Introduction

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In 2005, the City of Allentown participated in the Commonwealth of Pennsylvania's Early Intervention Program. Sponsored by the Governor's Center for Local Government Services, the program is intended as a way for Pennsylvania cities to address long-term budgetary challenges before a crisis develops and to strengthen overall fiscal capacity.

Since the first Allentown Early Intervention Plan was developed in 2005, Allentown's fiscal health has improved. The Mayor and his management team bring a strong background in economic development; in addition, downtown revitalization is well underway. Unlike some other Third Class cities in the Commonwealth, Allentown has maintained its population base and is welcoming new residents. However, the City also faces expenditure growth that outpaces revenues and challenging debt service. These financial challenges and developments affected the budget for 2008 and set the tone for Allentown's fiscal health over the next five years.

This document is an update of the original Early Intervention Plan, identifying successes and new challenges, as well as new initiatives to keep Allentown moving towards greater financial strength in order to better serve its citizens.

II. Demographic and Economic Analysis

The City of Allentown

The City of Allentown is the seat of Lehigh County and the largest city in the four-county Allentown-Bethlehem-Easton Metropolitan Statistical Area. As of 2006, the City was home to 107,294 people, making Allentown the third largest city in the Commonwealth of Pennsylvania.

Allentown has long served as an economic engine for the Lehigh Valley and east-central Pennsylvania. The City is home to a number of corporate headquarters and has the largest employment concentration in the region. The Pennsylvania Power & Light Company, an operating utility which supplies electricity throughout central and eastern Pennsylvania, recently relocated its headquarters to a flagship economic development zone in central Allentown. Despite the recent closure of a large facility operated by communications and computer components supplier Agere Systems, the City retains a strong manufacturing presence through over 2,500 jobs at Mack Trucks, Inc. The Allentown School District and Lehigh County together employ more than 4,700 in the government sector within the City's boundaries.

Allentown is home to two institutions of higher education, Muhlenberg and Cedar Crest Colleges, with combined full-time enrollments of over 3,600 students and employment for over 2,000 personnel. Health care institutions also employ more than 2,000 within the City, with the Lehigh Valley Hospital Center offering acute-care medical facilities.

The City has aggressively pursued residential and commercial development at multiple sites, including the redevelopment of Hamilton Street in Center City Allentown through local initiatives and state-local partnerships such as a Keystone Opportunity Zone (KOZ), offering designated land parcels with a greatly reduced tax burden for residents and businesses. Further potential development over the course of the Five-Year Plan may be undertaken at the State Hospital and Queen City Airport sites.

Population trends

Unlike many comparable cities in Pennsylvania, Allentown has experienced relative population stability in recent decades. Allentown's population declined by 1.6 percent over the 1960 – 2000 period. Other than a dip in the 1970s, the City's population has grown every other decade. Allentown experienced a smaller population decrease over the course of 1960-2000 than every other city in Pennsylvania with more than 35,000 people, including nearby Bethlehem (-5.4 percent).

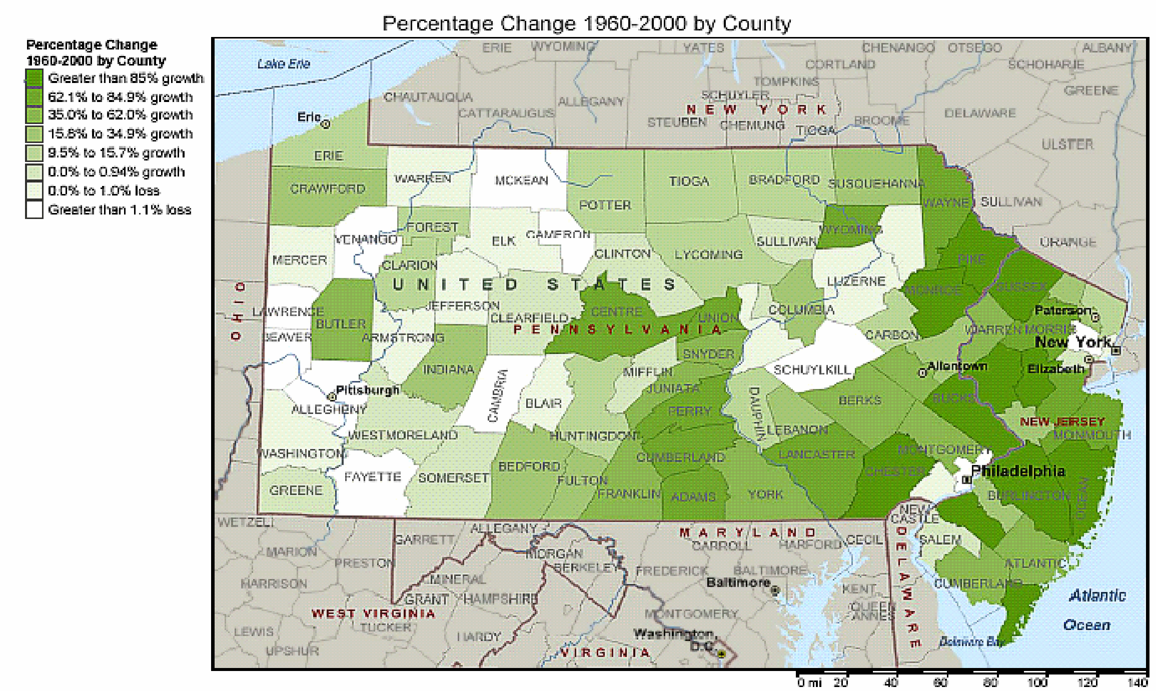
As the table on the following page shows, Allentown is also one of the few Commonwealth cities, along with Bethlehem, Lancaster and Reading, to experience population growth from 1980 - 2000. Like nearly all cities with more than 35,000 people, Allentown's population growth has lagged behind the Commonwealth average. Only Reading's growth rate from 1990 – 2000 exceeded Pennsylvania's growth.

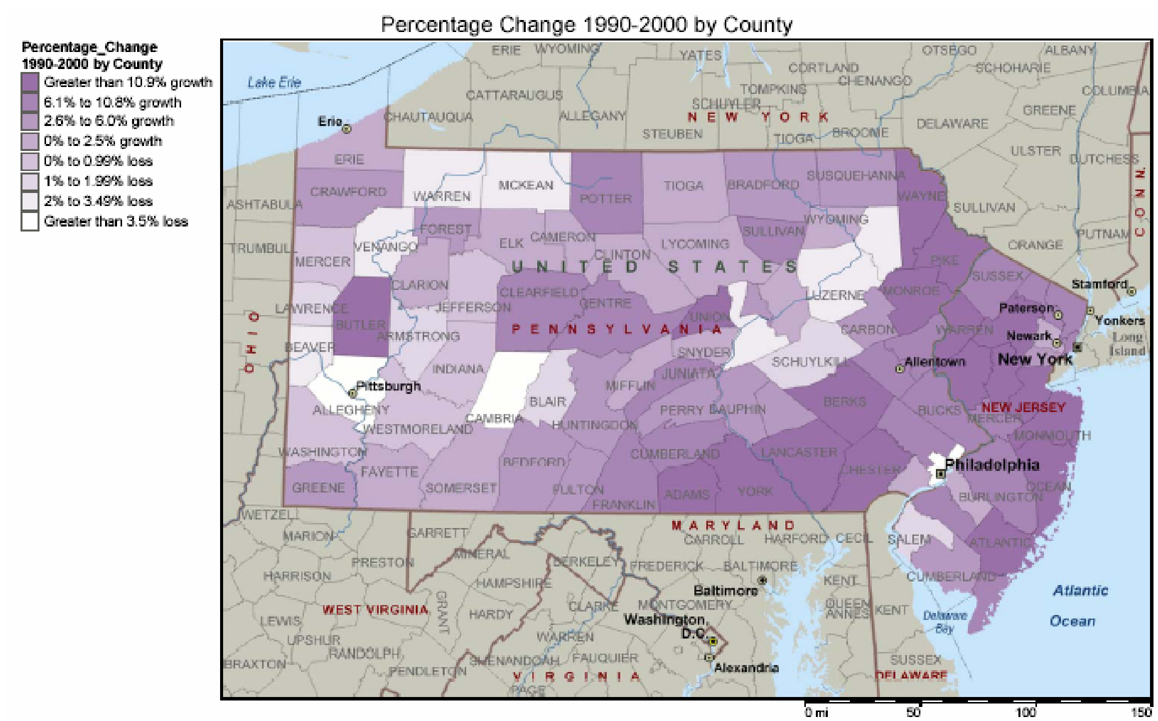
Pennsylvania City Population, 1960 – 2006

Place	Primary County	1960	1970	1980	1990	2000	2006	40-year change %	20-year change %	10-year change %
Allentown	**Lehigh**	**108,347**	**109,871**	**103,758**	**105,090**	**106,632**	**107,294**	**(1.6%)**	**2.8%**	**1.5%**
Altoona	Blair	69,407	63,115	57,078	51,881	49,525	46,954	(28.6%)	(13.2%)	(4.5%)
Bethlehem	Northampton	75,408	72,686	70,419	71,428	71,329	72,704	(5.4%)	1.3%	(0.1%)
Chester	Delaware	65,658	56,331	45,794	41,856	36,854	36,801	(43.9%)	(19.5%)	(12.0%)
Easton	Northampton	26,263	26,276	26,027	29,450	31,955	26,209	21.7%	22.8%	8.5%
Erie	Erie	138,440	129,265	119,123	108,718	103,725	102,036	(25.1%)	(12.9%)	(4.6%)
Harrisburg	Dauphin	79,697	68,061	53,264	52,376	49,100	47,164	(38.4%)	(7.8%)	(6.3%)
Lancaster	Lancaster	61,055	57,690	54,725	55,551	56,347	54,779	(7.7%)	3.0%	1.4%
Philadelphia	Philadelphia	2,002,512	1,948,609	1,688,210	1,585,577	1,517,550	1,448,394	(24.2%)	(10.1%)	(4.3%)
Pittsburgh	Allegheny	604,332	520,117	423,938	369,879	334,563	312,819	(44.6%)	(21.1%)	(9.5%)
Reading	Berks	98,177	87,643	78,686	78,380	81,201	81,183	(17.3%)	3.2%	3.6%
Scranton	Lackawanna	111,443	102,696	88,117	81,805	76,415	72,861	(31.4%)	(13.3%)	(6.6%)
Wilkes-Barre	Luzerne	63,551	58,856	51,551	47,523	43,123	41,288	(32.1%)	(16.3%)	(9.3%)
York	York	54,504	50,335	44,619	42,192	40,889	40,454	(25.0%)	(8.4%)	(3.1%)
Large City (>35k) Average		285,349	267,950	231,294	215,597	205,052	196,453	(28.1%)	(11.3%)	(4.9%)
Variance from Allentown		177,002	158,079	127,536	110,507	98,420	89,159	(26.6%)	(14.1%)	(6.4%)
Pennsylvania		11,319,366	11,793,909	11,863,895	11,881,643	12,281,054	12,440,621	8.5%	3.5%	3.4%
Variance from Allentown								10.1%	0.7%	1.9%

Source: U.S. Department of Commerce, Bureau of the Census. Easton is included given its proximity to Allentown but is not included in the large city average since it has less than 35,000 people.

When the City's population trends are viewed in the context of regional demographic patterns, Allentown's modest growth is part of a broader population increase along the Pennsylvania-New Jersey. As shown below, Allentown and the Lehigh Valley are strategically located in an area that has undergone substantial population growth over several decades. This growth contrasts with other regions such as Philadelphia, Pittsburgh and Scranton-Wilkes Barre-Hazleton.

