Financial Recovery Plan

City of Allentown

Public Financial Management, Inc.

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Executive Summary

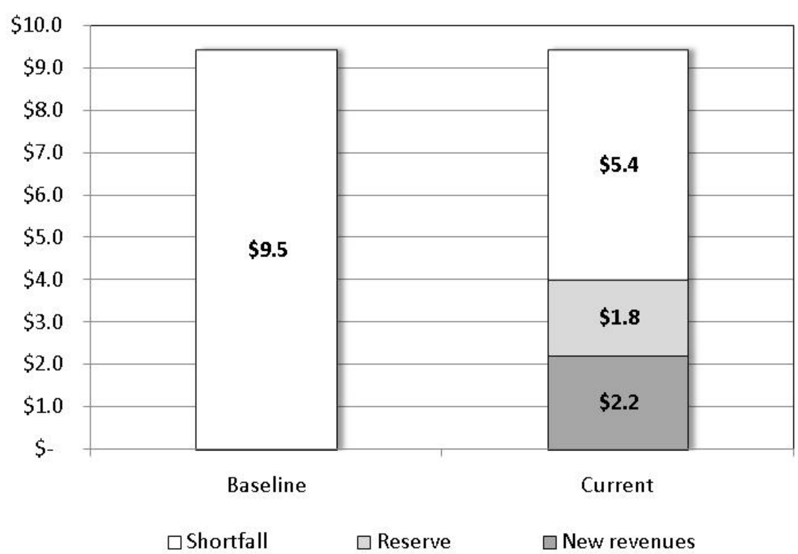
Like many other municipalities in the nation and the Commonwealth of Pennsylvania, Allentown's finances have taken a hit during the prolonged recession. A sluggish real estate market, reduced development activity and depressed investment earnings have reduced the City's revenues below the $78.6 million in the FY2009 budget. Comparing this year's revenue collections through June to last year's through June, the City is on pace to equal last year's revenue total, which would leave a $9.5 million shortfall.

Part of the $9.5 million shortfall is addressed by $2.2 million in revenues that are new to the General Fund in FY2009:

- $850,000 related to the casino revenue sharing agreement
- $440,000 in drug forfeiture receipts previously not included in the budget
- $220,000 in new Community Development Block Grant (CDBG) funds
- $404,000 in local service tax revenue related to the new remittance cycle state legislation.[1]
- $286,000 in police reimbursement grants from the federal Byrne Justice Assistance Grant and the Lehigh County Community Policing programs.

The Administration, with the approval of City Council, also used $1.8 million from its accumulated surplus to close the projected budget revenue shortfall in FY2009. After accounting for the new revenue and the use of reserves, the Administration anticipates that it will have to close a $5.4 million budgeted revenue shortfall this year.

Projected FY2009 General Fund Shortfall ($M)



[1] Under legislation that took effect last year, the local service tax (LST) is now remitted on a quarterly basis. The quarterly collection cycle left many Commonwealth municipalities with very minimal first quarter revenue last year. This year municipalities will receive the full four quarters of revenue.

The Administration and City Council also convened a group of public and private sector leaders on a Blue Ribbon Finance and Operations Committee. Co-chaired by Mayor Ed Pawlowski and Council President Mike D'Amore, the Committee focused on ways to reduce city expenditures and increase revenues without raising taxes. The Committee broke into subcommittees focused on revenue generation, expenditure reduction and investment opportunities. Several subcommittee recommendations are incorporated in this Plan and the subcommittee's reports are attached in Appendix A.

The Plan initiatives are organized into two groups – those targeted at increasing revenues without raising taxes and those targeted at reducing expenditures. If successfully implemented, several initiatives will help the City's finances for FY2009 and beyond. With that longer perspective in view, the Plan shows the projected impact of these initiatives in FY2010 where possible. The initiatives are summarized in the table below and then addressed in subsequent Revenue Generation and Expenditure Reduction sections.

