

2016 BUDGET MESSAGE
J. Richard Gray, Mayor – City of Lancaster
November 24, 2015

Thank you for this opportunity to present our proposed 2016 Annual Budget for the City of Lancaster. As a candidate for Mayor a decade ago, I promised that we would improve and stabilize City finances by replacing year-to-year budget gimmicks with multi-year budgeting and strategic financial planning. Our 2016 Budget continues our commitment to these principles. Because of careful planning, good timing, and a willingness to seize opportunities, we will hold the line on spending next year to an increase of only one-third of one percent in the General Fund. Thus, our budget for 2016 proposes no tax increase and maintains the high level of services our residents have come to expect from our excellent staff. We can do this because of actions taken over the past decade to stabilize City finances at the same time we found ways to improve the quality of services City government provides.

Our decision to become self-insured is paying off. The City, in effect, became the insurance company for employees in 2012, and established an Internal Service Fund to finance employee medical expenses. Each year since 2012, approximately \$11 million has been deposited into this Internal Service Fund.

Because of prudent management, greater employee participation in wellness initiatives, and some good fortune, we are able to project a reserve of about \$2.6 million in this Internal Service Fund by the end of 2015. This reserve serves as the financial safety net needed for the inevitable time when we are faced with very high medical claims. Building this reserve up over the last 4 years has allowed us to reduce General Fund medical expenses in the 2016 Budget by about \$400,000 compared to the 2015 Budget.

Though increases in pension obligations have slowed, by 2017 pension costs will have grown by 240 percent since 2006 to a projected \$6.6 million. Police and Fire pensions account for 91 percent of these costs, with non-uniformed employee pensions accounting for only 9 percent of our pension obligation. The decision to refinance the 2006 Pension Obligation Bonds will bring some temporary relief. This year's refinancing of the police and fire pension debt produced a net savings of 830 thousand dollars, with 600 thousand dollars of that savings coming in 2016. This good news comes with a note of caution: this is a one-time savings. Our pension costs will increase by this amount in the 2017 budget and our mandated contributions to the Police and Fire pension funds will also increase by about half-a-million dollars from 2016 to 2017. Thus, we expect that in 2017, our police and fire pension costs will increase by roughly \$1 million over the 2016 amount.

A number of things that will occur in 2016 makes holding the line on General Fund spending no easy task.

For instance, the City is being proactive in battling the invasive Emerald Ash Borer that threatens to decimate Ash trees across the country. Our proposed budget includes two separate appropriations, in the General Fund and in the Stormwater Management Fund, totaling \$120,000 to remove threatened Ash trees in City parks and on City streets.

The 2016 Budget also includes an additional \$250,000 for police and fire personnel. This is necessary for hiring that will be needed in anticipation of a large number of retirements. This additional funding will allow for hiring to occur in advance of retirements, in order to allow time for new personnel to be trained and on the job when retirements occur. This will help to ensure that force levels can be maintained at 145 for police and 74 for fire.

Over the next five years, 25 percent of our Police Officers and more than 40 percent of our Firefighters will have served the City for 25 or more years and be eligible for full retirement. This presents both an opportunity and a challenge. As more experienced officers and firefighters retire, they will be replaced with new employees starting at entry level salaries. In addition, because new labor contracts call for a somewhat lower pension benefit for new hires, our long-term pension costs will also decrease.

The challenges are obvious. With this large number of retirements, the City will lose decades of valuable experience, and knowledge of the City and its residents. Replacing these years of experience is impossible. That said, recruiting, hiring, and training police and fire personnel is a long-term process. We will continue to plan ahead to make sure that we have the funding in place to hire qualified applicants and maintain adequate staffing levels in police and fire.

We are operating with a water and sewer system that continues to suffer the effects of decades of deferred maintenance and lack of investment. Over recent years, the growing number of water main breaks and sinkholes signal a need for more substantial investment in our water and sewer infrastructure. In addition, compliance with Federal and State mandates for drinking water, wastewater treatment, and stormwater management will require continued and on-going infrastructure investment.

In light of on-going challenges related to our aging water and sewer system, we are proposing an increase for City water and sewer rates for inside City customers beginning in January that will cost the average residential customer an estimated \$11.00 per quarter in their combined water & sewer bill. Even with this increase, water rates for City customers will be lower than for customers living outside of the City, and the lowest among other Third Class cities with both publicly and privately owned systems.

Finally, we are beginning to see some forward movement, and certainly more attention in Harrisburg is being given to property tax reform and pension reform. At the same time, partisanship, parochialism, and special interests continue to undermine progress and thwart meaningful change. Third Class cities in Pennsylvania are long overdue for meaningful reform at the state level.

Indeed the Pennsylvania General Assembly has the power to act in the best the interest of the vast majority of Pennsylvanians who reside in urban areas. We can only hope that they put partisanship aside long enough to exercise that power wisely and equitably to serve the greatest good.

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