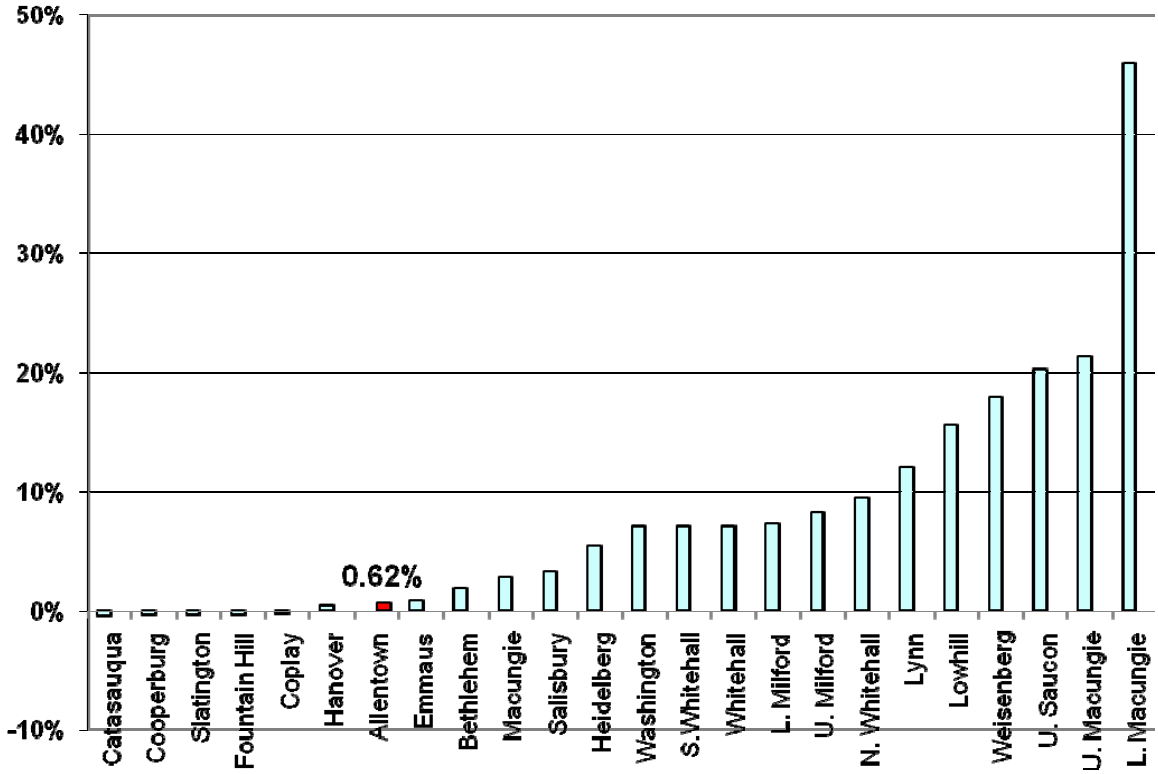




Source: U.S. Department of Commerce, Bureau of the Census

While Allentown's population has been more stable than its Commonwealth urban peers, it has been less dynamic than most other parts of Lehigh County. The City grew 1.5 percent from 1990 to 2000 compared to 10.4 percent growth for the rest of Lehigh County. From 2000 to 2006 the City's population has increased by 662 (0.6 percent), a lower rate than many other localities in the County.

Lehigh County Municipality Population Change, 2000 - 2006



Source: Bureau of the Census, 2000 population data is taken from the 2000 decennial census, 2006 population data is taken from the 2006 Census population estimate.

Income and wealth

When comparing Allentown to other large cities in the Commonwealth on the basis of three key economic indicators – median income, per capita income and median home value – the results were mixed for 2005 to 2006.[1] The City experienced lower growth in median household income (3.5 percent) than other cities averaged (4.6 percent). Allentown's experience in per capita income directly matches that of other cities with a 4.6 percent decrease. The City had a higher rate of growth in median home value (13.1 percent) than other cities (10.8 percent). The City lagged behind the State average in the first two categories while exceeding it in median home value growth by 3.0 percent.

[1] Other than the older decennial census data, the US Census only provides data on an annual basis for cities with more than 65,000 people. The annual data only dates back to 2005 but should be available for each year going forward as the Census develops its American Community Survey (ACS) tool.

Income and Home Value, 2005 – 2006

Place	Primary County	Median Household Income			Per Capita Income			Median Home Value		
		2005	2006	Change %	2005	2006	Change %	2005	2006	Change %
Allentown	**Lehigh**	**33,658**	**34,834**	**3.5%**	**18,139**	**17,302**	**(4.6%)**	**111,500**	**126,100**	**13.1%**
Bethlehem	Northampton	41,599	39,249	(5.6%)	26,114	20,648	(20.9%)	145,200	169,800	16.9%
Erie	Erie	31,376	31,196	(0.6%)	16,421	17,028	3.7%	73,400	79,100	7.8%
Philadelphia	Philadelphia	32,573	33,229	2.0%	19,140	18,924	(1.1%)	100,200	115,500	15.3%
Pittsburgh	Allegheny	30,278	31,779	5.0%	22,018	21,606	(1.9%)	74,000	76,500	3.4%
Reading	Berks	24,026	30,270	26.0%	12,938	12,466	(3.6%)	48,000	49,700	3.5%
Scranton	Lackawanna	28,282	31,090	9.9%	16,468	17,187	4.4%	91,100	98,800	8.5%
City average (w/o Allentown)		31,356	32,802	4.6%	18,850	17,977	(4.6%)	88,650	98,233	10.8%
Variance from Allentown		**-2,302**	**-2,032**	**1.1%**	**711**	**675**	**(0.0%)**	**-22,850**	**-27,867**	**(2.3%)**
Pennsylvania		44,537	46,259	3.9%	24,591	24,694	0.4%	131,900	145,200	10.1%
Variance from Allentown		**10,879**	**11,425**	**0.4%**	**6,452**	**7,392**	**5.0%**	**20,400**	**19,100**	**(3.0%)**

Source: Bureau of Census, American Community Survey. The ACS only covers cities with population over 65,000 accounting for the relatively small sample. The 2005 data is measured in 2005 dollars and 2006 data in 2006 dollars.

Other demographics

The Bureau of Census' American Community Survey (ACS) provides other demographic data on cities larger than 65,000 on an annual basis for 2005 and 2006. Allentown has had slightly higher unemployment than other cities, particularly those closer to it in size. As with all cities except Bethlehem and Scranton in 2006, Allentown's unemployment rate exceeds the Commonwealth average. Allentown has a relatively low percentage of residents who have their high school diploma or an equivalency compared to other cities and the Commonwealth as a whole. The same is true for its percentage of residents with a bachelor's degree or higher.

Other Demographics, 2005 – 2006

Place	Primary County	Unemployment		% Over Age 65		% HS Grad or higher		% Bachelor's or higher	
		2005	2006	2005	2006	2005	2006	2005	2006
Allentown	**Lehigh**	**10.1%**	**9.5%**	**15.1%**	**13.5%**	**78.7%**	**76.5%**	**16.5%**	**16.2%**
Bethlehem	Northampton	N/A	4.2%	15.2%	16.6%	84.0%	80.8%	28.2%	25.5%
Erie	Erie	9.1%	8.6%	13.2%	12.6%	87.1%	82.6%	19.9%	17.2%
Philadelphia	Philadelphia	12.4%	12.4%	12.7%	13.0%	78.5%	77.5%	21.6%	20.7%
Pittsburgh	Allegheny	10.5%	7.4%	14.6%	15.4%	87.0%	86.3%	32.3%	31.3%
Reading	Berks	8.4%	11.3%	9.0%	9.2%	60.3%	60.8%	8.6%	9.7%
Scranton	Lackawanna	7.3%	5.8%	17.3%	18.4%	81.1%	83.3%	20.6%	18.7%
City average (w/o Allentown)		9.5%	8.3%	13.6%	14.2%	79.7%	78.6%	21.9%	20.5%
Variance from Allentown		**-0.6%**	**-1.2%**	**-1.4%**	**0.7%**	**1.0%**	**2.1%**	**5.4%**	**4.3%**
Pennsylvania		6.7%	6.2%	14.6%	15.1%	86.7%	86.2%	25.7%	25.4%
Variance from Allentown		**-3.4%**	**-3.3%**	**-0.4%**	**1.6%**	**8.0%**	**9.7%**	**9.2%**	**9.2%**

III. Revised Baseline Assessment and Multi-Year Projection

Overview

Allentown's initial Early Intervention Plan (EIP) was based on a multi-year financial projection model built using the City's historical budget results and current year budget figures. This information was supplemented by interviews with City officials and others to create a picture of the City's historical finances. In the model, certain assumptions about the future growth in various budget lines were used to project revenues, expenditures, and net operating balances from FY2006 through FY2010.

This baseline financial model revealed that if no changes were made to current policies, the City would be close to budgetary balance for approximately two years and then experience a widening gap between revenues and expenditures. The major reasons for this projection were moderate growth in revenues offset by dramatically increased costs for Police and Fire pensions beginning in 2008 and debt service beginning in 2009.

In Allentown, the fiscal situation was particularly acute because:

- Reliance on the property tax for about 55 percent of City revenues meant that stable property tax assessments resulted in flat revenues;

- Economic development initiatives, while critical to the City's long-term health and highly visible especially in the downtown area, would translate into a significant source of City revenue only prospectively, because early development is concentrated in Keystone Opportunity Zones (KOZs) in which tax abatements incentivize development;

- A City Charter ban on implementing new revenues or altering existing levies other than the property tax without a referendum limited (and continues to do so) revenue flexibility;

- Administration initiatives to increase service – most notably in the Police Department – would raise costs for those services; and

- Labor agreements included provisions for wage and pension increases well above the rate of revenue growth (although they would be somewhat offset by lower salaries for new recruits in the early years of the projection).

As a result of these factors and others (some of which still constrain Allentown's fiscal health), expenditure growth in Allentown had been outstripping revenue growth for some time and the City had a negative net operating balance for the three years prior to EIP commencement. In 2004, the City began with a negative opening balance and in 2005 budgeted a $3.6 million starting shortfall.

The options for the City of Allentown were laid out as follows in the initial EIP:

1. Reduce expenditures by providing services more efficiently and at a lower cost, or by eliminating services.

2. Increase revenues to pay for the growing cost of baseline services and any desired service enhancements, whether by growing the tax base, more effective collection of taxes and fees, or increasing taxes and fees.

3. Bring in more direct, indirect, and in-kind assistance from other sources, including the county, regional, state and federal governments or civic institutions.

The multi-year plan provided a variety of options in each of these areas, designed to offer policymakers and the public with choices for creating long-term financial stability and (ultimately) growth.

Fiscal Gap Projection

The financial projection model forecasted a series of annual budget deficits reaching $12.2 million by 2010. In the early years of the 2006-2010 period, the effect of police and fire retirements (specifically state assistance during training of new officers and the replacement of older officers with younger, lower-paid officers) would offset slow revenue growth. By 2008 and 2009, however, the model projected the effect of uniformed officers reaching full performance, incorporation of the new pension payments into the City's Minimum Municipal Obligation (MMO), and increased debt service would combine to create a growing budget gap with a catastrophic impact on the City's fiscal health, as shown below.

Projected Multi-Year Results, Initial Allentown EIP

	2006	2007	2008	2009	2010
Revenues	68,522,617	69,655,343	70,817,598	72,010,357	73,234,638
Expenditures	67,390,913	70,543,012	77,325,811	82,875,003	85,393,747
Operating Balance	**1,131,705**	**(887,669)**	**(6,508,214)**	**(10,864,646)**	**(12,159,110)**

To close this projected series of deficits and to build a strong structural foundation for Allentown's financial future, the initial EIP presented several proposals and initiatives that would either reduce projected expenditures or raise City revenues over time.

Some of those initiatives have already been advanced and others are being advanced presently, including:

- Keeping City headcount flat
- Containing fire and police healthcare costs
- Making vehicle purchasing more efficient
- Seeking full reimbursement for fringe benefits and City overhead from extra duty jobs
- Hiring an additional staff member in the Finance Department to improve monitoring and oversight
- Reviewing and updating fees and fines to keep pace with inflation and/or comparables
- Instituting the Emergency Municipal Services Tax to spread a fair portion of the revenue burden to non-residents working in the City

- Improving Emergency Medical Service billing and collections enforcement

FY2007 and Beyond

With the election of a new Administration significant portions of the EIP were implemented, along with the Administration's own initiatives, leading to improving finances. Now it is time to revisit the City's fiscal strategies to build upon this progress. In updating the EIP and financial model, the City has posited three scenarios :

- **Scenario 1 –** A limited "no additional changes" projection that includes "adjacent community" casino revenue and additional police hiring.

- **Scenario 2 –** Building upon Scenario 1 and layering in a debt restructuring.

- **Scenario 3 –** Adding further revenue enhancement and expenditure initiatives to the casino, police and debt items in the first two scenarios.

Scenario 1: Baseline

Financial projections updating the FY2005 budget model revealed that – without significant corrective action – Allentown would experience operating deficits beginning in 2008. It is important to note that the 2007 figures shown here are **projections based on the City's actual data from 2002 –2006**, but does not include actual year-end data from 2007. The budget model was updated in 2007 at which point actual data was not available.

Scenario 1: Baseline Multi-Year Forecast

	2007	2008	2009	2010	2011	2012	2013
Total Revenues	75,550,403	76,237,079	78,276,374	81,395,795	85,348,964	88,647,179	92,036,995
Total Expenditures	74,190,835	77,175,851	82,633,865	85,188,293	87,542,469	89,906,073	92,563,102
Operating Balance	**1,359,568**	**(938,772)**	**(4,357,491)**	**(3,792,499)**	**(2,193,505)**	**(1,258,894)**	**(526,107)**

This baseline scenario includes new revenues from the Bethlehem casino operation beginning in 2009 and new expenditures for 13 additional police officers beginning in 2008.

