25% of the General Fund Budget within 3 years

## **The city's tax base will never be able to meet this challenge. Even if it could, this would equate to a minimum monthly payment on a very high credit card balance**

Major revenue sources have grown far below the rate of inflation over the last five years

City Charter limits future ability to raise revenues

Millage rate is already highest in region

# Closing the Pension Gap



# + Working To Change the Future

## Step One: Restructure personnel benefits

Two major components (Fire and Police) have been successfully completed

Working to secure and protect future generations



# + Working To Change the Future

**Step Two: Develop and implement a practical funding solution to significantly reduce the city's unfunded liability**

## Options Evaluated

Raising property taxes

Issuing a pension bond

Leasing parking

Leasing the Golf Course

Leasing the water and sewer utilities

The evaluation process was conducted January – July 2012

**+ Option 2: Do Nothing—  
*Not Recommended***

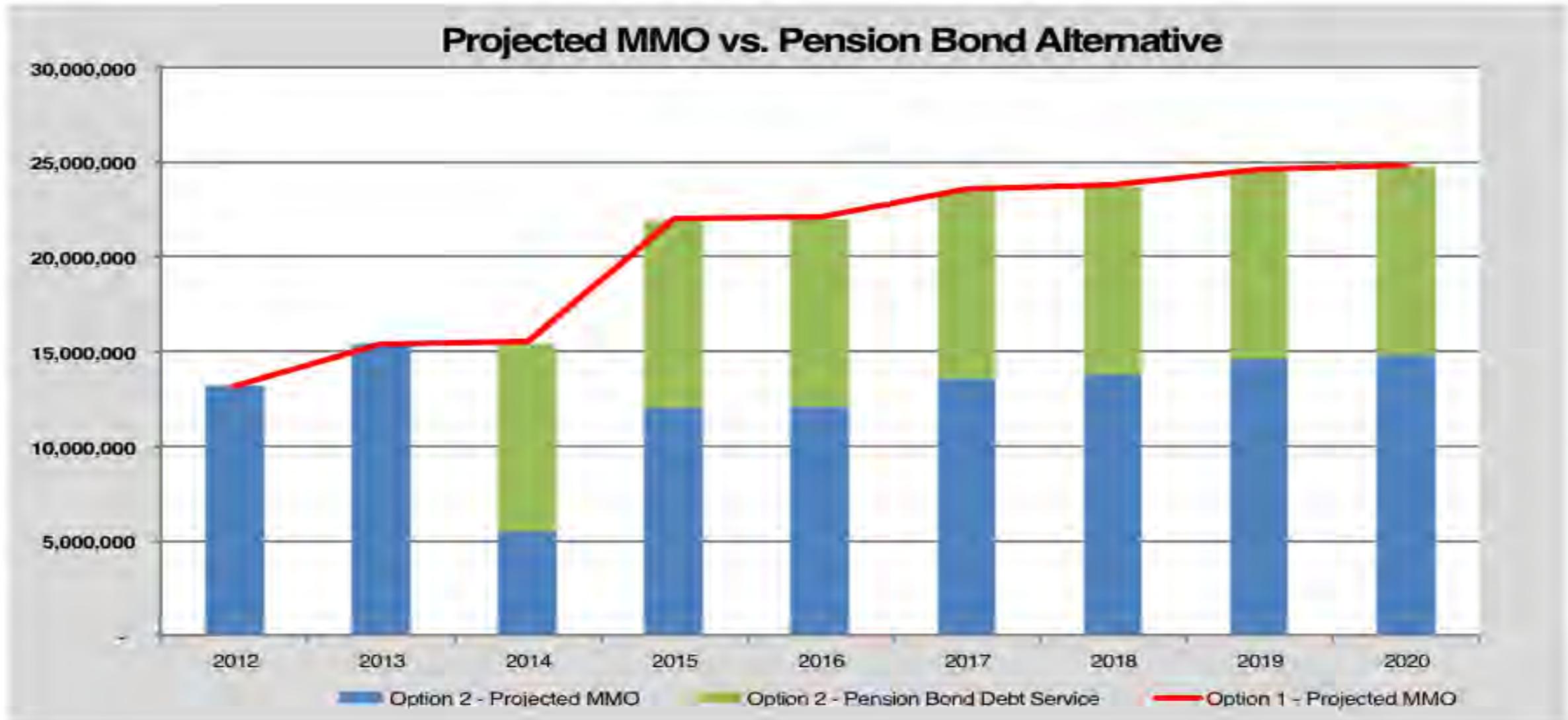
City Ignores it's  
obligations and goes  
into bankruptcy

