

Death and taxes in Bethlehem: the Mayor reports on the virus and the budget

The Bethlehem Gadfly Budget, coronavirus November 19, 2020

 *Latest in a series of posts on City Government* 

Gadfly picking up on reporting about the City Council meeting Tuesday night after losing yesterday to his “other life.”

First things first.

What is in front of us all, death (the virus) and taxes (the budget).

The Mayor read a brief report from Health Bureau Director Wenrich on the virus (1 min.):

No surprise, the “numbers” are going up, especially at work sites and long-term care facilities. Just the facts, no elaboration by the Mayor or the Health Director.

The Mayor read his previously read **budget speech**.

No surprise — this is a “gut-punch” year — the Mayor is proposing a 5% increase (\$46 increase for the average homeowner), and, among other things, cutting 4 firefighters and 2 Service Center employees.

Here are some selected passages:

The impact of the pandemic derailed economic activity across the country and Bethlehem was not spared. Our revenues will not meet

projections this year. We made a number of adjustments to reduce expenses and limit the deficit. I immediately issued a hiring freeze. Some employees were furloughed. The recycling center and yard waste facility were closed. Pools and parks were closed. Traditional summer programming was cancelled. My financial team met with each department to target specific reductions in line items, and postponed a number of planned projects.

In the midst of this, Standard and Poor's conducted a credit review in July. They analyzed our financial status and listened to our strategies for the future. They issued a report that re-affirmed our A+ credit rating, with a stable outlook.

Our strong financial position was built by developing and implementing sound financial strategies. I want to take this opportunity to thank my Financial Advisory Committee, members of City Council, and City Controller, George Yasso, for working with my Administration during my tenure to create a successful budgeting process.

2020 has certainly delivered a punch to the gut, but we have responded, and will make it to the end of the year on stable ground.

2021 will present a whole new set of challenges that will need to be met. Even under the best scenario the impact of the pandemic will continue to be with us well into next year.

The financial impact of the pandemic became clear enough by late summer, that we were able to begin running projections for 2021. Our initial budget model revealed a deficit of \$4.5 million, primarily driven by two items, the loss of revenue due to the ongoing effects of the pandemic, and another increase in pension obligations.

Projections indicate that many of our revenue sources will be significantly reduced in 2021. Earned Income Tax, one of our largest line items, is subject to employment levels, and it falls when unemployment rises.

Another large line item is the casino host fee. Although Wind Creek has continued to make their quarterly base host fee payment of \$2 million, the activity inside the casino is limited for safety reasons, and thus the incremental fee that is based on gaming activity will not reach prior levels of nearly \$500,000 per quarter. General economic activity requiring permits and inspections, will continue to be affected, as it has been this year.

The other major factor complicating this budget is increased pension obligations. Pensions have often been the topic of concern at budget time in cities across the Commonwealth. Every other year we are faced with adjustments to our Minimum Municipal Obligation, or MMO, which is the City's required payment into the pension funds.

this summer, when our bi-annual actuarial pension study was completed, it was confirmed that Bethlehem's pension payments will increase by over one million dollars next year.

In 2021, our police pension MMO alone will increase by \$900,000 to \$7.2 million. Fire pension MMO will increase by \$200,000, to \$4.4 million. Total pension expense will rise to \$16.2 million in 2021, which represents 18.5% of our overall General Fund budget.

Understanding the size of the projected deficit, all departments were tasked with intense cutting of discretionary line item expenses. In addition, we postponed our borrowing that was planned for 2021. Our 5-year capital plan typically includes a bond borrowing of approximately \$5 million in order to complete capital projects and purchases. Bond

borrowing will be postponed until 2022 when the economy is hopefully back on firmer footing.

In previous years, that would have been enough to balance the budget. Unfortunately, it will not be enough for 2021, and additional steps will be needed. During my tenure, we have streamlined operations, refinanced debt at lower rates, increased the use of tablets and technology, and leveraged our purchasing power to achieve better deals for energy, banking, and healthcare. Those decisions have made us a stronger organization. It also has made it more difficult to find incremental improvements to address budget deficits.

Due to the pandemic, we anticipate a loss of \$1 million dollars in revenue in 2021 in the areas of EIT, casino activity, and economic development. Although it is not desirable to use cash balance to replace recurring revenue, I believe it is appropriate to use \$1 million from our cash account towards balancing our budget in 2021. Hopefully, the effects of the pandemic, will begin to improve by the end of next year, and those specific line items will begin to return to previous levels, negating the need for ongoing cash infusions.

The continued increase in pension obligations is more concerning, as it is not a one-time event. Difficult decisions were made in order to implement the corrective action needed to flatten the curve. Police and Fire pensions have continued to increase at rates that are just not sustainable to a budget. Our revenues do not mirror the increase in pension obligations.

To offset the steady growth through the years, there have been personnel cuts across several departments that have reduced staffing to the point, it has become a challenge to complete primary functions and meet daily responsibilities. Continuing to reduce personnel in departments to offset increased costs of other departments creates a fundamental imbalance in

an organization. Public Safety is the highest priority, but not the only responsibility of the City.

Pensions that were promised years ago have been earned through loyal public service, but represent a significant burden on the budget of the City, not only by the size, but the rapid rate of growth. The only path to truly slow and contain this growth, without any pension reform from Harrisburg, is to adjust staffing levels. Not taking action will only perpetuate the problem.

Since becoming Fire Chief, Chief Achey has introduced a number of initiatives to improve functions and efficiencies. With the addition of two (and soon to be three) new engines, the Department is more dynamic and flexible than ever before. By reducing one position on each platoon, the Fire Department will reduce staffing, through attrition, from 110 to 106. I have the utmost confidence they will continue to provide the high level of service to the residents of Bethlehem.

Two additional positions will be eliminated from the Bethlehem Service Center. The Service Center has been successful in responding to non-emergency calls, emails, and App submissions from residents and visitors since the creation of the Center in May of 2019. Now that the Center has been in operation for a year, efficiencies have been identified, and the staffing will be reduced from 15 to 13. The Center will still be operational 24/7/365 days a year.

The six personnel reductions between the departments will save \$500,000 each year in salary and benefits, and just as importantly help control future pension obligations.

The City's workforce will drop from a high of 670 in 2010 to 588 during 2021, which will be the lowest in many decades. In order to close the remaining gap and balance the budget, I am proposing a .92 mil (5%)

property tax increase for 2021. For a home assessed at \$50,000, that would equate to a \$46 per year increase.

2020 has been, by far, the most difficult year of my 7-year Administration. I know you join me in that thought and I hope and pray that we will turn the corner in 2021.

A reminder that the second budget hearing is tonight. **Tune in.**

The Bethlehem Gadfly