Scenario 2: Baseline + Debt Restructuring

The process of refinancing public debt is called refunding. In essence, it involves the same mechanics as refinancing a personal home mortgage: the proceeds from the sale of a new bond issue are used to retire and replace an outstanding bond issue. Refundings are executed to reduce interest costs, extend the maturity of the debt, or relax existing restrictive bond covenants.

There are two types of refundings, current and advanced:

- A **current** refunding occurs when new bonds are issued within 90 days of the call date of the existing bonds.

- In contrast, an **advance** refunding occurs when new bonds are issued to repay an outstanding bond issue before its first call date.

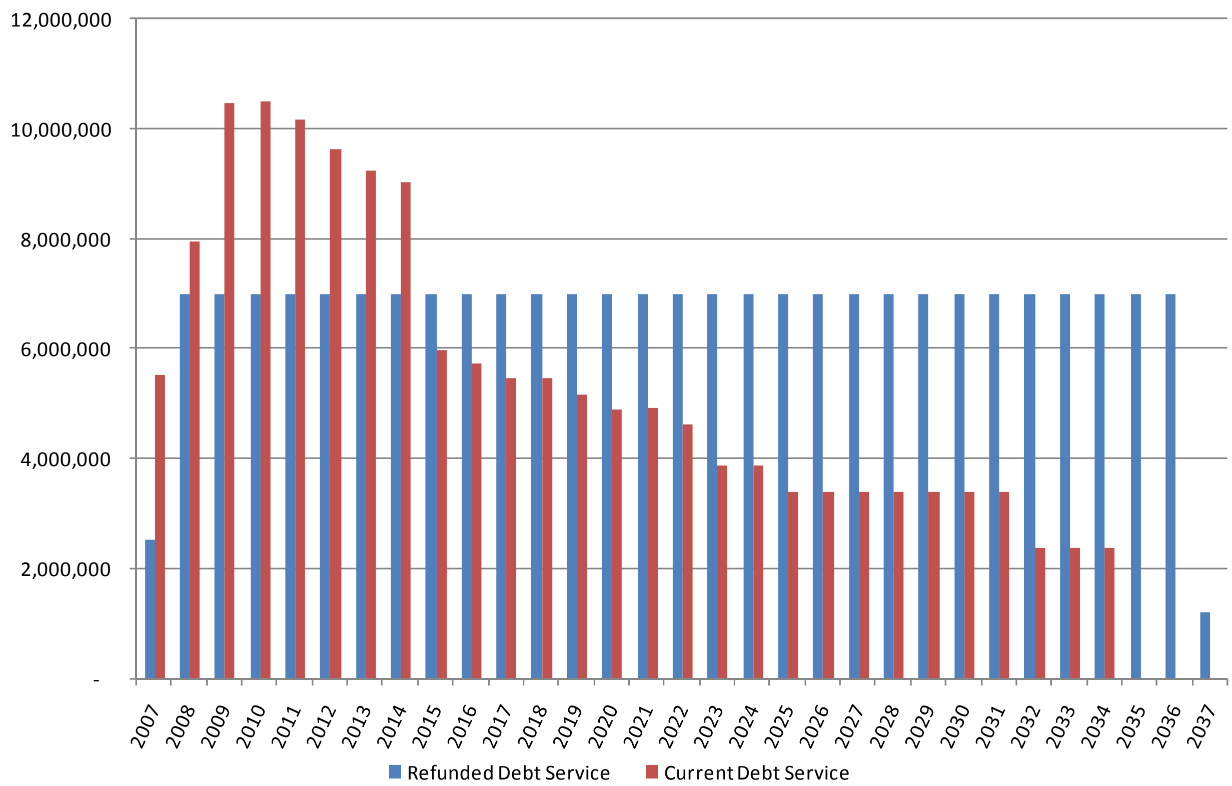
In Scenario 2 the City proposed executing an advance refunding that enables a significant reduction in annual debt service payments, consequently improving fund balance and fiscal position. At the time of these projections, the reduction in debt service and total expenditures was scheduled to begin in 2007. With that reduction, the projections show a small operating balance in 2008, deficits in 2009 and 2010 and growing balances in 2011 - 2013.

Scenario 2: Baseline with Debt Restructuring

	2007	2008	2009	2010	2011	2012	2013
Total Revenues	75,550,403	76,237,079	78,276,374	81,395,795	85,348,964	88,647,179	92,036,995
Total Expenditures	71,176,173	76,216,004	79,147,176	81,698,674	84,382,195	87,271,219	90,320,180
Operating Balance	**4,374,230**	**21,074**	**(870,802)**	**(302,879)**	**966,769**	**1,375,960**	**1,716,815**

The chart on the following page compares the City of Allentown's current debt structure to post restructuring debt service payments. The refunding levels debt service and provides significant cash flow relief in all years. Even with the savings felt from the refunding, the City still shows a deficit in 2009 and 2010.

Debt Service – Current[2] versus Refunded



Scenario 3: Baseline + Debt Restructuring + Initiatives

To address projected operating deficits and provide an additional margin during the projection period, Scenario 3 proposes pursuing selected revenue enhancement initiatives and one expenditure reduction initiative as follows:

Market-Based Revenue Opportunities ("MBRO") RFP process: The City is currently engaged in a request-for-proposals process to solicit and secure the services of a MBRO vendor. The chosen vendor will conduct an assessment of the City of Allentown's tangible and intangible assets (Phase I) and will then work to secure marketing partnerships related to those assets that will generate annual revenues for the City (Phase II). Revenues of approximately 2 percent of annual, locally-generated revenue are projected. This initiative is projected to bring in revenues of approximately $103,000 in 2008 growing to just over $1.0 million by 2013.

Increase non-profit contributions through the creation of a Public Service Foundation: Pursuant to Act 55, institutions of purely public charity (generally non-profits meeting certain criteria) may establish a public service foundation upon mutual agreement with a political subdivision (such as a municipality). Notably, the political subdivision which receives a distribution or grant from a public service foundation cannot assess or seek a separate contribution (e.g. a payment-in-lieu-of-taxes or PILOTs) for services from institutions of purely

[2] "Current" denotes the City's debt service payments before the debt refunding analysis provided in 2007.

public charity contributing to a public service foundation. The City of Allentown will very shortly be commencing a process to work with City-based non-profits to establish such a fund as a means of enhancing revenue. This initiative is projected to bring approximately $152,000 in 2008 revenues growing to $429,000 annually by 2013.

Fleet Reduction and Automated Vehicle Sharing Implementation: While Allentown's fleet is professionally managed – both internally by a competent fleet manager and externally by a private fleet management firm – opportunities for reducing fleet size exist. The City of Allentown is analyzing vehicle usage to recommend policy changes that will produce a smaller, less costly fleet without sacrificing service levels. This initiative is projected to achieve at least $377,000 in savings annually beginning in 2008.

The cumulative impact of these initiatives plus the casino revenues, additional police hiring, and debt restructuring presents the following fiscal projection for the City from 2007-2013 (again, 2007 figures are projections, not year-end actual figures).

Scenario 3: Baseline with Debt Restructuring and Initiatives

	2007	2008	2009	2010	2011	2012	2013
Total Revenues	75,550,403	76,491,491	78,817,379	82,227,361	86,783,110	90,194,290	93,707,781
Total Expenditures	71,176,173	75,839,318	78,751,655	81,283,378	83,946,134	86,813,355	89,839,423
Operating Balance	**4,374,230**	**652,172**	**65,724**	**943,983**	**2,836,976**	**3,380,935**	**3,868,358**

In addition to these initiatives which the City is already implementing, there are other options for potential additional revenue or savings.

Purchasing Cards

A "purchasing card" is a means of streamlining the traditional purchase order and payment processes for lower value transactions. Users – typically corporations and government agencies - find a disproportionate number of small dollar payments make up the majority of payments while representing a small percentage of total dollars spent. The transactional cost of making these payments using the traditional process is the same regardless of the dollar amount of the payment (i.e. it costs the same to process a $25 payment as it does a $1,000 payment). Sometimes the cost of a purchasing transaction is more than the commodity being acquired (i.e. the cost to acquire a $25 wrench may exceed $25 dollars). Using a purchasing card simplifies the process and reduces transactional costs.

A purchasing card is essentially a credit card specifically designed for institutional customers. Unique features include useful reporting protocols and the ability to impose management controls and usage parameters. A purchasing card system with a good reporting protocol can reduce unauthorized purchases (to the extent they may exist in Allentown, if at all). The City basically trades the cumbersome front-end accountability of traditional procurement processes for very effective back-end accountability.

Several studies, including a 2003 benchmark study by professors Richard J. Palmer of Eastern Illinois University and Mahendra Gupta of Washington University in St. Louis found that organizations using purchasing cards save $69 per transaction, compared with old paper-based processes that rely on purchase orders, invoices, check payments, and the associated administrative and reconciliation functions. The study reported that purchasing cards enabled organizations to reduce and redeploy headcount to higher value-added activities and, on average, cut procurement cycle times by 74 percent, the number of petty cash accounts by 57 percent, and the number of suppliers in an organization's database by 42 percent.

Reverse Auctions

As a result of deregulation, online reverse energy auctions are becoming a popular means for public and private entities to procure lower energy costs. A reverse auction is an internet-based method of bidding for a supply of goods. In a reverse auction, pre-qualified contractors make blind bids in real-time in an online forum during a specified time period. Usually, when a lower price is given a few moments before the end of the auction, the deadline is extended. In conjunction with Allegheny County and several local authorities, the City of Pittsburgh recently completed a successful reverse auction for electric power for its largest facilities. The City anticipates reducing utility expenditures by $151,000 off a $571,000 annual charge, savings of 26.4 percent. Pittsburgh is pursuing reverse auctions for other utilities, and is also working to include additional adjacent and overlapping governments in the reverse auction process to achieve even greater economies of scale.

Online Purchasing System

A study conducted by the State of Texas concluded that cities, counties and states spend about 5.5 cents to process each dollar of procurement. In contrast, the private sector spends only 1 cent per dollar. To reduce government purchasing costs, Montgomery County in Maryland used technology to significantly lower its costs and improve efficiency.

In the early 1990s, Montgomery County was using a cumbersome process of mass-mailing letters to approximately 400 vendors for a single bid solicitation, even though only about 5 percent of vendors usually responded. The County re-engineered this laborious process by launching an interactive website where potential vendors can access contract solicitations from many public sector organizations. The Re-engineered Automated Procurement Information Delivery system (RAPID) is a subscription-based service, costing vendors that want to monitor the solicitations $200 for two years.

The system costs about $7,000 to implement and generates about $100,000 in annual revenues. Since the launch of RAPID, several organizations have adopted the system including Montgomery College, Maryland, the Housing Opportunities Commission, the City of Herndon, Virginia, the City of Hyattsville, Maryland, Loudoun County Public School, the Maryland National Park and Planning Commission, Prince George's Community College, Prince George's County Public Schools, Prince George's County, Maryland, the City of Rockville, Maryland, the

City of Takoma Park, Maryland, the Washington Suburban Sanitary Commission, and Washington County, Pennsylvania.

Outsourcing Current and Delinquent Act 511 Tax Collection

Allentown will also consider outsourcing all current and delinquent Act 511 tax collection (except real estate) to a private entity, allowing the Treasurer's Office to focus on real estate tax collection and to increase collection of delinquent and current taxes by as much as 10 percent.

The following sections discuss the City's revenue and expenditures in greater detail and provide suggestions for the continued improvement of Allentown's fiscal health.

Revenue

Revenue

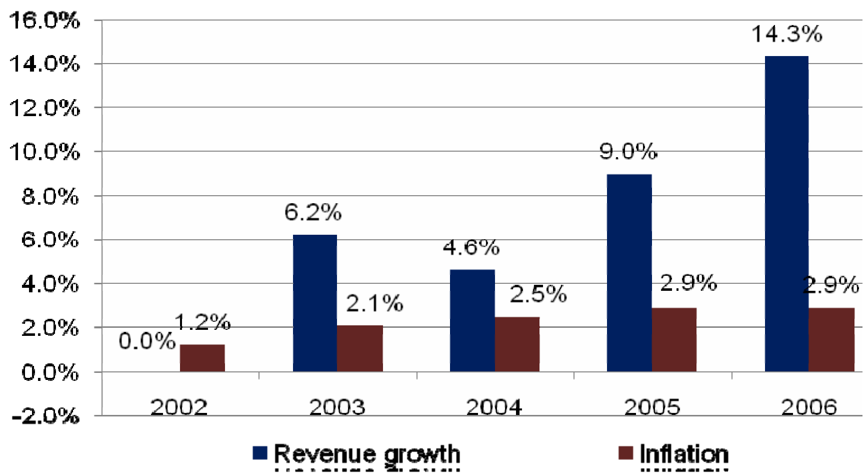
Overview

Balancing available revenues with incurred expenses is one of the central challenges the City faces to build on its recent progress and improve its long-term financial health. With inflationary pressures pushing the costs of significant expenses like employee health care and energy higher and labor agreements establishing annual wage increases through 2011 for two of the City's largest collective bargaining units, the City must reduce other expenditures or increase its revenues – from existing sources, new sources, or both – to maintain a balanced budget. This chapter examines recent trends in City revenues and projects anticipated revenue in a "baseline" situation absent any further significant changes.