Stockton, CA  
Scranton, PA



# Option 3: Pension Bond Alternative – *Not Recommended*

1. Option 1 (Red Line) – Assumes the projected MMO is paid out of the City General Fund
  2. Option 2 (Blue and Green Bars) – Assumes debt service from a \$100mm Pension Bond Issue\* (Green Bars) and a corresponding reduction in the projected MMO (Blue Bars)
- **Result – Pension bond issue lowers annual MMO but annual debt service payments from the bond issue puts the City back in the same fiscal situation of having to increase taxes**



\*Pension bond issue assumes \$100mm issue, taxable interest rate of 7.50%, and \$10mm deposit equals \$1mm annual MMO cost reduction.



## + Option 3: Lease City Assets

### Long Term Lease of Various Assets

Golf Course

Parking Authority

#### **NOT RECOMMENDED:**

Neither option generates enough Net Revenue to impact MMO



## + Option 4: Lease Water and Sewer Utilities

Lease City water and sewer assets and use the proceeds to reduce the City's unfunded liability, thus reducing its exploding MMO payments

In exchange for an upfront lease payment,

City secures a proven and experienced utility provider – chosen through a highly competitive and professional process

Will assume responsibility for managing, maintaining, and operating City utilities

The City will be relieved of all capital and operating expenses of the system

At the end of the lease, the City will take back the utility in good order, condition and repair to the benefit of our future residents.

