



TO: The Honorable Daryl Hendricks, Council President
And Members of City Council

FROM: Mayor Ray O'Connell

RE: 2021 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 2021. The budget includes my recommended 2021 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 2021 budget keeps tax rates unchanged from those of 2020.

The COVID-19 pandemic, which led to Pennsylvania Governor Tom Wolf's order to close all non-essential business in March of 2020, has created an environment of intense financial distress to the citizens and resident businesses of the City of Allentown, as well as to its governmental units. However, in the wake of double digit unemployment, businesses closing their doors permanently, and Federal emergency relief funds being insufficient to cover loss of household income, I cannot justify raising taxes and increasing the economic burden on the citizens and businesses of Allentown in this fiscal year 2021 budget, before the community has even fully recovered.

THE FISCAL SITUATION

The City began 2020 in a promising financial position: revenue outlooks were strong; the City had a healthy General Fund cash balance and wages in the City appeared to be on about a 6% increase, based on Earned Income Tax data. However, when the Governor declared a state of emergency and ordered the closure of non-essential businesses, the City and schools, were, shortly thereafter, also forced to close their doors to the public until a safe reopening plan was in place across the Commonwealth. During this time, the

City forecasted major negative downturns to previously expected revenues, including a projected loss of 12.5% in annualized Earned Income Tax collections, a significant hit to our local share of casino gaming revenues from Wind Creek Casino, and a steady leak of normally expected licensing, building, permitting, and inspection revenue, municipal recreation revenue, other departmental earnings and investment income. The City was looking at a cyclical General Fund deficit of \$8-10 million dollars or more, depending on the estimation.

City leadership, department and bureau heads and staff across both the bargaining and non-bargaining units were equal to the challenge. Because of the Federal government offering additional unemployment compensation, City staff were offered temporary voluntary furloughs. I ordered a hiring freeze to find further savings in personnel costs. Departments were ordered to adopt strict spending reductions in all operating budgets, other than personnel. Even with diminished staffing resources and cuts to our purchasing power for services and materials, the City was able to get through the worst of the storm without any involuntary layoffs or furloughs.

Furthermore, the Finance team under its interim Finance Director, worked with our financial advisor, the rating agencies, our underwriters and our lender to restructure our 2020 debt service, pay back the general fund for capital improvement, rolling stock and IT improvements previously expensed, and to issue 2020 series general obligation bonds for baseline necessary capital funding to maintain the City's infrastructure in the near term. Through the hard work of the above mentioned, the City was able to actualize nearly \$4,000,000 of additional liquidity in the General Fund.

Ultimately, Allentown's business, labor and housing markets proved to be more resilient than our best expectations. Despite nearly every Act 32 collector and similar tax bureaus throughout the state predicting 10%-18% lost income tax revenues due to the unprecedented unemployment levels, as of today, the City is looking at less than 3% downturn for EIT taxes in its 2020 year end estimated amount. Even in these difficult times, residents and investors have largely been able to pay their City Real Estate Tax obligations in 2020, the burden of which City Council lessened by extending the discount period for payment of the taxes to August 31, and eliminating all penalties for the current year. With some assistance from the Business Development Office, which issued relief aid to 124 businesses in 2020, most businesses have been able to pay their Business Privilege Tax and other business obligations and many have been able to resume their operations at or near pre-pandemic levels. Regretfully however, some businesses have closed for good. In the housing sector, we are witnessing a surge of arms-length real estate transactions in the summer, which we hope to continue to see into the fall. The healthy real estate market is closing the gaps we expected to see in our Deed Transfer Tax revenues, as well as our building permit revenues.

The blend of austerity measures, bond refunding, better than expected revenue recoveries and the hard work of City staff has reduced our outlook from a multi-million dollar budget deficit and an estimated cash deficit to a much more stable picture. At this stage, we hope to see a modest General Fund budget deficit. Furthermore, our current General Fund cash balance is slightly higher than at the same time in 2019, and our cashflow models point to an end of year general fund cash balance of between \$7,000,000 and \$9,000,000.

Beyond the City's financial outlook, Allentown could not have weathered COVID without the leadership in our public safety and emergency response teams, and certainly not without the dedication of our essential workers who routinely put themselves in peril in order to continue serving the community. Allentown's Health Bureau led an exemplary charge against the virus in the face of continually changing guidelines and developments in the effective testing, treatment, and prevention of the virus, often with far too few resources.