Addressing the General Fund Budget Revenue Shortfall

Initiative	FY2009	FY2010
Delinquent tax collection	100,000	200,000
Market Based Revenue Opportunities	0	150,000
Payments in Lieu of Taxes	150,000	150,000
Cost sharing with School District	0	455,397
Americus Center Hotel Sale	580,000	N/A
Sale of excess City property	1,737,000	63,400
Sewer capacity sale	1,152,000	N/A
Revenue generation subtotal	**3,719,000**	**1,018,797**
Employee health premium contribution	0	173,000
Health insurance opt-out incentive	0	219,300
Early Retirement Incentive Program	59,485	645,043
Budget cuts (includes layoffs)	1,663,346	2,200,000
Cost reduction subtotal	**1,722,831**	**3,237,343**
Total impact	**5,441,831**	**4,256,140**

In addition to these initiatives, the Administration continues to work on others that could generate additional revenue or savings for FY2009 including other cost recovery efforts, more federal stimulus and Community Oriented Policing Services (COPS) funds and property sales beyond those discussed in Initiative VI. For conservatism, the impact of these additional efforts is not quantified here.

Revenue Generation

The Administration has identified options to increase the City's General Fund revenues without raising current tax rates. That effort includes reviewing the cash management policy to potentially increase investment earnings, as recommended by the Blue Ribbon Committee, and ensuring full cost recovery for the overhead associated with administering programs funded by the American Recovery and Reinvestment Act of 2009 (i.e. federal stimulus package). Further initiatives are outlined below.

I. Delinquent tax collection

FY2009 impact: $100,000 **FY2010 impact:** $200,000

The Solicitor's Office has conservatively estimated approximately $100,000 in delinquent taxes that the City could collect from specific targets in FY2009 through litigation or other means. Given the City's significant revenue from the earned income, local service, business privilege and deed transfer tax, it is possible that the City could generate significantly more in revenue over the next 18 months from more aggressive tax collection and fee recovery, inclusive of the targets identified by the Solicitor's Office.

II. Market Based Revenue Opportunities

FY2009 impact: $0 **FY2010 impact:** $150,000

A Market-Based Revenue Opportunities ("MBRO") program offers an opportunity to maximize the revenue-generating capacity of City assets. This broad term encompasses various entrepreneurial concepts, including advertising, exclusivity arrangements, rental agreements and corporate sponsorships.

In 2005, Public Financial Management found that a comprehensive and effectively administered MBRO program could generate $1.0 million over the next five years based on a benchmark of two percent of locally generated General Fund revenues. Since then the City has engaged The Active Network, Incorporated, which has reviewed the relevant arrangements already in place and inventoried the available assets.

The Revenue subcommittee of the City's Blue Ribbon Committee acknowledged the City's progress in pursuing MBROs and recommends that continue. The weakened economy has reduced some short-term opportunities, but this program still has potential to generate revenue for FY2010 and beyond. Active projects $375,000 in revenue during the program's first year, rising to $1.0 to $1.2 million by year four. The City offers a more conservative projection of $150,000 in FY2010 to account for the sluggish economy. To achieve this revenue next year, the City will need to issue a Request for Proposals (RFP) this fall. The projected revenue is achievable if the City focuses on high-yield alternatives and takes some of the revenue up front.

III. Payments in Lieu of Taxes

FY2009 impact: $150,000 **FY2010 impact:** $150,000

Cities that are county seats and are homes to regional medical and education centers often have significant portions of their real property declared tax exempt. For Allentown, 20 percent of the property tax base is estimated to be made up of exempt properties owned by government bodies or non-profit institutions.

In the northeast, it is common to approach non-profit institutions for voluntary payments in lieu of taxes (PILOTs). As shown in the chart below, contributors can include hospitals, colleges and universities, and other organizations.

PILOT Programs in Select Cities

Jurisdiction/Contributor	Fiscal Period	% of Government Operating Budget from PILOTs
City of Providence/Universities	FY2006-07	1.31
City of Cambridge/Universities	FY2006-07	1.62
City of Boston/Non-Profits, Other Govts	FY2007	1.94
City of New Haven/Non-Profits	FY2006-07	1.70
City of Wilkes-Barre/Miscellaneous	FY2006	1.46
City of Erie/Health Care	FY2008	1.57
City of Pittsburgh/Non-Profits	FY2007	1.15

Within the Commonwealth, the following cities have successfully secured PILOTs:

- The **City of Lancaster** receives cash contributions and in-kind services from Franklin & Marshall College, a private liberal arts school similar to Muhlenberg College, and Lancaster General Hospital. In 2008 Franklin and Marshall contributed $116,545 in cash and $44,655 in in-kind services to maintain a City park near campus. The $160,000 contribution is approximately equal to 30 percent of the amount the College would pay in property taxes. In FY2007 – FY2008 Lancaster General Hospital contributed $1.2 million in cash to the City. The College and Hospital also offer financial incentives to encourage their employees to purchase and invest in homes in Lancaster.[2]

- The **City of Wilkes-Barre** has a program through which it requests voluntary contributions from the non-profit institutions located there. Led by Wilkes-Barre General Hospital, Geisinger South Wilkes-Barre Hospital, King's College and Wilkes University, the non-profit

[2] Pennsylvania General Assembly Legislative Budget and Finance Committee. "Tax-Exempt Property and Municipal Fiscal Status." Pages 49-50.

organizations contribute $600,000 annually. The two hospitals and universities account for approximately half of the voluntary contributions.[3]

- The **City of Pittsburgh** has seen the percentage of total assessed value occupied by tax-exempt institutions grow to 38 percent in 2008. The non-governmental, tax exempt institutions located there are an important factor in the City's ability to weather the recession and a major source of the region's best paying jobs. Nevertheless, because of their size and number of employees, these institutions also utilize a broad variety of City services such as police, fire, utilities and public works.

  Before 2004, Pittsburgh received approximately $650,000 annually in contributions from these institutions. As part of the City's Act 47 Recovery Plan, the Pittsburgh Financial Leadership Committee – a group of civic leaders that developed recovery recommendations for State and City elected officials in 2003 –reached a consensus that increased annual contributions from non-profits should be part of the City's fiscal reform package. With the assistance of the Commonwealth Department of Community and Economic Development, the Pittsburgh Public Service Fund was established to accept contributions to the City for 2005 – 2007. According to the Fund's leadership, over 100 tax exempt institutions made almost $14 million in contributions to Pittsburgh over that three year period. The City's agreement with the Fund expired in 2007 and the Administration has reached a new agreement that would provide $4.3 million in FY2009[4] and $1.6 million in FY2010. The Agreement is currently under consideration by City Council.

  The Revenue subcommittee of the City's Blue Ribbon Committee recommended a "program of Payment In Lieu of Taxes (PILOT) for those entities in the City that, because of their non-profit status, are not required to pay the taxes that for-profit entities are subject to." The Administration will pursue this initiative and conservatively projects $150,000 in PILOT payments for FY2009. That amount is reasonable and well below the amounts generated in the aforementioned Commonwealth jurisdictions.

IV. City-School District Cost Sharing

FY2009 impact: $0 **FY2010 impact:** $455,397

The City of Allentown supports the full cost of school crossing guards in its operating budget. As the table below shows, this is unusual when compared to other third class cities in the Commonwealth.

[3] Tax-Exempt Property and Municipal Fiscal Status." Page 55.

[4] The FY2009 revenue includes scheduled payments for FY2008 and FY2009. Since the agreement was not consummated in FY2008, the City would receive two years payments in FY2009.

Cost Sharing for School Crossing Guards in Third Class Cities

City	Which Government funds School Crossing Guards?
Allentown	**100% City**
Altoona	50% City; 50% School District
Erie	50% City; 50% School District
Harrisburg	100% School District
Lancaster	Primarily City *
Reading	50% City; 50% School District
Scranton	50% City; 50% School District
Wilkes-Barre	100% School District
York	Primarily School District

Source: Data from City officials in response to PFM Comparability Survey, October 2005
* Crossing guards in Lancaster are city employees, but the cost of staffing 28 negotiated intersections is billed to the School District

Similar to Allentown, the City of Wilkes-Barre negotiated full reimbursement for school crossing guards from the Wilkes-Barre Area School District to help close a $3.9 million shortfall in 2004. Starting in FY2006, a settlement negotiated by the City of York includes the transfer of all crossing guards from the City's payroll to the School District, in return for a City contribution for salaries.

In addition to crossing guards, Allentown also funds school resource officers (i.e. police officers specifically assigned to schools). The City's estimates of these costs are shown below.