**RECOMMENDED**

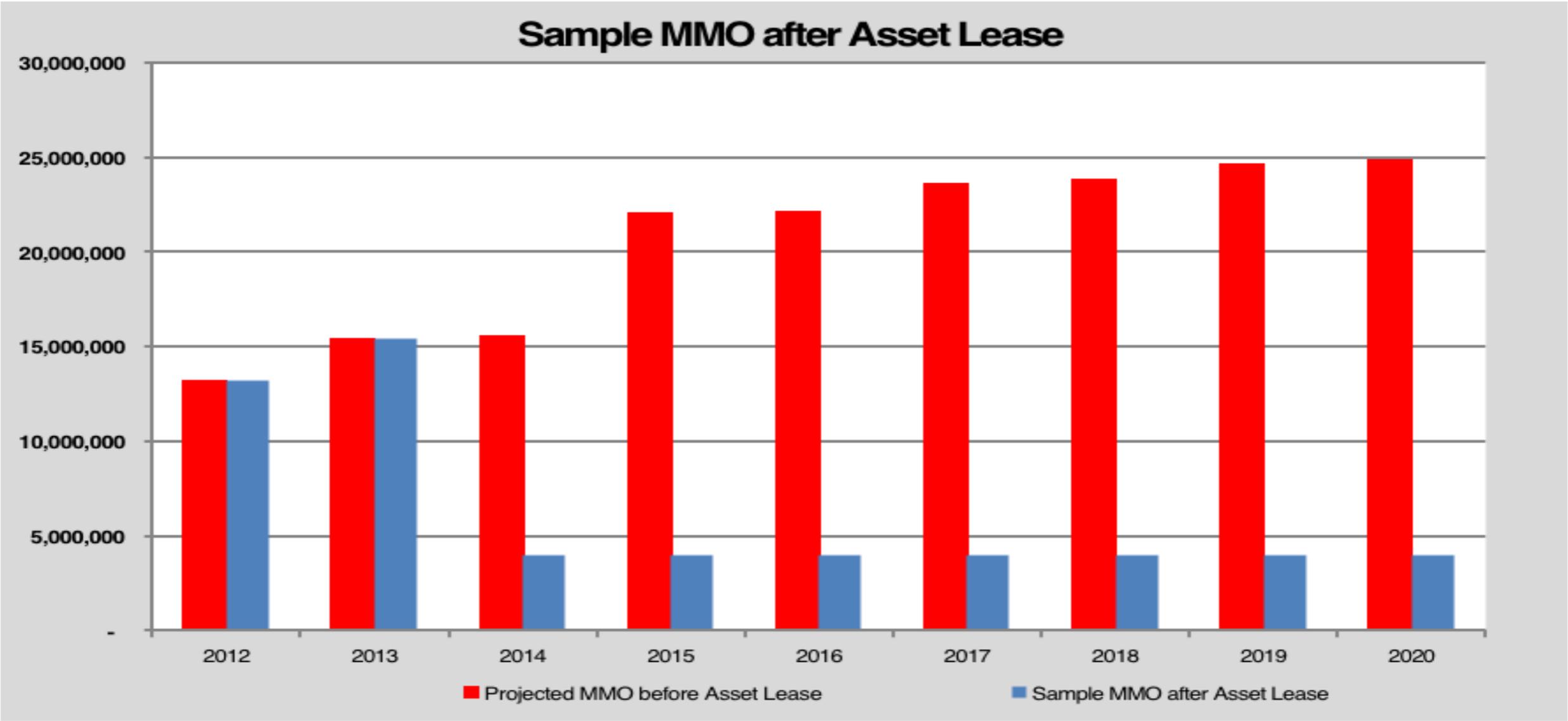
Generates  
enough

Net Revenue to impact  
the MMO and through the  
Lease Agreement puts  
enforceable protections in  
place

# MMO after Lease Agreement (Eliminate Unfunded Liability)

Lease Agreement will drastically reduce the projected MMO and the need for large future tax increases

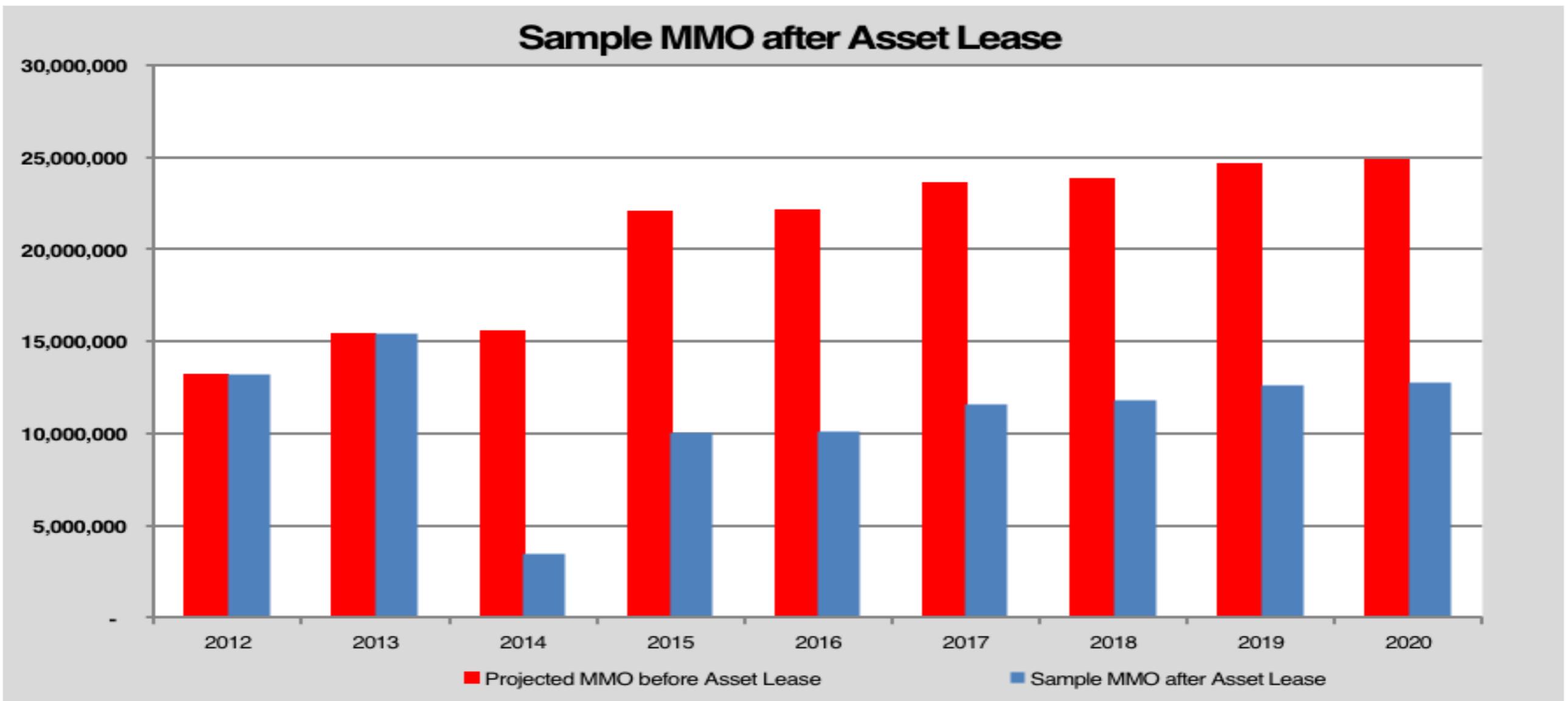
Red Bars shows Projected MMO without the Lease Agreement  
Blue Bars shows Projected MMO with the Lease Agreement



