



2009 City of Wilkes-Barre Budget Address

Thomas M. Leighton, Mayor



Good morning and thank you for joining me today as I present the City of Wilkes-Barre's 2009 general fund budget.

Since taking office in 2004, my administration has overcome great obstacles to restore pride and confidence in the City of Wilkes-Barre. We have restructured the city's workforce to increase productivity and efficiency. We have made Wilkes-Barre a safer place to work, live and raise a family by increasing police presence, investing in new fire apparatus, including a new fire station, and ridding the city of nuisance properties.

We have encouraged and supported development to make Wilkes-Barre more economically prosperous and regionally competitive. We have improved the city's aging infrastructure and installed state-of-the-art flood protection measures.

Since day one, this administration has made difficult decisions to accomplish these goals and get the City of Wilkes-Barre on track for the future. We have acted in the best interest of the city as a whole and we will continue to do so in the future.

On our first day in office, my administration inherited \$10.8 million in unpaid bills. Armed with the conviction to make difficult decisions, a skilled leadership team and a deep commitment to the taxpayers of the city, we overcame this hurdle in 2004.

We balanced our budget, paid our vendors and established a five year recovery plan. This summer, our progress was rewarded with an upgraded bond rating, saving hundreds of thousands of dollars in 2007. The City of Wilkes-Barre went from having no credit rating in 2004 to a grade of A- – making us the third highest Standard and Poor's rated city in the state of Pennsylvania. This designation reflects the administration's commitment to structurally sound budgetary practices and our hard work over the past 4 years.

2009 will prove to be one of the most fiscally challenging years for my administration and the city's taxpayers, as our \$40.86 million budget faces a \$2.6 million shortfall. Since 2004, the City of Wilkes-Barre has made aggressive moves to improve our economic performance. I am confident that we will overcome this obstacle with similar determination.

This shortfall can be attributed to the following factors:

1. a steep increase in health insurance premiums
2. stagnant earned income and property taxes
3. declining revenues from real estate transfer and local service taxes
4. a nearly \$1 million back payment due to an arbitration award for the fire fighters' union

These factors, which pose considerable challenges on their own, are worsened by the downturn in the nation's economy. The nation's economic crisis has hit home. The financial problems that lead nightly newscasts, including inflated gas prices, stagnant credit markets and a lack of working capital, are mirrored here in Wilkes-Barre.

We are not alone in this troublesome time. A quick internet search will reveal news reports of state and local governments across the country that are struggling to balance their budgets, pay their employees and provide public services in the face of the economic crisis.

According to a survey conducted by the National League of Cities and Municipalities, 64% of city finance officers surveyed expect cities to have a harder time meeting fiscal needs in 2008, and 79% forecast even bigger problems ahead in 2009.

Despite our stringent attention to fiscal responsibility, our city cannot avoid the widespread effects of these problematic financial times. The rising cost of healthcare is a major annual expense for the City of Wilkes-Barre. There will be a \$650,000 increase in health insurance premiums in 2009. This steep increase – 17% - is a sizeable new expense in the 2009 budget.

Real estate transfer, earned income, property and local service taxes are streams of revenue on which the City of Wilkes-Barre depends to help offset the cost of expenses such as healthcare and daily operations. The slowdowns in the housing and mortgage markets have left potential homeowners unable to obtain or afford mortgages and, as a result, record numbers of homes now sit vacant. The real estate transfer tax that the city collects upon the sale of these homes has dropped by 50% - a \$500,000 decrease in our budget.

Earned income and property tax revenues have remained stagnant. In fact, a new report by the Rockefeller Institute of Government cites the sharp slowing of income tax as a major cause of budgetary downturns for state and local governments.

An amendment to the collection schedule of the Local Services Tax, formerly the Emergency Services Tax, has been detrimental to our finances. These changes have resulted in a \$250,000 loss in revenue - a heavy financial burden for the City of Wilkes-Barre.

Many of you have experienced first-hand the five natural disasters that Wilkes-Barre has endured in the past four years. Four devastating floods and one crippling snow storm have cost the city a total of \$8.25 million. In order to pay vendors, we were forced to borrow substantial funds in 2007. Our operations department is working diligently with PEMA and FEMA officials to ensure that as much of this money is reimbursed as quickly as possible. We are anticipating a \$1.3 million reimbursement for these unbudgeted expenditures, of the \$2.7 million that is still outstanding.

