

Allentown

All Inspiring

Ray O'Connell, Mayor
City of Allentown
435 Hamilton St, 5th Floor
Allentown, PA 18101-1699
Office 610.437.7546
Fax 610.437.8730
Ray.OConnell@allentownpa.gov

TO: The Honorable Julio Guridy, Council President
And Members of City Council

FROM: Mayor Ray O'Connell

RE: 2022 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 2022. The budget includes my recommended 2022 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 2022 budget keeps tax rates unchanged from those of 2021.

On March 11, 2021, the President signed into law the American Rescue Plan Act (ARPA). Section 602 and 603 of the Act provide for Coronavirus State and Local Fiscal Recovery Funds (collectively, the SLFRF). Congress targeted the funds to help state, tribal, and local governments offset the negative fiscal effects on those budgets and spend interest free on infrastructure. Being defined as a metropolitan city, Allentown was awarded an allocation of \$57.46 million directly from the SLFRF, to be received in two appropriations, or tranches, with the first being paid in 2021, and the second expected in 2022. Despite being the third largest city in Pennsylvania, due to the peculiarities of the CDBG funding formula, the city received the sixth largest share of SLFRF funding by dollar amount for metropolitan cities in PA.

On June 1, 2021, the city received the first allocation of \$28,566,302 in an interest-bearing account. My 2022 budget assumes that these funds will be available to cover many of the city's necessary projects and expenditures. Therefore, no revenue increases are needed in the 2022 budget.



THE FISCAL SITUATION

From a financial standpoint, the transition from 2020 to 2021 exceeded expectations. Most, if not all, municipalities were projecting huge deficits by year end 2020. Because of the financial measures explained in my previous budget address, the city started 2021 with a General Fund cash balance of \$17 million. The same fund balance is expected to be preserved going into 2022.

The General Fund revenue expected in 2022 equals \$124,840,754. The expenditures proposed are \$124,840,754, net of vacancy factor.

The city did not incur any additional indebtedness in 2021, nor does it anticipate the need for borrowing in 2022. SLFRF funds are secured for future projects, and significant proceeds from previous bond issuances are still available to draw upon to fund our currently committed capital projects. Debt service in 2022 adheres to the same schedule projected in the 2021 budget, minus the debt service payments made in 2021. The principal amount outstanding on the City's debt is \$72,936,677. Debt service net of the capitalized interest fund created in 2020 is \$8,977,431. The City's principal debt per capita is approximately \$580. The City's debt to market value of real property is approximately 1%, and the ratio of 2022 debt service to annual operating revenue is approximately 7%.

In 2022, the city assumes a sizeable new responsibility in its minimum municipal obligation (MMO) for three of its four pension plans. In 2021, the aggregate pension board voted to both change its assumptions in police retirement and to reduce the discount rate (the assumed rate of annual return on investments) by 10 basis points. The cumulative effect increased the MMO by about \$1.4 million each year beginning in 2022, the majority of which will impact the MMO going towards the police pension plan. The pension board was advised that an additional reduction of 40 basis points is recommended in the coming years.

The city is seeing positive movement across its funds. The Risk Fund balance is at an extremely healthy level as of the time of this address. In fact, the finance director has advised City Council that the cash reserve in the Risk Fund needs to be trimmed, which will occur gradually in the later stages of 2021 and in 2022. Ultimately, the reserve in the Risk Fund will be preserved at a level sufficient to cover any settlements, judgments, or other catastrophic events not covered by the budgeted expenditures in the Risk Fund, and/or our insurance coverage.

The Golf Fund, while booking impressive revenues during the 2020 coronavirus lockdown, has seen unprecedented growth in 2021. Revenues have far outpaced expenditures and the gains have been locked-in in the form of a healthy cash balance. In addition, at the request of the Parks Department, the General Fund invested \$375,000



in the Golf Fund in 2021, in the form of a loan. The intent of the loan was for much needed pay-as-you-go-funded capital improvements, including, the driving range, course maintenance, and a feasibility study to lay out a long-term capital plan for in and around the clubhouse. The loan will be paid back in three years, starting with the first installment in the fourth quarter of 2021 and each year thereafter. Notwithstanding the loan, and an additional cash draw-down of \$73,000 for a new rough mower, the Golf Fund projects a positive cash balance for the entirety of 2022.

The Stormwater Fund will be seeing a boost in activity in the next year. The fund had accumulated enough of a reserve to make a down payment of \$2 million towards securing a storm sewer lining contractor. We foresee such services being in high demand in the coming years, due to the SLFRF. It is our plan that the ARPA reimburse the Stormwater Fund for the down payment, and that an additional \$3 million be committed in our ARPA plan for stormwater projects. I expect the Stormwater Fund to make a dent in some long overdue repairs to the MS4 system in the coming year and thereafter.