Cost of City Services to Allentown School District

	FY2009	FY2010	Notes
School resource officer (salary and benefits)	461,525	570,794	The City will increase the number of SROs from 5 to 6 in FY2010
School crossing guards	325,000	340,000	The City provides 54 guards at $8.25 per hour.
Total	**786,525**	**910,794**	

The Expense subcommittee of the City's Blue Ribbon Committee recommends that the City "consider requesting that all parties that receive a contribution of personnel, services, or assets and their maintenance from the city, share or assume the cost of those services in the future," specifically citing the services to the School District. If the School District evenly split the costs of these services, the

City would recover $455,397 in FY2010. The critical factor in achieving this revenue will be securing an agreement with the District.

V. Americus Center hotel sale

FY2009 impact: $580,000 **FY2010 impact:** N/A

The Americus Center hotel was recently sold at a Lehigh County Sheriff's sale, which generated $580,000 in one-time revenue for the City. The City also purchased the associated Corporate Plaza parking lot for $1 more than the outstanding liens on the property. The Corporate Plaza's value has been appraised at $1.0 million and the City has received interest from buyers with a potential sale price of $825,000 - $1,000,000. If the Corporate Plaza was returned to the property tax rolls and remained a parking lot, the estimated property taxes on the lot are $12,000 per year.

VI. Sale of excess City property

FY2009 impact: $1,737,000 **FY2010 impact:** $63,400[4]

One initiative suggested in some capacity by multiple Blue Ribbon subcommittees was to sell excess City-owned properties with high market values. As the Americus Center hotel sale demonstrates, such sales can generate significant amounts of one-time revenue to help the City close its projected budget revenue gap. If the property is sold to a private owner or developer, then the property can be placed back on the property tax rolls and generate recurring revenue as well.

The City has identified at least five properties for potential sale in FY2009. Several of these properties have been transferred to the Industrial Development Authority which will put them on the market for sale shortly.

Property	FY2009 Projected Sale Price	Future Projected Property Tax	Notes
Corporate Plaza	825,000	12,000	Please see initiative V concerning the Americus Center hotel sale for more information.
Martin Luther King Drive and 15th Street	500,000	50,000	Concannon Miller, a CPA firm in Allentown, has expressed interest in purchasing this property. This needs City Council approval to transfer the property to ACIDA.

[4] Additional property tax revenue would be generated as parcels related to the Allentown State Hospital transaction are developed.

Property	FY2009 Projected Sale Price	Future Projected Property Tax	Notes
Allentown State Hospital	180,000	150,000	The Commonwealth and City have agreed to sell this property and share the proceeds. Property tax revenue will be generated over time as parcels are developed.
Pioneer Building	75,000	1,400	The Allentown Economic Development Corporation has assumed the deed and market the property.
Incinerator Site	350,000	N/A	The site is in a Keystone Opportunity Zone.
Subtotal	**1,930,000**	**213,400**	
10% to Debt Service (Per City Ordinance)	**-193,000**	**N/A**	
Total	**1,737,000**	**213,400**	

If these property sales are successfully completed in FY2009, the City would receive $1,930,000 in revenue. By City ordinance, 10 percent of one-time proceeds have to be used to reduce debt service, which leaves the City with $1,737,000 to address the General Fund budget revenue shortfall.

VII. Sewer capacity sale

FY2009 impact: $1,152,000 **FY2010 impact:** N/A

The City plans to sell additional sewer capacity to the Lehigh County Authority (LCA). This follows the agreement between the City and the Authority through which the City will provide up to 7 million gallons of water per day to the Authority.

Expenditure Reduction

As important as the revenue initiatives in the previous section are, they are only one half of the strategy to close the City's FY2009 budget revenue shortfall and strengthen the City's financial position for FY2010. The City will also have to reduce expenditures to meet these goals.

Since the majority of the City's expenditures are related to personnel, the majority of the expenditure reduction initiatives are also focused on the costs associated with employee salaries, wages and benefits. The Administration's ability to reduce those costs is constrained by the City's collective bargaining agreements with its three large unions – Service Employees International Union Local 473/395 (SEIU), Fraternal Order of Police Queen City Lodge No. 10 (FOP) and International Association of Fire Fighters Local 302 (IAFF).

Given those constraints the Administration has taken steps to control costs where it can. For example, the Administration eliminated the 3.0 percent wage increase scheduled for non-represented supervisory employees in July 2009, saving an estimated $168,000. The Administration is working with an outside firm to review the City's insurance coverage, including employee health benefits, to identify potential savings and improvements. Overtime authorizations are limited to work related to health, safety and welfare or maintaining essential services. This section outlines further expenditure reduction initiatives.