Finally, the greatest burden on the 2009 budget will come from the nearly \$1 million in costs associated with the recent arbitration award granted to the fire fighters union. This unexpected back payment, which equates to 13 mils of taxes, puts a tremendous strain on the city's already cash-strapped budget.

Over the past four and a half years, my administration has made staffing cuts in every department, reduced spending and prioritized our goals to fit within the constraints of the budget. We have decreased the number of employees in administrative positions, while increasing the number of police officers on our streets. We have tightened our belts and done more with less.

We will not abandon our many accomplishments and return the city to the condition in which we found it in 2004. We will not jeopardize public safety or public service in the face of this shortfall. Now, more than ever, my administration will continue to make difficult decisions.

We have evaluated all of our options and identified the following ways to close our budgetary gap:

1. restrict discretionary spending
2. reduce labor costs to contractual minimums
3. increase service fees, including:
 - o recycling: \$25 to \$40
 - o ambulance charges: \$550 to \$600
 - o garbage: \$1.45/large bag to \$1.75/large bag
4. increase taxes:
 - o return our earned income tax rate to 3.0% from its current 2.85%
 - o increase the transfer tax by ½%
5. increase millage
 - o We must increase the tax rate by 23 mils.

The revenue we gained by raising taxes in 2004 has been designated to pay for the annual \$1.5 million payment of the unfunded debt that we inherited upon taking office. These payments will continue to be made until 2014. This increased millage could not be used for neighborhood enhancements, capital projects or other public services. The funds are not available for our administration in times like these, when they are desperately needed.

This tax increase is not the result of the action or inaction of one person – it is a necessary reaction to the widespread effects of rising costs, declining revenues and unexpected arbitration awards. In fact, thirteen of this 23 mil increase can be attributed to paying for the fire fighters' union award.

My administration will not allow the city's economic security to falter. We have made great strides since 2004 and must continue on a positive path to our future.

Despite the economic forecast, let me assure you that there will be many bright spots in 2009. The third phase of the \$7.3 million Downtown Streetlight and Streetscape project will add 116 new lights to Union, Washington, Northampton and Franklin Streets. Work on the \$25 million Intermodal Transportation Facility will be completed, adding 752 parking spaces and conveniently centralizing public transportation. The River Common will open, offering people spectacular views of the Susquehanna River and creating recreational opportunities.

Kinship Square and the Radnor Property Group will invest \$19.5 million to redevelop three blighted properties at the corner of Union and North Main Streets into student

apartments, a daycare facility and community-based retail. Greenspace Properties LLC will invest \$15 million to convert the former Stegmaier Bottling building on Wilkes-Barre Boulevard into a mixed-use building, including space for a restaurant, retail, 47 apartments, an art gallery and parking.

Coal Street Park will be transformed into a premier recreational facility through an almost \$14 million project, rehabilitating a blighted gateway to the city and stimulating the economy. The adjacent Coal Street Road will be widened and extended through a \$22.5 million project, creating direct access from Wilkes-Barre Township, Route 81 and the Heights section of Wilkes-Barre to the downtown.

After listening to me speak about fee and tax increases today, your initial reaction may be for the city to withdraw from these economic development projects. This is neither a wise, nor plausible solution. None of these projects are funded through general tax revenue, but rather through special-purpose funding.

Further, projects like these, which total over \$100 million, will help the City of Wilkes-Barre through tough economic times. They will serve as catalysts for growth and increase the tax base upon their completion.

I would like to thank the following individuals and organizations for their continued support of the City of Wilkes-Barre, in both trying and prosperous times:

- members of Wilkes-Barre City Council,
- Governor Edward G. Rendell and his staff,
- Congressman Paul Kanjorski,
- Luzerne County Commissioners,
- Senators Bob Casey and Arlen Specter,
- State Senator Raphael Musto,
- State Representative Edward Pashinski,
- the Greater Wilkes-Barre Chamber of Business & Industry,
- our college partners, businesspeople and, most of all, our residents.

My administration has pulled the city from bleak financial situations before, avoiding Act 47 – distressed status – when all indicators pointed in that direction. We will continue to work to avoid Act 47, which does not benefit our residents, services or operations.

We have fought for the viability of our city in Harrisburg, Washington DC and on Wall Street. We will do the same here in Wilkes-Barre today, making the difficult decisions to keep our city on the right track for our future. By working together, we will ensure that the tough times ahead in 2009 will yield success in the future. On behalf of the City of Wilkes-Barre, thank you for your continued cooperation and support.