Revenue trends

At a glance the City's general fund revenues have grown at a faster rate than inflation each year since 2003.[3] Over the 2002 – 2006 five-year period, the City's revenues grew by 38.4 percent while inflation rose by only 10.8 percent. The chart below compares general fund revenue growth to inflation on an annual basis.

General Fund Revenue Growth and Inflation, 2002 - 2006



Source: City budget data; US Bureau of Labor Statistics, C-CPI-U

However, this general fund revenue growth is partly caused by tax increases and one-time revenue generation. The City increased its real estate tax in 2003, which contributed to a $2.8 million increase (14.0 percent) in Allentown's largest source of general fund revenue. The City increased the real estate tax again in 2005, contributing to a $4.8 million increase (20.6 percent). As discussed below, the assessed value of taxable real estate in the City remained relatively flat,

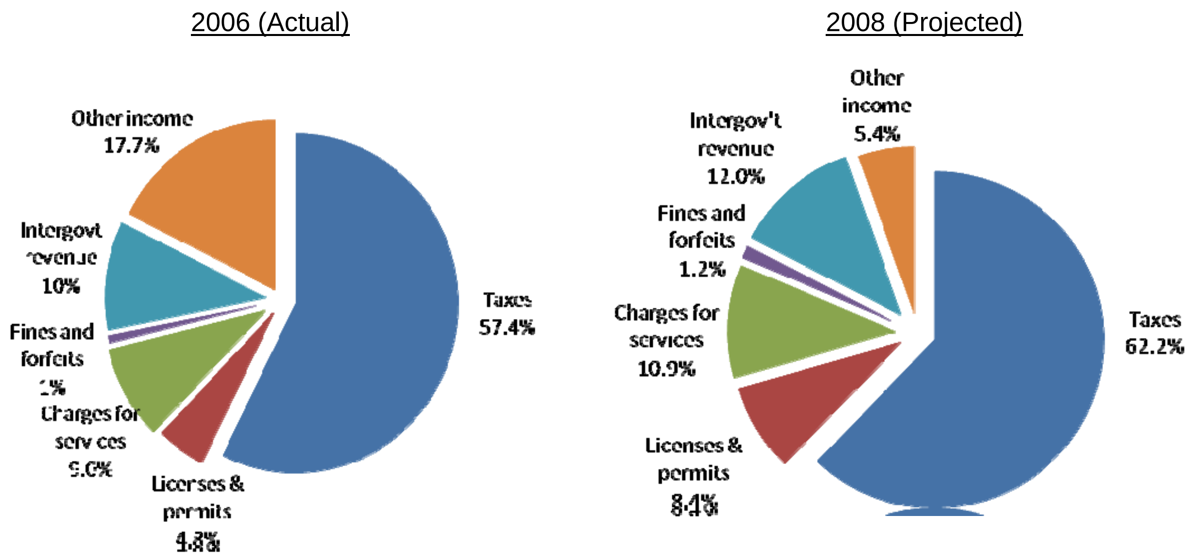
[3] Unless indicated otherwise, inflation in this chapter is measured by the chained consumer price index for all urban consumers (C-CPI-U), US City average, non-seasonally adjusted, as reported by the US Bureau of Labor Statistics.

meaning the City could only significantly increase its largest source of revenue by growing each of its tax increases.

The apparent revenue growth in 2006 was also largely driven by a one-time occurrence when the City generated approximately $10 million through the sale of property. Without this occurrence, the City's revenues would've only increased from $71.0 million to $71.2 million (0.2 percent).

As shown in charts below, tax revenues constitute the majority of the City's General Fund revenues. Over three-quarters of the revenue come from taxes, intergovernmental revenue and charges for service. The largest source of general fund revenue is current year real estate taxes, which accounted for 61.1 percent of the City's tax revenue and 35.1 percent of all revenue in 2006. Four taxes – real estate, earned income (EIT), business privilege (BPT) and deed transfer – accounted for 54.9 percent of all general fund revenue in 2006.

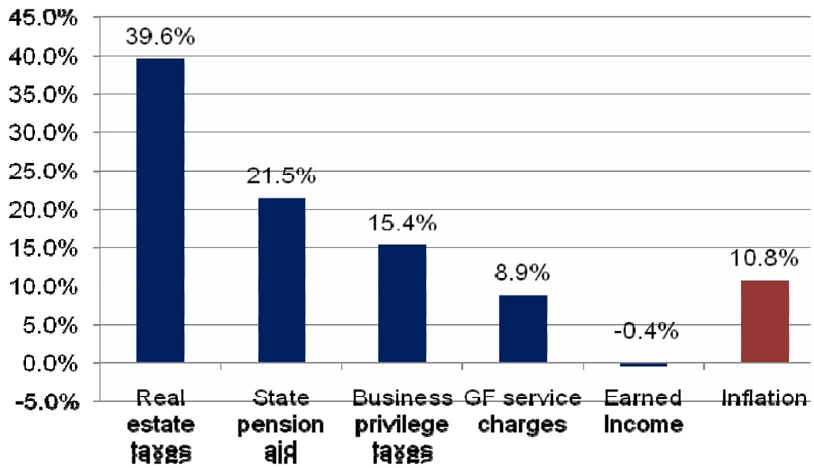
Share of General Fund Revenues



The graph below shows the five-year growth rate for the City's five largest revenue sources[4] – current real estate taxes, earned income taxes, business privilege taxes, state pension aid and general fund service charges - compared to inflation. Real estate tax revenue increased by 39.6 percent, though this is partly driven by the millage increases. Business privilege tax revenue increased by 15.4 percent, also outpacing inflation. EIT revenue dropped by $599,000 (8.4 percent) in 2003, rose slowly in 2004 and 2005 and dropped again in 2006. Over five years the total growth rate was -0.4 percent. Though not shown on the chart below, deed transfer tax revenue rose sharply from $1.4 million in 2002 to $2.6 million in 2006 (95.1 percent).

[4] This ranking does not include the "other income" category with $10 million in property sale revenue in 2006. From 2002 - 2005 other "income revenue" averaged $2.5 million, which is lower than the other five revenue sources shown in the chart below.

Growth Rate for Major Revenues, 2002 - 2006



Source: City budget data; US Bureau of Labor Statistics, C-CPI-U

Given the size of these tax revenues relative to the City's total general fund, some additional context will be helpful for understanding the City's revenue picture.

Real Estate Tax

The real estate tax is Allentown's largest and most flexible source of revenue. It is a combined charge levied against the assessed value of land and improvements as determined by the Lehigh County Office of Assessment. In 1996 City voters approved by referendum a Home Rule Charter creating a land value tax, known as the Property Development Incentive Taxation System. The System assesses land more highly than improvements, with the goal of encouraging development. The ratio between the land and improvement rates is 4.70 as mandated by the Home Rule Charter. Along with the City's tax levy, residents also pay taxes levied by the Allentown City School District and Lehigh County. The table below shows the individual and combined tax rates for 2001 – 2007.

Real Estate Tax Rates, 2001 – 2007

	Millage (City)	Millage (School District)	Millage (County)	Millage (Combined)	City Tax Revenue[5]
2001	13.22	33.311	7.31	53.841	$20,545,834
2002	12.72	34.194	7.31	54.224	$20,383,118
2003	14.72	37.490	12.39	64.600	$23,238,105
2004	14.72	39.490	10.75	64.960	$24,335,031
2005	17.52	41.734	10.75	70.004	$28,967,570

[5] This is only the revenue collected for the City and does not include collections for the School District or County.

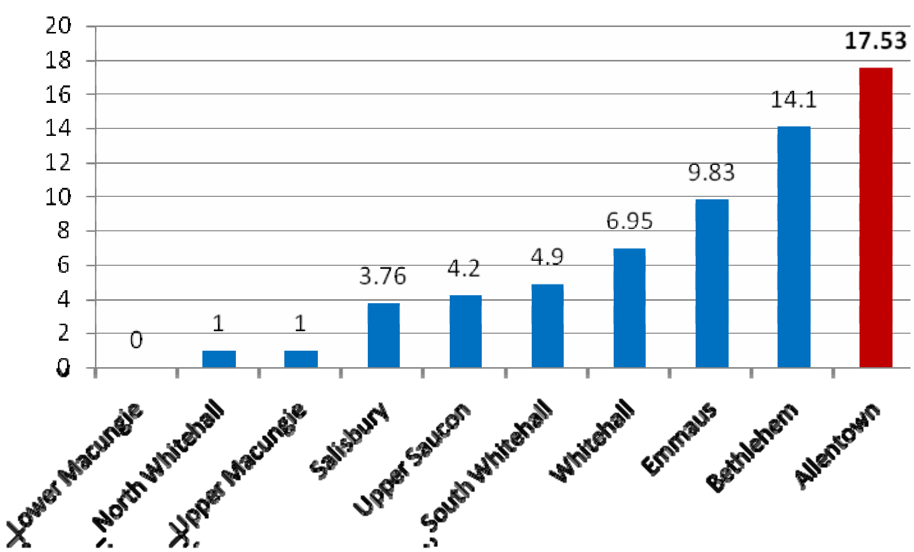
	Millage (City)	Millage (School District)	Millage (County)	Millage (Combined)	City Tax Revenue[5]
2006	17.53	42.942	10.25	70.710	$28,456,072
2007	17.53	42.942	10.25	70.710	$28,750,000

Sources: Pennsylvania Department of Community and Economic Development, City of Allentown Official Statement 2004

To respond to steady increases in the cost of providing city services, the City increased its real estate tax from 12.72 to 14.72 mills in 2003 and again from 14.72 to 17.53 mills in 2005. The School District increased its millage each year from 2001 – 2006. The County increased its millage in 2003 and then reduced it in 2004. The net impact of these changes is that real estate tax rates increased each year from 2001 through 2006.

Among Lehigh County municipalities with at least 10,000 people[6], Allentown had the highest tax millage for municipalities and the highest total millage (municipal, school district and County) in 2007.

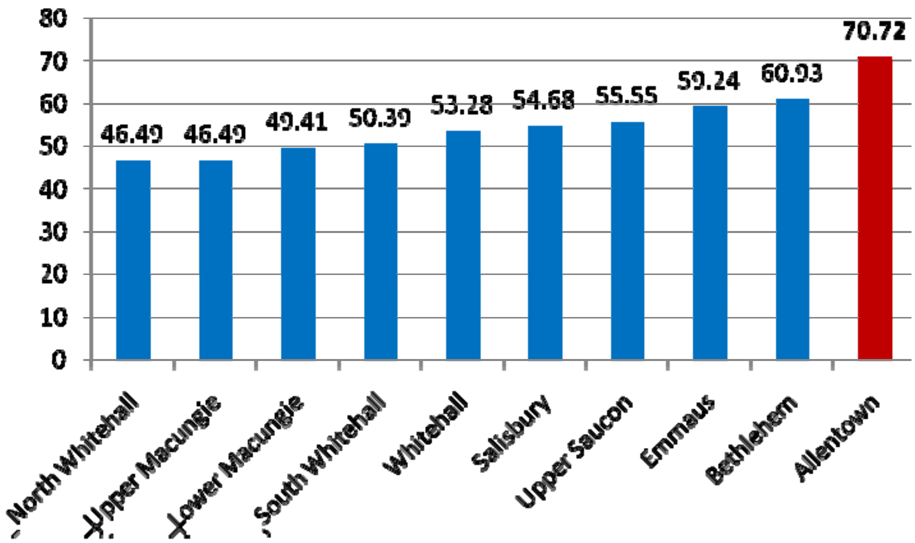
2007 Municipal Real Estate Millage



Source: Lehigh Valley Planning Commission

[6] This list includes all municipalities with populations larger than 10,000 as of 2005.