VIII. Employee health insurance cost sharing
FY2009 impact: $0 **FY2010 impact:** $173,000

According to the Kaiser Foundation's 2008 survey, private sector employees contribute $60 per month on average for single coverage and $280 per month on average for family coverage. According to the US Bureau of Labor Statistics, nationally state and local government employees contribute $73.34 per month on average for single coverage and $328.01 per month on average for family coverage.[5] The City could establish employee premium contributions structured any number of ways:

- **Percent of gross salary:** Commonwealth employees in the three state employees' unions pay 1.5 percent of gross salary, rising to 3.0 percent by 2011. Discounts are available for participation in the Commonwealth's *Get Healthy* health management program.

[5] U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States, March 2008," September 2008.

- **Percent of premium/cost[6]:** In Pittsburgh several groups of non-uniformed, white collar employees (including non-represented employees) pay 15 percent of the plan premium. All City employees make some contribution to the premium costs.

- **Flat dollar amount:** Luzerne County employees who are enrolled in the "management plan" and were hired before the most recent round of collective bargaining pay $75 per month for family coverage.[7] A July 2009 arbitration ruling established that active members of the Wilkes-Barre Police Benevolent Association will contribute $25 per pay period to the cost of family or husband-wife coverage effective September 1, 2009. That contribution will increase to $30 per pay period in January 2010.

While the City cannot implement further cost sharing for its unionized employees except through collective bargaining, it could establish a contribution for the 190 employees who are not members of collective bargaining units and receive City funded insurance. Assuming that nine percent of these employees participate in the opt-out program described below (see next initiative), if the remaining 173 employees paid $1,000 per year for coverage (i.e. less than $40 per pay period), the City could save $173,000.

IX. Insurance "opt out" incentive

FY2009 impact: $0 **FY2010 impact:** $219,300

Following the lead of the private sector and many public and quasi-government entities, the City could offer employees an incentive to "opt out" of their medical coverage if the employee has access to another plan. As of 2008 the Philadelphia Gas Works (PGW) had a tiered incentive where employees received $1,500 per year for opting out of single coverage and $3,000 for opting out of family coverage. Lehigh County offers an opt-out incentive and reportedly has a nine percent participation rate.

If the City offered a flat $1,000 opt-out incentive to the 190 employees who are not members of collective bargaining units and receive City funded insurance, the City could save a projected $219,300 assuming a nine percent participation rate and a FY2010 health premium cost of $13,900.[8]

190 non-union employees x 9% participation = 17 employees

[6] Because Allentown is self-insured, the employees would contribute a percentage of the cost, not a percent of premium paid to an outside insurer.

[7] More recent hires pay 10 percent of premiums. Members of the Laborers' International Union of North America (LIUNA), who have a separate health plan, do not make a premium contribution.

[8] The actual premium cost in FY2010 may vary depending on the level of coverage provided (e.g. single, family). The $13,900 flat amount shown here is a simplifying assumption.

17 employees x $13,900 cost each = $236,300 gross savings
17 employees x $1,000 incentive = $17,000 cost
$236,300 gross savings - $17,000 cost = $219,300

X. Early retirement incentive program (ERIP)

FY2009 impact: $59,485 **FY2010 impact:** $645,043

An Early Retirement Incentive Program (ERIP) can save money by replacing higher-paid, more senior employees with new hires or reducing the overall headcount if the positions vacated are not filled. To be effective, the savings from the replaced employees and eliminated positions must be greater than the cost of the incentive in the short and long-term.

The City of Allentown has proposed an ERIP for non-represented employees over the age of 55 effective September 4, 2009. Eligible employees who participate would receive:

- A retirement incentive allowance of $10,000;
- Reduction from 25 percent to 15 percent of the monthly employee contribution for retiree medical coverage;
- $20 for each unused sick day at the time of retirement up to a maximum of 100 days or $2,000.

The City has 53 non-represented supervisory employees with an average salary of $57,433 who would be eligible for the ERIP. For each employee who participates, the City would save four months of salary and receive four months of employee contributions to retiree health insurance at 15 percent of premium ($158.88 per month).[9] The City would pay the incentive, pay for accrued sick leave up to the $2,000 maximum and pay for unused vacation time, which is assumed here to be two weeks on average. In FY2010 the City would save 12 months of salary (assuming the position remains vacant) and receive 12 months of employee premium contributions. The net savings for each participant are shown below.