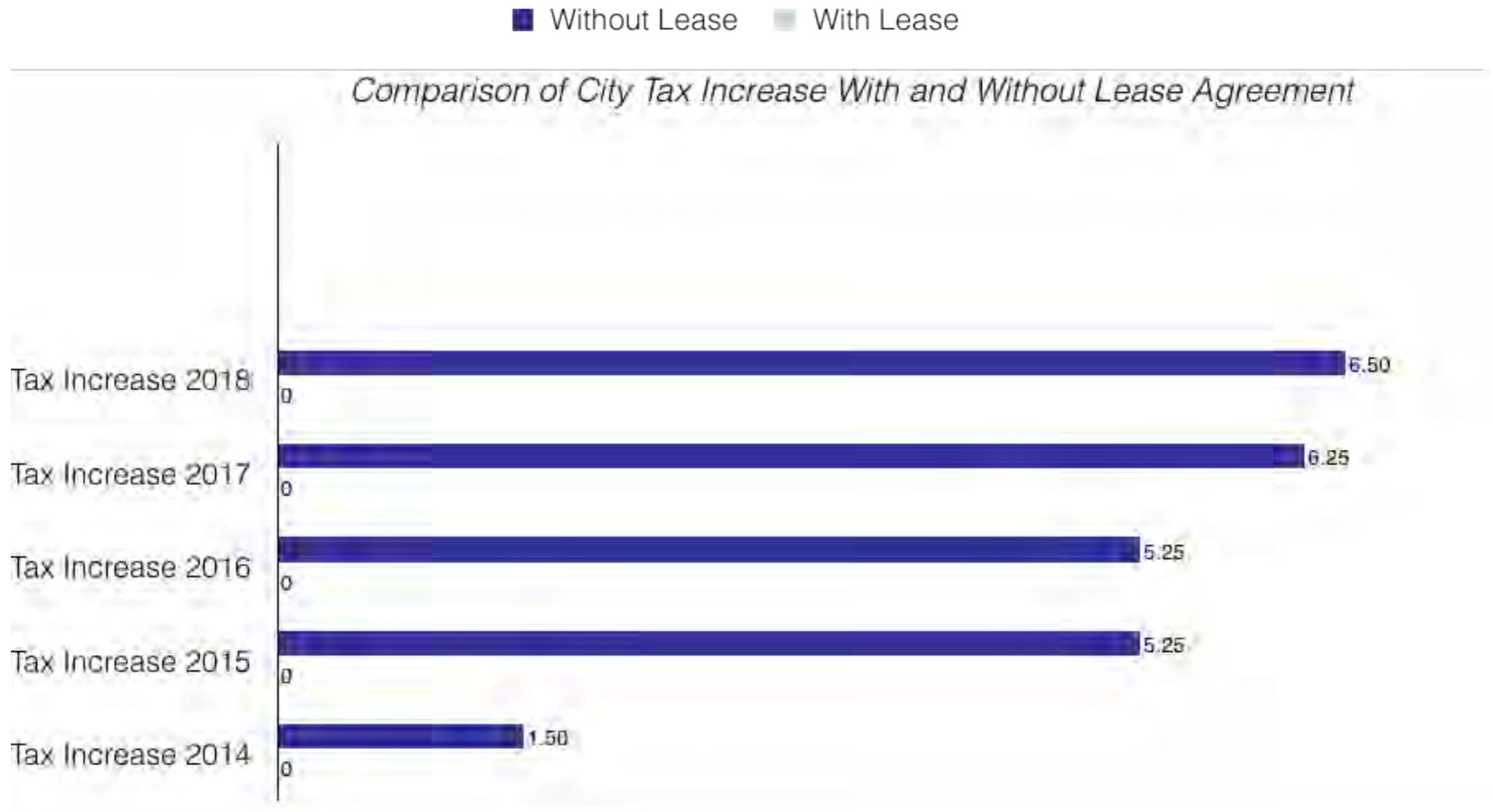
# MMO after Lease Agreement (Unfunded Liability at 80%)

