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TO: The Honorable Roger MacLean, Council President
And Members of City Council

FROM: Interim Mayor Ray O'Connell

RE: 2020 City of Allentown Proposed Budget and Program of Services

In accordance with the provisions of the Home Rule Charter adopted by the voters of the City of Allentown on April 23, 1996, I, Ray O'Connell, acting in my capacity as Mayor, herewith present to City Council and the residents of the City of Allentown a proposed Budget and Program of Services for the fiscal year 2020. As required by ordinance, I verify the 2006 reserve fund account is on deposit and not impacted by this budget. The budget includes my recommended 2020 capital program, and the following budget message. The five-year operating plan for the City is included within this document, while the five-year capital improvement plan is submitted under separate cover.

My proposed 2020 budget keeps tax rates unchanged from those of 2019.

Allentown's financial standing has been bolstered by the growth of the Neighborhood Improvement Zone and by the sustained pride and efforts of our residents. The city and surrounding Lehigh Valley are among Pennsylvania's fastest-growing population centers. Allentown's government has responded to these trends by maintaining and improving police protection, fire and emergency medical response, street maintenance, street lighting, bridges, traffic control, solid waste and recycling, parks and recreation, health, community and economic development, code enforcement, building standards and City planning services to ensure that all can benefit sufficiently from their provision. I have made additional support for public safety operations a key component of my 2020 proposed operating and capital budget for the City of Allentown. This budget responsibly addresses the fiscal impacts of improvements to public safety and all City services by constraining expenditures where possible and maximizing the use of available funds to improve service delivery.

THE FISCAL SITUATION

In my message accompanying the 2019 proposed budget, I related Allentown's recent history of using cash reserves to address operating account deficits. I pledged to you the end of that practice, and after a \$5.6 million surplus to the General Fund balance in 2018 and an anticipated smaller surplus in 2019, the tide is turning clearly toward responsible funding of general City operations within available annual revenues. The unrestricted cash reserve for General Fund operations at the beginning of 2020 is projected to be approximately \$11 million, a significant accomplishment considering that more than \$1 million in capital expenses were paid from operational funds for the first time in several years.

Allentown is looked upon as a great city in which to invest and the positive momentum continues. Since my last budget message, 520 Lofts and Walnut Street Commons new residential buildings were completed ushering 129 new units to the downtown. Work continues on another 799 housing units in 5 different housing development projects in and around the downtown. And even more housing projects are working through planning and land development and will get started in the coming year.

At the corner of 8th and Hamilton Streets, Five City Center opened, bringing with it over 1,000 ADP employees and other commercial office tenants which will push the building occupancy toward 1,800 employees total.

Multiple public improvement projects were completed including the Court Street Arts Alley (\$675,000) and the Hamilton Connector pedestrian corridor project (\$1.4M) stretching from Hamilton Street to the Arts Walk. Five (5) new murals were added to Allentown buildings this year, which continue to brighten our streets. These projects and others have enhanced pedestrian safety and highlighted our vibrant arts and culture scene.

Allentown School District broke ground on a new elementary school at 12th and Gordon Streets. And the newest but perhaps most impactful announcement occurred just recently: The Da Vinci Science Center announced it would build a world-class science center in Allentown. This project will provide second-to-none STEAM education opportunities as well as be a visitor destination for Lehigh Valley residents and beyond.

Finally, the Allentown Vision 2030 Comprehensive and Economic Development Plan was completed (soon to be adopted) which will guide the City's economic development strategy and resources for the next 10 years.

A vibrant economy has resulted in strong growth rates for City tax collection, with business privilege tax receipts at record levels and with annual increases likely exceeding 5% in 2019 for earned income tax and deed transfer tax. These increases have proven timely, as wage and benefit costs continue to grow as well. Any slowing of

economic growth will likely slow increases in tax collection as well, and we must plan for general City operations with a reasonable expectation of such an occurrence.

The City's previous use of debt finance instruments precludes practical expansion thereof to fund capital improvements for another one to two years. The City directs approximately 8% of its annual General Fund appropriation to pay principal and interest on general obligation and pension debt. Debt capacity will increase as recurring revenues grow, enabling the City to utilize this source responsibly in the near future. However, the resulting impact for 2020 is that all fleet services, street repair and information technology renewal will require use of standard operating funds, totaling more than \$2.7 million in 2020 and putting additional stress on the General Fund. With approximately 800 full-time employees, the City's operations today have nearly 200 fewer staff than a decade prior, yet employee wages and benefits remain the primary driver of cost increases. Department managers have effectively controlled non-personnel costs in recent years to save money, and in fact the budget for non-personnel operating costs in 2020 actually decreased from 2019 levels.

My 2020 budget incorporates significant policy initiatives in public safety and maintains existing service levels across city departments within available revenues and without increasing taxes. To accomplish these initiatives without limiting essential capital repair improvements and fleet and equipment replacement, however, my proposed budget allocates \$2.4 million from our increasing cash reserves to support one-time expenditures for capital, fleet and information technology needs. And because of this specified purpose, the City will be able to reimburse the General Fund fully for these expenses when the next capital improvement bond is issued in 2021 or 2022.

2020 BUDGET HIGHLIGHTS

This proposed 2020 operating and capital budget for the City of Allentown includes the following significant provisions:

Operating expenditures within the General Fund are paid within available tax revenues without a tax rate increase, and non-personnel expenses actually decrease from 2019. Three percent wage increases are provided for all bargaining unit employees and non-bargaining personnel within these parameters. Cash reserves are utilized only to cover one-time capital and equipment expenses, and the financing structure for new capital bonds in either 2021 or 2022 will enable the City to reimburse the General Fund for the capital expenses incurred in 2020.

Four new firefighters will enable the Fire Department to return to full service the City's second aerial truck.

Four new paramedics will enable a fully functioning third ambulance during overnight hours, ensuring residents of available rapid-response emergency medical services 24 hours a day, 7 days a week.

Police will continue to have 222 budgeted positions in 2020, and the City expects to fill the remaining open positions during the year.

Matching funds are provided to support expected state and private grant funding to repair the revered Bogert's Bridge within the City park system.

Additional compliance and maintenance staff are included within the Stormwater Fund to speed up necessary stormwater management improvements.

Last year's enhancements to the aquatics program, information technology staffing and risk management activities are maintained in the budget, and all major programs will continue to be administered at or above 2019's service capacities.

General Fund repayment of the 2016 loan from the Solid Waste Fund loan will occur as scheduled, with the final annual payment to be returned to the Solid Waste Fund in 2023. The \$4.8 million Stabilization Fund remains intact and is not utilized in any way.

Two new special purpose funds are created for the rental inspection program and for maintenance of city dams. Moneys designated for these funds will be dedicated entirely for these distinct purposes.

All special purpose and enterprise funds, including Trexler, Liquid Fuels, Solid Waste, Stormwater and Rental Inspection, will either have revenues exceeding expenditures in 2020 or will have sufficient cash reserves to cover excess expenditures.

This proposed budget of City services for 2020 deals directly with pressing issues of public importance while responsibly funding City operations without a tax increase. The budget draws down General Fund reserves only to address one-time capital and equipment expenditures that are usually paid from debt issuances not currently justifiable for City finances, and it ensures reimbursement to the General Fund for these expenditures at a more favorable time of debt issuance. This is a thoughtfully considered and fiscally responsible approach for the coming year to support the quality of life for all Allentown residents, and I welcome your support of this budget.