2007 Combined Real Estate Millage[7]



Source: Lehigh Valley Planning Commission

Cost pressures have created pressure to increase real estate tax rates because other revenue options are constrained or removed by the 1996 Home Rule Charter. The Charter precludes the increase of any tax (or the imposition of a new tax) without voter approval per Section 807. The charter specifically restricts the next three largest taxes (EIT, business privilege and deed transfer):

> *§807 A. Council shall establish no new tax.*
>
> *§807 B. Council shall not raise the rates of the deed transfer, earned income, business privilege, occupational privilege, amusement devices, and resident taxes above their respective 1996 levels.*

However, the Charter also provides a process by which residents can limit real estate tax increases per Section 807 E:

> *§807 E. The citizens of Allentown may increase or decrease property tax rates through the referendum process defined in Sections 1002-1009 (provided that, as long as the Property Development Incentive Taxation System is in effect, the resulting ratio meets or exceeds the minimum ratio set by this Charter or by Council).*

Along with the risk of a citizen referendum to overrule a tax increase, reliance on this revenue source has its own costs. As shown in the chart below, Allentown's urban area is adjacent to suburban jurisdictions in which real property market values have increased at a faster rate than in the City. Of the 10 cities with 2005 populations greater than 10,000, only Bethlehem has a taxable assessed value growth slower than Allentown's.

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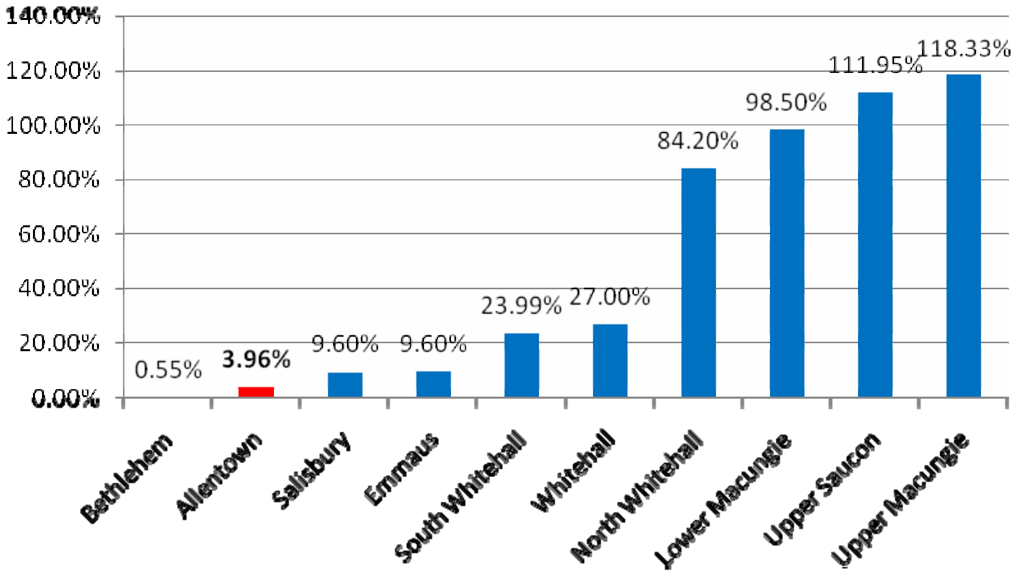
[7] The combined millage is the sum of the municipal, school district and county millages.

Growth of Assessed Value of Taxable Real Estate, 1991 – 2007



Source: Lehigh Valley Planning Commission

Earned Income Tax

In accordance with the Local Tax Enabling Act (Act 511 of 1965), the City levies a one percent Earned Income Tax (EIT) on City residents. Fifty percent of all EIT collections are transferred to the Allentown City School District. All or a portion of the EIT levy is also applicable to non-residents who work in the City but reside in a municipality that does not levy an EIT or does not charge the full one percent. However, given that all 63 municipalities in Northampton and Lehigh Counties levy the tax, EIT receipts from non-residents are generally returned to the taxpayer's jurisdiction of residence.

It is important to note that unlike most neighboring jurisdictions, municipalities that have adopted a home rule charter (like Allentown) are not subject to the State mandated one percent cap on resident EIT rates. Section 807 B of the City's Charter does limit the EIT rate to 1996 levels, but this is a locally mandated, not a State, restriction.

EIT is the second-largest source of general fund revenues. Reflecting nationwide weaknesses in employment and wages following September 11, 2001, Allentown's EIT receipts did not grow from 2001 – 2006. In fact, EIT revenues were approximately $26,000 lower in 2006 than in 2001, making this the City's largest source of revenue to decline over this time. Many of the other revenue items that declined were associated with charges for service, reimbursements or payments from other governments (e.g. Parking Authority reimbursement, Allentown Housing Authority).

Deed Transfer Tax

The Lehigh County Recorder of Deeds collects a one percent municipal levy assessed against the selling price of all real estate located in Allentown upon a transfer of ownership. As with the

EIT, 50 percent of all local deed transfer tax collections are passed on to the Allentown City School District.

As with the Earned Income Tax, although Deed Transfer Tax rates in Home Rule cities are not limited by the one percent maximum specified by Pennsylvania's Third Class City Code, Allentown's Home Rule Charter does not permit an increase above current levels.

Emergency and Municipal Services Tax (EMST)

On December 1, 2004, the Local Tax Enabling Act was amended when Act 222 was approved by the General Assembly and the Governor. The new law established the Emergency and Municipal Services Tax (EMST) and authorized municipalities to levy up to a maximum of $52 per year beginning on and after January 1, 2005. The EMST replaces the Occupational Privilege Tax (OPT) and is designed to provide resources for "police, fire or emergency services; road construction or maintenance; or for the reduction of property taxes." Act 7 of 2007 changed the tax's name to the Local Service Tax (LST). Unlike the EIT, the EMST/LST is paid to the City by residents and non-residents who work in Allentown.

Effective January 1, 2006, the City increased its EMST charge from $10 to the maximum $52 per year. The City collected $340,000 - $400,000 in OPT revenue from 2002 – 2006 and $683,883 in EMST revenue in 2006. Since the EMST replaced the OPT, the later does not appear in revenue projections.

As recommended in the 2005 EIP, the City no longer levies a Per Capita tax. The tax had no connection to employment or income; rather it was levied equally on all adult residents of Allentown. Collecting the Per Capita tax was notoriously difficult because it relied on a complex and time consuming process to accurately prepare the tax list. Because of the small amount of revenue involved and the relatively high cost of collection, these levies authorized by the Local Tax Enabling Act are known as "nuisance taxes." Therefore, the City has not collected $50,000 from the Per Capita tax from 2002 – 2004.

Many other Pennsylvania jurisdictions took the opportunity to eliminate the Per Capita and Residence Tax when they increased the OPT/EMST charge from $10 to $52. While the Residence Tax remains in Allentown, the City stopped collecting the Per Capita tax in 2005.

Actual general fund revenues collected from these taxes and other sources are shown in the tables below.

[9] 2.5 percent is the rate used to project inflationary growth for revenues and expenditures.

General Fund Revenues, 2002 - 2006

	2002	2003	2004	2005	2006
City R/E Current	$20,383,118	$23,238,105	$23,411,082	$28,226,175	$28,464,063
City R/E Prior	$1,108,124	$1,027,822	$792,681	$1,088,944	$1,312,503
R/E L/C Tax Claim	$88,365	$36,964	$37,269	$7,095	$34,331
Earned Income Tax	$7,118,384	$6,518,995	$6,829,147	$7,176,320	$7,092,827
Deed Transfer Tax	$1,355,552	$1,464,610	$1,765,198	$2,458,166	$2,645,207
Occupational Privilege Tax	$369,389	$342,721	$359,033	$383,660	$399,724
Business Privilege Tax	$5,525,667	$6,207,494	$6,052,939	$5,987,283	$6,376,629
Amusement Device Tax	$32,499	$26,415	$27,350	$27,647	$26,037
Per Cap Tax (Prior Year)	$43,053	$42,454	$49,120	$0	$0
Residence Tax	$225,223	$203,788	$243,142	$256,510	$265,554
Total taxes	**$36,249,375**	**$39,109,368**	**$39,566,961**	**$45,611,800**	**$46,616,875**
EMST	$0	$0	$0	$0	$683,883
Bus Privilege License	$392,638	$383,107	$412,185	$372,162	$432,044
Liquor License Revenue	$59,600	$60,950	$55,050	$63,350	$55,450
Building Permits & Fees	$591,574	$402,608	$550,246	$434,381	$555,404
Plumbing Permits & Fees	$146,471	$123,696	$153,586	$143,144	$169,875
Electrical Permits & Fees	$152,263	$142,478	$163,674	$152,124	$169,875
Billboard Sign Permits	$11,315	$13,840	$9,925	$9,510	$9,902
Zoning Permits & Fees	$61,584	$76,590	$82,545	$103,257	$108,770
Health Bureau Permits/Lic	$140,076	$138,859	$146,915	$146,348	$144,196
Fire Dept Inspection Fees	$49,775	$52,055	$51,047	$59,685	$54,170
Other Permits & Licenses	$80,004	$86,458	$134,965	$151,357	$144,196
CATV Franchise Fees	$858,509	$909,745	$963,251	$925,422	$935,488
Rental Inspection Program	$339,230	$415,561	$503,103	$502,108	$461,884
Total Licenses and Permits	**$2,883,039**	**$2,805,947**	**$3,226,492**	**$3,062,848**	**$3,925,137**
Tax Certifications	$104,964	$128,627	$145,601	$189,255	$182,742
Municipal Certifications	$0	$0	$7,920	$0	$0
ASD Tax Billing	$53,467	$55,582	$66,937	$58,303	$16,451
Printer/Copier Fees	$78,298	$76,667	$100,780	$120,513	$109,004
Street Excavation & Rest	$78,475	$70,616	$64,719	$69,095	$35,068
Warrants of Survey	$23,196	$24,438	$30,417	$19,619	$13,229
Towing Agreements	$38,000	$63,250	$69,592	$78,171	$60,300

	2002	2003	2004	2005	2006
Health Bureau Services	$44,513	$42,606	$8,172	$5,100	$37,481
EMS Transit Fees	$2,233,623	$2,625,790	$2,637,898	$2,801,794	$2,666,816
Swimming Pool Fees	$112,886	$95,909	$70,494	$119,144	$107,786
Recreation	$87,465	$71,219	$73,513	$60,770	$64,868
Gen Fund Svc Charges	$3,342,453	$3,434,959	$3,404,959	$3,306,423	$3,638,965
Other Charges for Service	$150,349	$172,960	$182,176	$184,119	$152,992
911 Phone Line Svs Chg	$1,024,347	$1,008,431	$970,467	$998,577	$10,652
Police Extra Duty Jobs	$202,685	$83,035	$31,556	$174,786	$227,125
Total Charges for Services	**$7,574,722**	**$7,954,091**	**$7,865,201**	**$8,185,669**	**$7,323,479**
District Court	$426,347	$432,668	$499,313	$413,788	$366,543
Fines & Restitution	$122,036	$112,483	$151,834	$142,110	$211,820
Parking Authority Reimb	$170,275	$190,265	$49,854	$0	$0
Total Fines and Forfeits	**$718,658**	**$735,416**	**$701,001**	**$555,898**	**$578,363**
West Nile Virus Grant	$0	$0	$8,670	$0	$0
Health Grants 315-12	$799,740	$799,740	$599,805	$999,675	$766,502
Health Categorical Grant	$1,126,555	$1,800,840	$1,842,084	$1,877,793	$1,657,488
Snow Control	$45,470	$175,780	$11,583	$0	$0
HazMat Reimbursement	$0	$0	$3,033	$0	$0
Fire Training	$0	$0	$9,650	$0	$0
Police Training	$402,103	$310,039	$344,154	$230,094	$255,507
Police Grants/Reimburse	$815,771	$722,422	$1,198,413	$837,920	$852,477
Other Grants & Misc	$83,388	$59,662	$1,186,435	$1,411,955	$961,504
State Aid Pension	$3,169,093	$3,711,704	$3,792,770	$3,755,742	$3,851,009
Utility Realty Tax	$61,105	$66,015	$52,551	$65,900	$74,552
Housing Auth	$47,070	$182,786	$77,384	$79,602	$139
Total Intergovt. Revenue	**$6,550,295**	**$7,828,988**	**$9,126,533**	**$9,258,681**	**$8,419,178**
Other Income	**$2,934,330**	**$2,504,086**	**$2,426,922**	**$2,026,482**	**$12,761,489**
Trexler Maintenance Grant	$1,650,000	$1,365,000	$1,341,917	$1,341,917	$37,905
Risk Management Transfer	$100,000	$0	$0	$0	$0
ADIDA	$0	$14,789	$11,362	$0	$0
Sewage Capacity Sales	$0	$0	$927,000	$997,500	$1,544,500
Other Financing Sources	**$1,750,000**	**$1,379,789**	**$2,280,278**	**$2,339,417**	**$1,582,405**
TOTAL REVENUES	**$58,660,418**	**$62,317,684**	**$65,193,388**	**$71,040,795**	**$81,206,926**

Baseline revenue growth

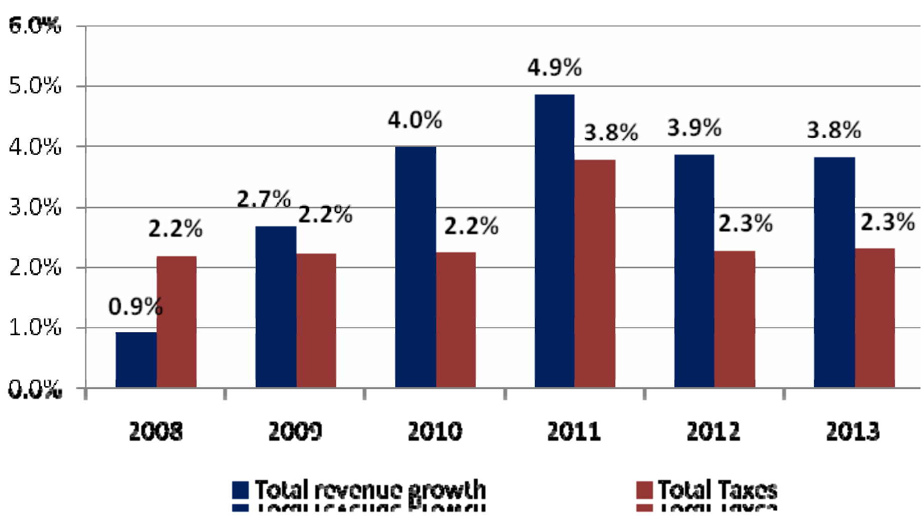
Using the historical data and accounting for past events like real estate tax increases and one-time property sales, this EIP projects total general fund revenue will grow by 21.8 percent from 2007 to 2013, an average of 3.4 percent per year. Please note that the projections discussed here cover 2007 since the projections were completed during 2007 before end-of-year actual data was available.