Lease Agreement will drastically reduce the projected MMO and the need for large future tax increases

Red Bars shows Projected MMO without the Lease Agreement  
Blue Bars shows Projected MMO with the Lease Agreement



# City Real Estate Tax Rate over Next Five Years



\*Assumes concession amount which eliminates the city's unfunded pension liability, pension bond debt, water and sewer debt

# Creating a Partnership for the Future



## + What is a Concession and Lease Agreement?

A Concession and Lease Agreement is a form of public/private partnership that enables a:

**A municipality to raise funds by monetizing existing infrastructure** (basically pipes and treatment plants) while retaining ownership and the ability to set operational standards and retain oversight over the many important public concerns related to these utility services

The City is  
**NOT** selling its  
assets

# + Concession Parameters

## Lease, not sale

- A. No transfer of title and assets revert back to city control at end of lease term
- B. City would always maintain ownership of Allentown's water supply sources

Approximately 50 year term

## Anticipate existing labor agreements to remain in force

- ⑩ Workforce transferred to New Entity (*Goal is NO jobs lost*)

## City not liable for future operating or capital costs

## City retires approximately \$30 million of water and sewer debt

## City revenue shares with Lease on any new water/sewer service agreements

## Net Proceeds must substantially reduce MMO

City reduces pension and unfunded liability and eliminates need for exorbitant and unaffordable tax increases

Potentially eliminate the Act 205 .035 Earned Income Tax imposed on residents and non-residents



## Measures to Protect Quality, Rates and Services

### Operations Standards Manual –

The Concession Agreement will include a Water & Wastewater Systems Performance Operations Manual specifying in detail the specifics of how the winning bidder will uphold the City's high standards of quality over the life of the contract

### Concession and Lease Agreement –

The Agreement will provide details and metrics on what is expected of the winning company that, if not met, will have enforceable actions and fines the City can take

The Lease Agreement enables a sustainable, reliable and enforceable approach to protect the City's interests

## Measures to Protect Quality, Rates and Services

### Office of Customer Ombudsman (OCO) –

The City would request the establishment of an OCO to monitor potential rate increases and ensure that water quality and services meet customer needs

### PUC or Oversight Boards –

The City plans to negotiate with the winning bidder to ensure rate increases are fair and appropriate, and if the winning bidder is subject to the Public Utility Commission, that their increases must have PUC approval

The Lease Agreement enables a sustainable, reliable and enforceable approach to protect the City's interests

# Recommended Solution

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1. Lease Water & Sewer System.
2. Make significant deposit in Police & Fire pension fund, substantially reducing MMO payments to a manageable level
3. Stabilize tax rate and budget for many years to come
4. City revenue shares with Leasee on any new water/sewer service agreements
5. Concession Agreement will require that systems be returned to the City in good order, condition and repair to the benefit of our future residents.

## + Next Steps

### August:

City receives RFQ responses and qualifies bidding teams

City holds Public Meetings

### September:

City Council votes to move forward with solution, approve basic Lease Agreement terms

### October:

City issues RFP to pre-qualified bidders

### December:

City receives bids; awards Lease Agreement to the highest and reasonable offer

Only entities with well-established and respected track records in operating water and sewer systems of similar or greater size and complexity will be allowed to bid

## + Summary

Current pension and unfunded liability will derail Allentown's financial recovery and impose unsustainable tax increases on City residents and businesses

Public/Private sector interest and expertise in managing water and wastewater systems provides immediate financial relief and long term enhancements to the City through ongoing investment in its water and wastewater systems

**The Lease Agreement will help the City:**

- **Eliminate its unfunded pension liability**
- **Substantially reduce its debt**
- **Remove the .35 Earned Income Tax (EIT) increase**
- **Potentially stabilize the tax rate for years**

City is on road to economic recovery, stability and sustainability