[9] Active non-represented employees currently do not make any premium contribution.

Projected Savings per ERIP Participant

	FY2009	FY2010
Salary	19,144.45	58,007.67
Incentive	(10,000.00)	0.00
Sick leave (max)	(2,000.00)	0.00
2 weeks vacation	(2,208.97)	0.00
FICA (7.65%)	377.56	4,437.59
Premium cost share (15% of premium)	635.53	2,059.12
Total Savings	**5,948.57**	**64,504.38**

While the level of participation is unknown, the projected savings associated with 10 participants is $59,485 in FY2009 and $645,043 in FY2010. If more employees participate, the savings could be higher, but the higher number of vacancies would create more pressure to fill the vacancies. The City's savings would also vary depending on the following factors:

- **Employee replacement:** Depending on which and how many employees participate, the City may have to fill some vacancies created by the early retirements. The sooner the City fills these vacancies, the greater the reduction in savings.

- **Other cash compensation:** Depending on the terms of employment, the City may also achieve savings related to other cash compensation foregone in retirement. For example, if supervisory employees normally receive a premium payment for working on holidays, the payment would be avoided once the employee retires.

- **Insurance for Medicare eligible employees:** The City does not provide health insurance for retired employees who have reached the age for Medicare eligibility. If any such employee participates in the program, the City would receive greater savings than projected above once the person leaves the City's medical coverage.

Please note that participation would also impact the City's pension and retiree health care liabilities, which are not calculated here. The Administration is aware of this factor and discussed the pension impact with the Pennsylvania Municipal Retirement System (PMRS), which indicated participation would have a minimal short term impact on the City's Minimum Municipal Obligation pension payment. The Administration has also discussed the potential impact on retiree health care with a separate actuarial firm.

XI. General budget reductions

FY2009 GF impact:	$1,663,346	**FY2010 GF impact:**	$2,200,000
FY2009 Total:	$2,967,572	**FY2010 Total:**	$3,400,000

In addition to pursuing the previous revenue generating and expenditure reducing initiatives, the City will have to make broader reductions to balance its budget in FY2009. The expense subcommittee of the Blue Ribbon Finance and Operations Committee captured the essence of this necessity in the title of its report, "The Present Model is Not Sustainable and a Paradigm Shift is Necessary." The report specifically recommends the following:

"The City must give strong consideration to renegotiating all contracts and request a reduction of salary and benefit increases above benchmarked percentages. Layoffs should also be considered as part of this process if necessary."[10]

As recommended, the Administration tried to secure concessions from the collective bargaining units and avoid layoffs. The City proposed that SEIU members defer 4.0 of the 8.9 percent wage increase that took effect in July 2009 until 2012 and 2013. In return the City offered to extend the existing collective bargaining agreement one year to 2013 and provide a no-layoff incentive. The union voted this proposal down.

The Administration then made another proposal to provide a 5.9 percent wage increase in July 2009 followed by 3.0, 4.0 and 5.0 percent increases in years 2010 through 2012. The proposal reduced the work week from 40 to 35 hours for the remainder of 2009 and provided a no-layoff incentive for FY2009. The proposal also included an Early Retirement Incentive Program and the creation of a labor pool. The union refused to bring this proposal to a vote. Since the City and collective bargaining units have not been able to reach an agreement on these concessions, the Administration has been forced to implement layoffs.