In addition to their regular duties, the Allentown Health Bureau worked tirelessly in 2021 to combat COVID-19. For her incredible efforts in handling COVID-19 for the city, I presented AHB Director Vicky Kistler with a key to the city, an honor not bestowed since the 1980s. To date, the Health Bureau has administered more than 52,000 COVID-19 vaccinations, which could reach nearly 60,000 by the end of the year if doses for expanded youth COVID-19 vaccinations are made available. In consideration of their continued excellence over these difficult months, I have approved for submission the Health Bureau's 2022 proposed budget without a single revision.

Despite some positive financial outcomes over the last year, the city's tax base has experienced headwinds over the last year or two. The total valuation of all city property expected to be taxed in 2022 has increased only 0.5% since the start of 2020. Largely due to the pandemic's squeeze on cyclical sales and wage growth, business receipts decreased about 2.5% in 2020 from 2019, which resulted in less Business Privilege Tax being paid in 2021. Furthermore, the pandemic may have slowed down what was trending towards booming wage growth in the city. Wages reported in Earned Income Tax filings were either flat or slightly down over the last year.

Our biggest driver of expenditure growth continues to be in personnel. However, that should not keep us from investing in much needed human capital across the city's programs. I believe we have reacted in an efficient manner to address and stabilize healthcare costs in the Risk Fund. In my 2022 budget, I have already mentioned my commitment to the pension funds; however, I am also committing as much as I can to ensure that each department is functionally and safely staffed, to ensure that public safety, health, and infrastructure services are promptly and effectively available to every citizen, and to guarantee that each city employee experiences a pay raise in 2022 in consideration of the rising costs of goods, commodities, and services across most sectors of the U.S. economy.



Finally, per the decennial census, Allentown's population continues to grow. As a growing city, we are seeing residential units being added downtown, at Seventh and Linden streets, and the 900 block of Hamilton Street. Actually, residential units are being added across the City, and not just downtown. And, considering the plan approvals that are coming in, we expect long overdue commercial developments in the waterfront area and on Front Street to be underway in the coming year.

2022 BUDGET HIGHLIGHTS

This proposed 2022 operating and capital budget for the City of Allentown includes the following significant provisions:

- The administration has added a fund to 2022 budget for appropriations from the American Rescue Plan Act. We have also presented City Council with a draft spending plan for the funds that includes, but is not limited to, investments in water main replacement, storm sewer repairs, filters for the city's drinking water, cyber security, pools, a fire academy, non-profits, small businesses, tourism, housing, homelessness, economic disparities in our population, violence prevention and public safety, and an amount to replace revenues lost during the pandemic that would otherwise have gone to governmental services.

With respect to the last item above, in this budget we are anticipating that City Council will approve an ARPA plan in 2021 or 2022 that will allocate at least \$1.4 million to offset our rising public safety costs.

- I am presenting a balanced budget. It has been my commitment to leave city government with substantial cash reserves. With that in mind, I budgeted the 2022 opening cash balance to remain about the same as the beginning of 2021. In order to accomplish this, I froze more than \$800,000 in unspent 2021 expenditures in accounts across all programs. This and other measures have allowed me to accomplish my 2022 budget goals without drawing upon any cash reserves.
- My 2022 budget includes two additional firefighters and two additional EMS professionals, as well as manpower assets in CED, Stormwater, Public Works, and Parks, to name a few.
- My budget commits to the success of the city's special events, like Lights in the Parkway. These events are at the core of and are the pride of Allentown as a city.
- Without incurring any new debt or using substantial ARPA funds, necessary improvements in the parks are included in my budget, such as WPA wall repairs in Lehigh Parkway, Irving Pool and the Jordan Greenway Trail.



- In 2022, the city's licensing and permitting functions will be hosted on a new software platform called Energov, which will foster greater customer service, efficiency, and revenue realization.
- We are replacing a 20-year-old paving machine for our streets paving program and cost-sharing partnership with UGI and LCA; we are upgrading the Recycling Drop-Off Center, and we are employing three new vegetation technicians to maintain roadside mowing, street trees, retention basins, and rain gardens.

I would like to acknowledge the department heads, deputies, finance personnel, financial analysts, operations managers, bureau managers, office managers, and clerks who assisted us in preparing this budget. It is a monumental task, and I cannot thank them enough. Furthermore, I would like to thank with the city staff, who are employed out of these programs, and who work tirelessly day in and day out to keep this city running and meeting and exceeding expectations. You all do an outstanding job every day, and I cannot express what an honor and a privilege it has been to be your mayor.