Projected Baseline General Fund Revenue

2007	2008	2009	2010	2011	2012	2013
$75,550,403	$76,237,079	$78,276,374	$81,395,795	$85,348,964	$88,647,179	$92,036,995

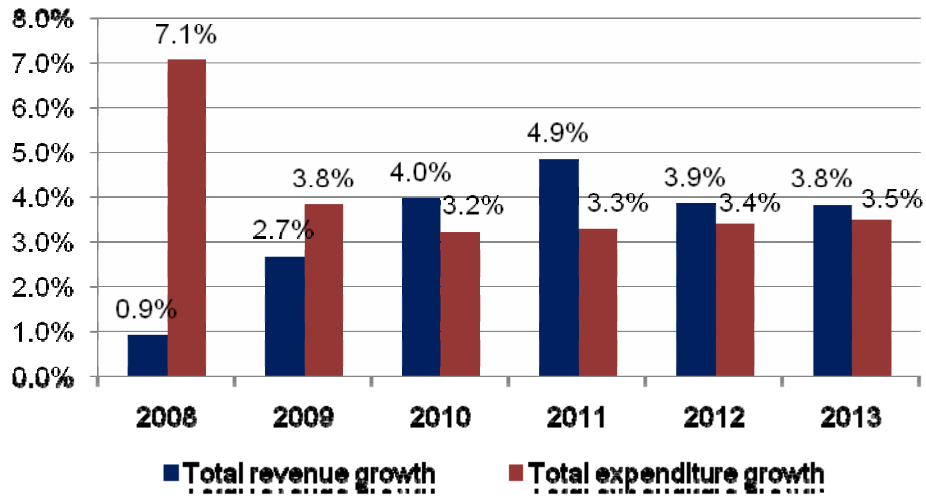
The seven-year period begins with a 7.0 percent decrease in general fund revenue from 2006 to 2007, attributable to the absence of the $10 million in one-time property sale revenue. Revenue increases by 0.9 percent in 2008 and 2.7 percent in 2009 before rising by higher percentages from 2010 – 2013 with the beginning of casino related revenue. Total tax revenue is projected to grow aggregately by 16.0 percent from 2007 – 2013, or an annual average growth rate of 2.5 percent. The graph below shows total general fund revenue and total tax revenue growth rates for 2008 – 2013.

Total and Tax Revenue Growth, 2008 - 2013



While the City's total general fund and total tax revenues are projected to grow in 2008 and 2009, they are not projected to keep pace with baseline expenditure growth. Baseline revenue growth rates do exceed baseline expenditure growth rates in 2010 – 2013 once casino-related revenues are included, though the revenue growth rate flattens and nears the expenditure growth rate at the end of this period. Expenditure growth projections are discussed in further detail in the next chapter.

Baseline Revenue Growth versus Baseline Expenditure Growth, 2008 - 2013



Along with the previously discussed statutory and practical factors that limit the City's ability to increase tax revenue, there are inherent limits on revenues associated with service charges and intergovernmental revenues, the City's next largest sources of income. Taken together, these challenges highlight the importance of taking advantage of other opportunities to grow City revenue, such as the new Market Based Revenue Opportunities (MBRO) initiative.

Baseline revenue growth assumptions

These revenue projections are based on the following assumptions:

- **Current year real estate tax revenue ($28.8 million in 2007, 38.1 percent of total general fund revenues):** This is projected to grow by 1.0 percent annually, reflecting the slow rise in the City's assessed property value of taxable real estate.

- **Deed transfer tax ($2.3 million, 3.0 percent of total GF revenue):** Throughout the early part of this decade, interest rates were extremely low and deed transfer tax revenues grew from approximately $1.8 million in 2004 to $2.7 million in 2006 in conjunction with increased real estate market activity. Due to recent changes in the economy and housing market, there is an anticipated near term reduction in deed transfers as fewer houses change hands and do so at more stable prices. Therefore, this revenue is projected to decrease from $2.6 million in 2006 to $2.3 million in 2007. A growth rate of 5.0 percent is expected for Deed Transfer Tax revenues in future years.

- **Licenses and Permits ($7.8 million, 10.0 percent of total GF revenues):** Most revenues in this category are projected to grow by 5.0 percent annually. Revenue from EMST, which is included in this category, is projected to grow by 2.0 percent from 2008 – 2013.

- **Charges for Services ($8.0 million, 10.6 percent of total GF revenues).** Most revenues in this category are projected to grow by 2.5 percent annually.[9] Revenue from general fund service charges is projected to grow at 5.0 percent. The City no longer collects revenue from the 911 phone service charge, which previously accounted for approximately $1 million a year.

- **Fines and Forfeits ($705,000, 0.9 percent of total GF revenues).** Most revenues in this category are projected to grow by 4.1 percent annually in keeping with historical experience. Revenue from the Parking Authority is projected to increase from $120,000 in 2007 to $300,000 in 2008 and then grow by 4.1 percent thereafter.

- **Intergovernmental Revenues ($8.8 million, 11.7 percent of total GF revenues):** Most revenues in this category are projected to grow by 5.6 percent annually in keeping with historical experience. State pension aid is projected to remain at $3.8 million through 2013.

- **Other Income ($3.1 million, 4.1 percent of total GF revenue):** This category includes revenues from site and facility rentals; interest on city investments; asset sales; miscellaneous revenues; retiree health benefit contributions; special events reimbursements and the U.S Department of Housing and Urban Development's Community Development Block Grant program. These revenues are generally projected to grow by 2.5 percent.

- **Other Financing Sources ($950,000, 1.3 percent of total GF revenue):** This category only includes sewage capacity sales, which are projected to grow by 2.5 percent.

- **Casino revenue:** The baseline projection includes casino-related revenue of $1.0 million in 2010, $2.0 million in 2011, $3.0 million in 2012 and $4.0 million in 2013. At $4.0 million, casino revenues represent 4.3 percent of total general fund revenues in 2013.

The tables on the following pages provide detailed revenue projections for 2007 – 2013.

Projected General Fund Revenues, 2007 - 2013

	2007	2008	2009	2010	2011	2012	2013
City R/E Current	$28,750,000	$29,037,500	$29,327,875	$29,621,154	$30,667,365	$30,974,039	$31,283,779
City R/E Prior	$1,300,000	$1,313,000	$1,326,130	$1,339,391	$1,352,785	$1,366,313	$1,379,976
R/E L/C Tax Claim	$35,000	$36,502	$38,069	$39,702	$41,406	$43,183	$45,036
Earned Income Tax	$7,300,000	$7,613,281	$7,940,006	$8,280,753	$8,636,123	$9,006,743	$9,393,269
Deed Transfer Tax	$2,250,000	$2,362,500	$2,480,625	$2,604,656	$2,734,889	$2,871,634	$3,015,215
Occupational Privilege Tax	$0	$0	$0	$0	$0	$0	$0
Business Privilege Tax	$6,450,000	$6,726,803	$7,015,485	$7,316,555	$7,630,547	$7,958,013	$8,299,532
Amusement Device Tax	$27,000	$27,000	$27,000	$27,000	$27,000	$27,000	$27,000
Per Cap Tax (Prior Year)	$0	$0	$0	$0	$0	$0	$0
Residence Tax	$265,000	$276,373	$288,233	$300,603	$313,503	$326,957	$340,989
Total Taxes	**$46,377,000**	**$47,392,958**	**$48,443,422**	**$49,529,814**	**$51,403,618**	**$52,573,882**	**$53,784,797**
EMST-2006 and 2007	$3,950,000	$2,601,000	$2,653,020	$2,706,080	$2,760,202	$2,815,406	$2,871,714
Bus Privilege License	$380,000	$399,000	$418,950	$439,898	$461,892	$484,987	$509,236
Liquor License Revenue	$63,000	$66,150	$69,458	$72,930	$76,577	$80,406	$84,426
Building Permits & Fees	$532,000	$558,600	$586,530	$615,857	$646,649	$678,982	$712,931
Plumbing Permits & Fees	$166,000	$174,300	$183,015	$192,166	$201,774	$211,863	$222,456
Electrical Permits & Fees	$189,000	$198,450	$208,373	$218,791	$229,731	$241,217	$253,278
Billboard Sign Permits	$9,000	$9,450	$9,923	$10,419	$10,940	$11,487	$12,061
Zoning Permits & Fees	$110,000	$115,500	$121,275	$127,339	$133,706	$140,391	$147,411
Health Bureau Permits/Licenses	$145,000	$152,250	$159,863	$167,856	$176,248	$185,061	$194,314
Fire Dept Inspection Fees	$60,000	$63,000	$66,150	$69,458	$72,930	$76,577	$80,406
Other Permits & Licenses	$140,000	$147,000	$154,350	$162,068	$170,171	$178,679	$187,613
CATV Franchise Fees	$935,000	$981,750	$1,030,838	$1,082,379	$1,136,498	$1,193,323	$1,252,989

	2007	2008	2009	2010	2011	2012	2013
Rental Inspection Program	$898,000	$942,900	$990,045	$1,039,547	$1,091,525	$1,146,101	$1,203,406
Total Licenses and Permits	**$7,577,000**	**$6,409,350**	**$6,651,788**	**$6,904,786**	**$7,168,843**	**$7,444,479**	**$7,732,241**
Tax Certifications	$160,000	$164,000	$168,100	$172,303	$176,610	$181,025	$185,551
Municipal Certifications	$0	$0	$0	$0	$0	$0	$0
ASD Tax Billing	$63,000	$64,575	$66,189	$67,844	$69,540	$71,279	$73,061
Printer/Copier Fees	$110,000	$112,750	$115,569	$118,458	$121,419	$124,455	$127,566
Street Excavation & Rest	$65,000	$66,625	$68,291	$69,998	$71,748	$73,542	$75,380
Warrants of Survey	$20,000	$20,500	$21,013	$21,538	$22,076	$22,628	$23,194
Towing Agreements	$125,000	$128,125	$131,328	$134,611	$137,977	$141,426	$144,962
Health Bureau Services	$33,000	$33,825	$34,671	$35,537	$36,426	$37,336	$38,270
EMS Transit Fees	$2,900,000	$2,972,500	$3,046,813	$3,122,983	$3,201,057	$3,281,084	$3,363,111
Swimming Pool Fees	$110,000	$112,750	$115,569	$118,458	$121,419	$124,455	$127,566
Recreation	$65,000	$66,625	$68,291	$69,998	$71,748	$73,542	$75,380
Gen Fund Svc Charges	$3,829,403	$4,020,873	$4,221,917	$4,433,013	$4,654,663	$4,887,396	$5,131,766
Other Charges for Service	$175,000	$179,375	$183,859	$188,456	$193,167	$197,996	$202,946
911 Phone Line Service Chg	$0	$0	$0	$0	$0	$0	$0
Police Extra Duty Jobs	$325,000	$333,125	$341,453	$349,989	$358,739	$367,708	$376,900
Total Charges for Services	**$7,980,403**	**$8,275,648**	**$8,583,061**	**$8,903,186**	**$9,236,591**	**$9,583,872**	**$9,945,654**
District Court	$400,000	$416,600	$433,889	$451,895	$470,649	$490,181	$510,524
Fines & Restitution	$185,000	$192,678	$200,674	$209,002	$217,675	$226,709	$236,117
Parking Authority Reimbursement	$120,000	$300,000	$312,450	$325,417	$338,922	$352,987	$367,636
Total Fines and Forfeits	**$705,000**	**$909,278**	**$947,013**	**$986,314**	**$1,027,246**	**$1,069,877**	**$1,114,277**
West Nile Virus Grant	$0	$0	$0	$0	$0	$0	$0
Health Grants 315-12	$800,000	$845,052	$892,641	$942,911	$996,011	$1,052,101	$1,111,350
Health Categorical Grant	$1,807,000	$1,908,761	$2,016,254	$2,129,799	$2,249,739	$2,376,433	$2,510,262