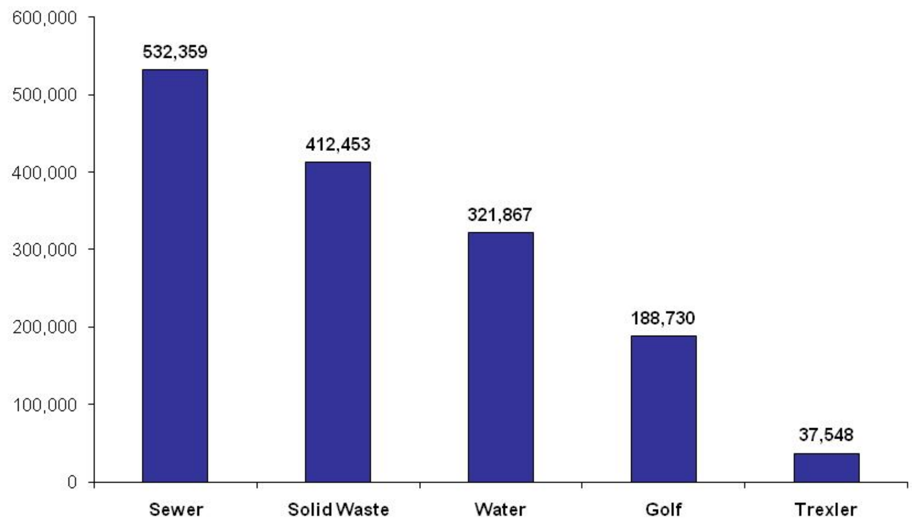
The Administration has identified $1.2 million in General Fund expenditure reductions for FY2009, including $268,592 in personnel related reductions related to 21 layoffs. Those layoffs plus 18 outside the General Fund (39 total) will take effect August 1, 2009 due to the union's rejection of the proposed concessions. In addition to the personnel savings, the Administration has identified $963,024 in other General Fund expenditure reductions. Expenditure reductions in the Golf Fund will generate $188,730 in savings, which will be transferred to the General Fund to help address this year's revenue shortfall. Eliminating the 3.0 percent increase scheduled for non-represented employees in July 2009 saved an additional $168,000. Anticipated cost recovery related to administering programs funded by the federal stimulus package will provide the final $75,000. The total impact of all these changes is $1.66 million.

[10] Please see page six in the subcommittee's report, included in Appendix A.

FY2009 General Fund Savings

Action	Impact
Personnel reductions (21 layoffs)	268,592
Non-personnel reductions	963,024
Golf course reductions (savings transferred to General Fund)	188,730
Non-represented employee wage increase elimination	168,000
ARRA Cost Recovery	75,000
Total	**1,663,346**

FY2009 Savings by Enterprise Fund



FY2009 Enterprise Fund Savings (Except Golf)[11]

Action	Impact
Personnel reductions (18 layoffs)	216,853
Non-personnel reductions	1,087,374
Total	**1,304,227**

In FY2010, if the City does not fill the 21 General Fund positions cut on August 1, 2009, the estimated personnel savings for next year would be $1.3 million. Carrying over this year's $900,000 in non-personnel expenditure reductions to next year would give a total projected General Fund savings of $2.2 million in FY2010. Similarly, if the City does not fill the 18 Enterprise Fund positions cut on August 1, 2009, the estimated personnel

[11] The savings from the Golf Fund will be transferred to the General Fund. They are not included in this chart to avoid double-counting the savings.

savings for next year would be $700,000.[12] Carrying over $500,000 of this year's non-personnel expenditure reductions to next year would give the total Enterprise Fund savings of $1.2 million.

[12] This includes the Golf Fund expenditure savings, which could be transferred to the General Fund.

Other non-quantified initiatives

The expense subcommittee recommended that the City consider establishing a "Shared Service Center" that would handle administrative duties, such as accounting and payroll, on behalf of Allentown and other municipalities. Such an organization would be jointly funded by all participating municipalities, reducing the need for each one to maintain its own staff for these functions.

Another potential source of savings is state pension reform. The Commonwealth of Pennsylvania's Public Employees' Retirement System (PERC) has developed draft legislation to assist local government pension funds throughout the state absorb the tremendous 2008 market downturns that lowered pension fund valuations and will generate the need for increased municipal contributions in the future. The PERC legislation would allow cities to assume a higher value for pension assets, smooth returns from anomalous market years over a longer period of time, and limit the immediate impact of any particularly poor years of market performance.

The City's actuary, Beyer Barber, has estimated that passage of the PERC legislation could reduce the City's required pension payment by $4.4 million in each of the next four years. The PERC legislation has been introduced in the General Assembly (HB1874), been voted out of committee, read twice and is currently on floor of the State House for final passage. It is on the top of the list of significant priority bills for passage in 2009.

Shared services and pension reform have the potential to reduce the City's costs in FY2010 and beyond. However, the City also needs other parties –other municipalities for shared services, the Commonwealth for pension reform - to act for Allentown to realize these savings. Given this reliance on outside actors, the City has not included savings from these initiatives in this Financial Recovery Plan.