Residential development has continued to change the landscape of downtown. The former Holiday Inn property at 9th and Hamilton has been converted into 198 residential units known as Cityplace. Center Square Lofts East and West in the 800 block of Walnut Street has added more than 300 market-rate housing units in newly constructed buildings. Demand for downtown housing continues to be very strong as vacancy rates remain very low. In the past 5 years, more than 1,000 new residents are living in downtown. Additional residential development projects are under construction or being proposed throughout the City, to add new housing options for residents across all levels of affordability.

The demand for commercial office space remains strong and I am happy to report that multiple industrial development projects are working through the Planning Bureau at this time, which will create new jobs in the City.

Since my last budget message, ASD completed construction of the new elementary school at 12th and Gordon streets, named for William Allen HS alumnus Brigadier General Anna Mae Hays. The DaVinci Science Center continues through design and development phase. A vibrant new mural was completed in the 100 block of S 8th Street. Approximately 100 properties are in some stage of the Blighted Property process in partnership with the Allentown Redevelopment Authority, and implementation of Vision 2030 continues.

With approximately 800 employees, the City's operations today have nearly 200 fewer staff members 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 2021 actually decreased slightly more than \$2 million from 2020 levels.

My 2021 budget incorporates significant policy initiatives in public safety and maintains existing service levels across city departments within available revenues.

2021 BUDGET HIGHLIGHTS

This proposed 2021 operating and capital budget for the City of Allentown includes the following significant provisions:

As part of State and Federal COVID-19 emergency response, the Health Bureau, will continue to receive supplemental grant funding through the CARES Act, which will be used to fund additional personnel and resources devoted to the mitigation and prevention of the coronavirus's threat to City residents. The Health Bureau will also be integrating into the technological infrastructure of the region's health care systems.

The City reached a settlement with the Lehigh County Authority. Beginning in 2021, the City will receive \$400,000.00 annually, adjusted for inflation to help defray water and sewer administrative and regulatory expenses. Additionally, LCA will provide an additional \$306,000.00 a year to the City for the next 4 years to pay the retiree health care cost of the former City's Water Resources employees. These funds will provide relief to both the General and Risk funds.

For reasons of public safety, patron convenience and overall efficiency, the Parks and Recreation Dept. will purchase and implement new recreation software which will enable the public to, among other things, reserve fields, courts, and pavilions electronically.

EMS will also roll out new billing software which will promote efficiencies, increase revenue and allow for more remote working capacity for staff.

2021 capital projects will include: the Valania Park-construction upgrade; Jordan Skatepark-new construction; Jordan Creek Greenway Trail-new construction; Martin Luther King Jr. Trail-design; Irving Pool-design; Lehigh Parkway-Works Progress Administration structure repairs.

Stormwater improvements include the Alton Park drainage project, with installation of 1,200 feet of pipe and other structures in the Alton Park area.

The City will be advancing such community and economic development projects as the implementation of Vision 2030, arts-based economic development projects, neighborhood planning and residential lead-hazard reductions.

We will be able to purchase an excavator which will facilitate larger in-house projects and utility line replacements. Also, we will see a complete overlay on

American Parkway from Gordon to Hamilton streets, in continuation of our cost sharing measures with UGI for road repairs.

All special purpose and enterprise funds, including Trexler, Liquid Fuels, Solid Waste, Stormwater and Rental Inspection, will either have revenues exceeding expenditures in 2021 or will have sufficient cash reserves to cover excess expenditures.

This proposed budget for 2021 enables the City to continue to provide our expected scope of municipal services and public health and safety, in the context of an expected on-going global pandemic. Because of this setting, property owners will not be burdened with a tax increase. However, to accomplish this objective in times of economic compression and uncertainty, the City's 2021 General Fund expenditures will unavoidably outpace its expected revenues, the difference of which will have to be covered by available cash, but will not be remedied by drawing upon the 2006 Loan Investment account. Nevertheless, this budget presents the most publicly and fiscally responsible position possible for the benefit of the residents and businesses of the City, in line with our 2021 mission.