	2007	2008	2009	2010	2011	2012	2013
Snow Control	$0	$0	$0	$0	$0	$0	$0
HazMat Reimbursement	$0	$0	$0	$0	$0	$0	$0
Fire Training	$0	$0	$0	$0	$0	$0	$0
Police Training	$350,000	$369,710	$390,531	$412,523	$435,755	$460,294	$486,216
Police Grants/Reimburse	$725,000	$765,828	$808,956	$854,513	$902,635	$953,467	$1,007,161
Other Grants & Misc	$1,200,000	$1,267,578	$1,338,962	$1,414,366	$1,494,016	$1,578,152	$1,667,025
State Aid Pension	$3,825,000	$3,825,000	$3,825,000	$3,825,000	$3,825,000	$3,825,000	$3,825,000
Utility Realty Tax	$65,000	$68,660	$72,527	$76,611	$80,926	$85,483	$90,297
Allentown Housing Authority	$60,000	$63,379	$66,948	$70,718	$74,701	$78,908	$83,351
Total Intergovt. Revenue	**$8,832,000**	**$9,113,970**	**$9,411,819**	**$9,726,441**	**$10,058,781**	**$10,409,838**	**$10,780,663**
Other Income	**$3,129,000**	**$3,162,125**	**$3,241,178**	**$3,322,208**	**$3,405,263**	**$3,490,394**	**$3,577,654**
Sewage Capacity Sales	$950,000	$973,750	$998,094	$1,023,046	$1,048,622	$1,074,838	$1,101,709
Other Financing Sources	**$950,000**	**$973,750**	**$998,094**	**$1,023,046**	**$1,048,622**	**$1,074,838**	**$1,101,709**
Casino Revenue	**$0**	**$0**	**$0**	**$1,000,000**	**$2,000,000**	**$3,000,000**	**$4,000,000**
TOTAL REVENUES	**$75,550,403**	**$76,237,079**	**$78,276,374**	**$81,395,795**	**$85,348,964**	**$88,647,179**	**$92,036,995**

Expenditures

Expenditures

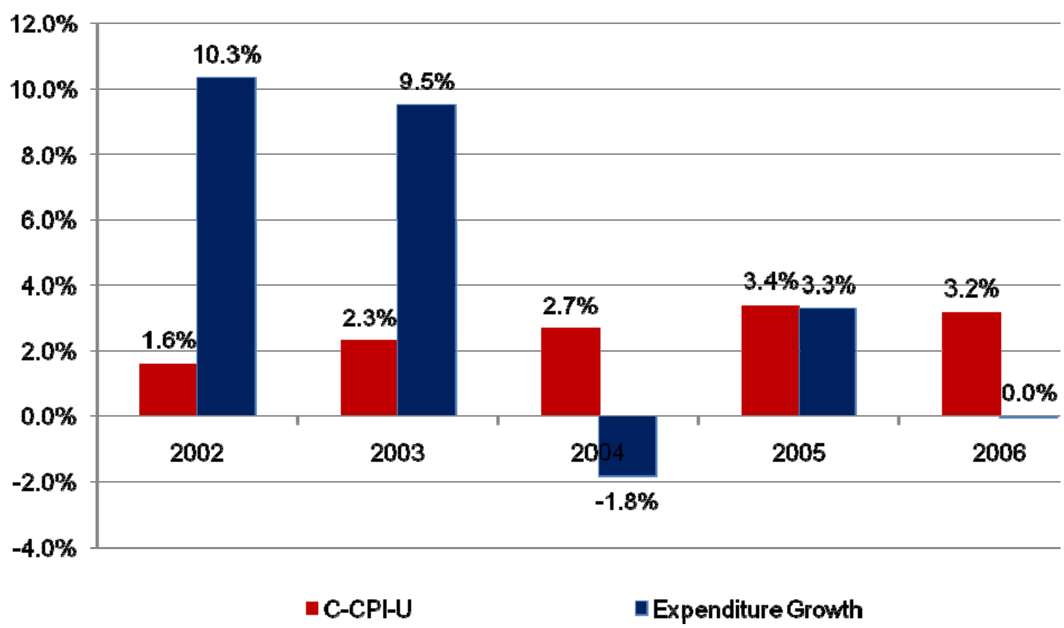
Overview

To maintain a balanced budget, the City must find effective methods to control spending without compromising critical public services. To advise those difficult decisions, this chapter outlines major trends and significant changes in the City's recent expenditures and projects how the City's spending will grow absent any corrective action.

Historical expenditure trends

From 2002 through 2006, total general fund expenditures grew at an average rate of 4.3 percent. However, the growth rate has varied significantly from this average on a year-to-year basis from a high of 10.3 percent in 2002 to a low of -1.8 percent in 2004. Since the Administration began implementing the initial EIP, total general fund expenditures were \$67.3 million in 2004 and \$69.5 million in 2005 and 2006. A year-to-year comparison of the City's expenditure growth rate with inflation follows below.[12] The average rate of inflation from 2002-2006 as measured by the C-CPI-U was 2.6 percent.

General Fund Expenditure Growth versus Inflation, 2002 - 2006



Source: City budget data; US Bureau of Labor Statistics, C-CPI-U.

[12] Unless indicated otherwise, inflation in this chapter is measured by the chained consumer price index for all urban consumers (C-CPI-U), US City average, non-seasonally adjusted, as reported by the US Bureau of Labor Statistics.

The City spent $1.2 million less in 2004 than in 2003 with significant reductions in premium pay ($1.1 million), equipment ($767,000) and pension ($457,000) balancing other expenditure increases.

Expenditures by category[13]

Permanent Wages comprise the vast majority of the City's expenditures. Given that municipal service provision is labor intensive, it is not surprising that permanent wages accounted for 40.5 percent of the City's total general fund spending in 2006. Permanent wages increased by 15.1 percent in 2003, growing from $28.0 million to $32.3 million. Wage growth was more moderate in 2004 before decreasing by 7.0 percent and 7.5 percent in 2005 and 2006, a two-year period over which general fund headcount dropped from 775 to 649.

Premium pay, compensation for regularly scheduled overtime, peaked at $4.0 million in 2003 and has decreased each subsequent year. Premium Pay increased by 30.8 percent in 2003 and then dropped by 27.3 percent in 2004.

Pension payments comprised 9.8 percent of total general fund expenditures in 2006. Pension spending dropped by 14.1 percent from 2002 – 2004 and then increased by 29.5 percent in 2005. Expenditures on employee **health insurance** comprised 11.3 percent of the City's total expenditures in 2006. From 2002 to 2006, these costs grew an average 6.7 percent per year. **Temporary wages** remained steady at approximately $700,000 over this period.

Operating expenses not related to personnel grew by only 2.2 percent from 2002 – 2006, though there was a more dramatic increase in 2003 (6.3 percent) driven mainly by increases in contract and equipment expenditures. Non-personnel operating expenses dropped to $9.5 million in 2005 as equipment in addition to civic and arts expenses declined.

Fuel spending has increased steadily from 2002-2006 at an annual average rate of 16.8 percent. In 2003 and 2004, the City saw increases in fuel spending of 28.5 percent and 13.6 percent respectively. The 2004 increase may have been due to the impact of Hurricane Katrina on the cost of oil. The City's expenditures on **electric power** decreased by 36.6 percent in 2006. Spending on **contracts** jumped by 37.9 percent in 2003 and has remained at approximately $3.5 million since then.

Transfers to debt service increased by 36.9 percent from 2002 – 2006 with jumps of 31.8 percent in 2005 and 11.9 percent in 2006.

[13] The City Workforce chapter has further discussion and analysis of the City's expenditures related to employee compensation.

General Fund Expenditures, 2002 - 2006

	2002	2003	2004	2005	2006
Permanent Wages	$27,987,515	$32,199,720	$32,684,195	$30,390,084	$28,123,268
Holiday Pay	$0	$0	$0	$969,073	$943,227
Education & Uniform Allowances	$0	$0	$0	$175,181	$174,250
Premium Pay	$3,072,455	$4,017,445	$2,919,335	$2,893,267	$2,649,987
Extra Duty Pay	$143,283	$66,520	$70,908	$105,590	$210,607
Shift Differential	$0	$0	$0	$191,060	$176,372
FICA	$1,199,769	$1,405,885	$1,385,266	$1,338,015	$1,219,076
Pension	$5,820,014	$5,454,266	$4,997,119	$6,471,190	$6,817,143
Health Insurance	$6,091,696	$6,203,302	$6,779,425	$7,471,868	$7,878,233
General Insurance	$34,374	$39,007	$30,782	$217,926	$85,000
Temporary Wages	$766,233	$645,642	$682,716	$735,268	$717,980
Total Salaries and Benefits	**$45,115,339**	**$50,031,787**	**$49,549,745**	**$50,958,522**	**$48,995,143**
Electric Power	$1,430,917	$1,487,634	$1,479,818	$1,577,209	$1,000,456
Telephone	$276,457	$296,862	$269,189	$312,948	$196,730
Materials and Supplies	$1,119,102	$1,068,203	$1,189,838	$852,035	$1,222,895
Travel, Training, Dues etc.	$269,987	$274,240	$207,374	$177,149	$242,460
Civic & Arts Expenses	$341,273	$314,406	$317,349	$33,162	$56,705
Repairs & Maintenance	$251,217	$318,747	$288,212	$304,676	$354,065
Grants and City Charges	$317,308	$358,804	$363,312	$466,027	$453,147
Contracts	$2,605,134	$3,592,410	$3,496,604	$3,514,669	$3,699,374
Fuels	$535,533	$688,269	$781,690	$839,012	$988,907
Equipment	$1,866,208	$2,627,286	$1,860,486	$1,464,288	$1,280,544
Self-Insured Losses	$0	$0	$0	$0	$0
Capital Outlay	$1,502,127	$150,000	$0	$0	$1,250,000
Total Operating Expenses	**$10,515,264**	**$11,176,861**	**$10,253,872**	**$9,541,174**	**$10,745,283**
Transfers to Debt Service	$6,538,532	$6,697,791	$6,069,393	$7,997,397	$8,952,947
Refunds and Rebates	$182,480	$209,380	$200,147	$204,634	$396,907
Rentals	$208,493	$230,868	$168,755	$101,787	$118,407
Reserve for Encumbrances	$75	$160,708	$1,017,040	$671,611	$283,487
Total Governmental Transfers	**$6,929,579**	**$7,298,746**	**$7,455,335**	**$8,975,429**	**$9,751,748**
TOTAL EXPENDITURES	**$62,560,182**	**$68,507,395**	**$67,258,952**	**$69,475,125**	**$69,492,174**

Expenditures by department

The table below shows the City's actual general fund expenditures for the period from 2002 to 2006 by department rather than budget category.

Police Department expenditures increased by 7.4 percent over this five-year period, even as employee headcount dropped by 15.7 percent.[14] Spending on police and EMS functions increased by 15.0 percent. While there is a significant decrease in communications related expenditures for the police department, the apparent decrease is mainly generated by moving these functions to a separate 9-11 fund beginning in 2006. **Fire Department** expenditures also increased by 15.0 percent over this five-year period.

Parks Bureau expenditures are reduced by more than two-third (67.2 percent) while expenditures in the **Building Standards and Safety Bureau** more than doubled (124.6 percent increase) from 2002 – 2006.

General Fund Expenditures by Department, 2002 – 2006

	2002	2003	2004	2005	2006
City Council	$279,381	$227,089	$242,900	$273,350	$244,273
Mayor	$397,269	$418,059	$526,470	$468,125	$317,360
Controller	$214,768	$245,074	$232,110	$221,341	$221,341
Solicitor	$428,281	$489,607	$457,582	$443,910	$454,816
General/Civic	$9,283,260	$8,677,467	$7,313,507	$8,791,776	$10,919,836
Total Non Departmental	**$10,602,959**	**$10,057,297**	**$8,772,569**	**$10,198,502**	**$12,157,626**
Finance	**$2,743,483**	**$2,933,976**	**$2,776,442**	**$2,877,000**	**$3,009,896**
Human Resources	**$438,178**	**$374,872**	**$453,518**	**$409,408**	**$483,944**
Director/Public Works	$100,875	$108,887	$104,389	$106,050	$108,740
Engineering	$247,496	$278,810	$259,887	$210,605	$151,478
Fleet Management	$1,552,765	$1,767,252	$1,890,792	$1,953,730	$2,272,763
Building Maintenance	$1,526,374	$1,598,959	$1,465,159	$1,549,206	$1,686,029
Streets	$1,776,360	$1,901,110	$1,701,636	$1,560,584	$1,602,231
Traffic Planning/Control	$739,971	$828,515	$784,496	$947,877	$949,334
Street Lighting	$930,269	$957,670	$956,914	$1,020,977	$614,887
Total Public Works	**$6,874,110**	**$7,441,202**	**$7,163,274**	**$7,349,029**	**$7,385,462**

[14] See Workforce chapter for further discussion of headcount changes.

	2002	2003	2004	2005	2006
Police/EMS	$20,468,628	$23,805,183	$23,693,620	$24,143,626	$23,548,440
Communications	$1,981,099	$2,225,147	$2,052,034	$2,128,560	$556,591
Total Police	**$22,449,727**	**$26,030,330**	**$25,745,654**	**$26,272,186**	**$24,105,031**
Total Fire	**$10,993,716**	**$10,909,248**	**$11,232,573**	**$12,043,958**	**$12,640,007**
Total Management Systems Dept.	**$740,457**	**$896,784**	**$796,100**	**$977,702**	**$1,033,772**
Director/DCED	$663,658	$1,221,999	$2,030,679	$1,365,733	$1,213,666
Planning & Zoning	$552,744	$621,422	$666,265	$657,218	$713,928
Bldg Standards/Safety	$956,252	$1,375,258	$1,568,164	$1,950,935	$2,167,293
Recreation	$855,004	$889,387	$870,494	$664,136	$476,012
Swimming Pools	$203,232	$211,265	$159,039	$184,755	$229,003
Parks	$1,623,412	$1,774,886	$1,599,875	$1,193,319	$533,009
Health	$2,863,251	$3,769,468	$3,424,307	$3,331,244	$3,343,524
Total Comm. & Econ. Development	**$7,717,553**	**$9,863,685**	**$10,318,823**	**$9,347,340**	**$8,676,436**
TOTAL EXPENDITURES	**$62,560,182**	**$68,507,395**	**$67,258,952**	**$69,475,125**	**$69,492,174**

Baseline expenditure growth

Since 2004, the City's expenditure growth has been at or below inflation. This trend is partly attributable to the City's progress toward implementing initiatives laid out in the initial Early Intervention Plan and additional Administration strategies, including:

- Controlling employee headcount
- Making vehicle purchasing more efficient
- Seeking full reimbursement for fringe benefits and City overhead from extra duty jobs
- Hiring an additional staff member in the Finance Department to improve monitoring and oversight

Given these and other changes, the City's current projected level of spending for 2008 – 2012 differs from the projections that were provided in the 2005 EIP, resulting in a new, slightly lower "baseline" projection – an estimate of what the City can expect to spend if it takes no further corrective action. The new baseline projections include expenditures related to hiring 13 additional police officers in 2008 to counter the reductions made in 2005 and 2006.

General Fund Expenditure Projections

	2007	2008	2009	2010
2005 baseline projections	$70,543,012	$77,325,811	$82,875,003	$85,393,747
Revised baseline projections	$74,190,835	$77,146,094	$82,567,565	$85,077,494

Under the new revised baseline, the City is projected to spend $77.2 million in 2008, growing to $92.6 million in 2013. This represents baseline growth of 19.9 percent over six years or an annual growth rate of 3.7 percent. The projected growth rate spikes from 4.0 percent in 2008 to 7.1 percent in 2009 because of an increase in expenditures on transfers to debt service and the addition of 13 police officers. It then settles at a growth rate of 3.1 percent or lower for 2010 to 2013.

Expenditure projections by category

The table on the following page shows Allentown's baseline expenditure projections for 2007 – 2013 by category. This projection includes the assumption that the City will hire 13 new police officers – seven in 2008 and another six in 2009 – which is broken out separate of other categories. While there is a benefit to adding police officers, it is important to note that the costs of doing so extends beyond wages to include the employee's health insurance, education and uniform allowance, vehicles and other items. By 2010, the City will pay $1.2 million for the additional thirteen officers.

As discussed previously, the largest category of expenditures is employees' **permanent wages** that account for a projected 42.7 percent in 2008. For most bureaus, permanent wages are projected to increase by 4.0 percent in 2008, 2.9 percent in 2009 and 2.5 percent in subsequent years. Because this pattern understates historical growth of permanent wages in the Fire and Police Departments, spending there is projected to increase by 7.0 percent in 2008 and 4.0 percent in subsequent years.

The City has an opportunity to mitigate this growth when it negotiates a new collective bargaining agreement with the Fraternal Order of Police Queen City Lodge No. 10 after the current agreement expires in December 2008. The agreements with the International Association of Fire Fighters 302 and Service Employees International Union Local 473/395 do not expire until 2011 and 2012 respectively, providing less flexibility in those areas. Because there is limited revenue growth, controlling permanent wage growth is one of most important leverage points where the City can improve its financial health.

For most departments, **premium pay** is projected to increase by 4.5 percent in 2008, 3.1 percent in 2009 and 2.5 percent in subsequent years. Similar to the permanent wages projections, these premium pay projections are adjusted for Fire and Police Departments – 7.0 percent in 2008 and 4.0 percent in subsequent years.

Pension spending is projected to jump from $6.8 million in 2006 to $12.3 million in 2007 (80.7 percent) and then remain at that level through 2013. The precipitous one-year growth is due partially to an increase in the pension debt service. The City issued Pension Obligation Bonds to reduce the unfunded liability on its three municipal pension plans. The annual minimum municipal obligation (MMO) payments for pensions for each department and bureau have almost tripled between 2006 and 2007. The Pension Obligation Bonds as well as other debt service issues are discussed in a later chapter.

Spending on employee **health insurance** is projected to grow at 7.7 percent each year. The City could implement programs that provide incentives for healthy behavior and take other steps to mitigate these costs.

For non-personnel related operating expenditures, many categories are projected to increase at 2.5 percent per year, a simple representation of inflation. These include **equipment, electrical power**, and **contracts**. Due to the fluctuating fuel market, **fuel spending** is projected to increase at the historical average growth rate of 12.8 percent per year.

Following the expenditure projections by category are projections by department. These projections are a baseline and do not reflect any savings associated with initiatives identified in this plan, such as changes in fleet management, or other changes the administration could make at its own discretion or through the collective bargaining process. The projection by department also shows the impact of the City’s vacancy allowance initiative

General Fund Expenditure Projections, 2007 – 2013

	2007	2008	2009	2010	2011	2012	2013
Permanent Wages	$31,142,096	$32,945,025	$34,100,769	$35,245,855	$36,423,620	$37,705,645	$39,033,567
Holiday Pay	$968,377	$1,036,000	$1,077,356	$1,120,314	$1,164,987	$1,211,444	$1,259,755
Education & Uniform Allowances	$185,800	$185,800	$185,800	$185,800	$185,800	$185,800	$185,800
Premium Pay	$2,365,524	$2,519,167	$2,615,229	$2,712,184	$2,812,825	$2,917,296	$3,025,745
Extra Duty Pay	$250,000	$267,500	$278,200	$289,328	$300,901	$312,937	$325,455
Shift Differential	$214,765	$214,765	$214,765	$214,765	$214,765	$214,765	$214,765
FICA	$902,124	$930,721	$955,851	$979,747	$1,004,241	$1,029,347	$1,055,081
Pension	$12,316,182	$12,316,182	$12,316,182	$12,316,182	$12,316,182	$12,316,182	$12,316,182
Health Insurance	$7,788,461	$8,388,172	$9,034,062	$9,729,684	$10,478,870	$11,285,743	$12,154,745
General Insurance	$70,000	$71,687	$73,415	$75,184	$76,996	$78,852	$80,752
Temporary Wages	$941,572	$941,572	$941,572	$941,572	$941,572	$941,572	$941,572
Total Salaries and Benefits	**$57,144,901**	**$59,816,592**	**$61,793,200**	**$63,810,615**	**$65,920,760**	**$68,199,582**	**$70,593,419**
Electric Power	$986,449	$1,011,110	$1,036,388	$1,062,298	$1,088,855	$1,116,077	$1,143,978
Telephone	$238,874	$244,846	$250,967	$257,241	$263,672	$270,264	$277,021
Materials and Supplies	$1,374,719	$1,409,087	$1,444,314	$1,480,422	$1,517,433	$1,555,368	$1,594,253
Travel, Training, Dues etc.	$407,509	$417,697	$428,139	$438,843	$449,814	$461,059	$472,586
Civic & Arts Expenses	$71,600	$73,390	$75,225	$77,105	$79,033	$81,009	$83,034
Repairs & Maintenance	$422,542	$433,106	$443,933	$455,032	$466,407	$478,067	$490,019
Grants and City Charges	$396,578	$406,492	$416,655	$427,071	$437,748	$448,692	$459,909
Contracts	$3,812,510	$3,907,823	$4,005,518	$4,105,656	$4,208,298	$4,313,505	$4,421,343

	2007	2008	2009	2010	2011	2012	2013
Fuels	$1,058,930	$1,194,580	$1,347,606	$1,520,235	$1,714,978	$1,934,668	$2,182,500
Equipment	$1,639,569	$1,680,558	$1,722,572	$1,765,636	$1,809,777	$1,855,022	$1,901,397
Self-Insured Losses	$0	$0	$0	$0	$0	$0	$0
Capital Outlay	$750,000	$0	$0	$0	$0	$0	$0
Total Operating Expenses	**$11,159,280**	**$10,778,688**	**$11,171,317**	**$11,589,539**	**$12,036,015**	**$12,513,730**	**$13,026,039**
Transfers to Debt Service	$5,455,750	$5,581,818	$8,109,552	$8,110,384	$7,782,134	$7,255,004	$6,862,722
Refunds and Rebates	$284,648	$291,764	$299,058	$306,535	$314,198	$322,053	$330,104
Rentals	$146,256	$149,912	$153,660	$157,502	$161,439	$165,475	$169,612
Reserve for Encumbrances	$0	$0	$0	$0	$0	$0	$0
Total Governmental Transfers	**$5,886,654**	**$6,023,494**	**$8,562,271**	**$8,574,420**	**$8,257,771**	**$7,742,533**	**$7,362,438**
Additional Police Force	**$0**	**$557,076**	**$1,107,077**	**$1,213,719**	**$1,327,924**	**$1,450,228**	**$1,581,206**
TOTAL EXPENDITURES	**$74,190,835**	**$77,175,851**	**$82,633,865**	**$85,188,293**	**$87,542,469**	**$89,906,073**	**$92,563,102**

General Fund Expenditure Projections by Department, 2007 - 2013

	2007	2008	2009	2010	2011	2012	2013
City Council	$451,756	$466,697	$480,256	$493,544	$507,276	$521,471	$536,151
Mayor	$329,336	$343,143	$355,027	$366,465	$378,413	$390,901	$403,960
Controller	$209,109	$218,180	$226,020	$233,592	$241,522	$249,830	$258,541
Solicitor	$555,655	$577,956	$597,375	$616,154	$635,738	$656,172	$677,506
General/Civic	$7,055,750	$6,453,005	$9,002,455	$9,025,543	$8,720,104	$8,216,355	$7,848,035
Total Non Departmental	**$8,601,606**	**$8,058,981**	**$10,661,132**	**$10,735,298**	**$10,483,053**	**$10,034,729**	**$9,724,192**
Total Finance	**$3,489,575**	**$3,625,452**	**$3,746,493**	**$3,864,823**	**$3,988,290**	**$4,117,191**	**$4,251,842**

	2007	2008	2009	2010	2011	2012	2013
Total Human Resources	**$548,379**	**$571,082**	**$590,877**	**$610,059**	**$630,112**	**$651,087**	**$673,040**
Director/Public Works	$211,074	$219,799	$227,130	$234,090	$241,335	$248,882	$256,748
Engineering	$0	$0	$0	$0	$0	$0	$0
Fleet Management	$2,412,431	$2,553,462	$2,708,360	$2,878,795	$3,066,650	$3,274,047	$3,503,375
Building Maintenance	$1,786,524	$1,864,472	$1,939,863	$2,017,418	$2,100,372	$2,189,260	$2,284,680
Streets	$1,841,460	$1,916,656	$1,985,100	$2,052,964	$2,124,328	$2,199,449	$2,278,609
Traffic Planning/Control	$809,388	$841,531	$870,180	$898,216	$927,511	$958,140	$990,184
Street Lighting	$451,206	$462,486	$474,048	$485,900	$498,047	$510,498	$523,261
Total Public Works	**$7,512,083**	**$7,858,406**	**$8,204,681**	**$8,567,382**	**$8,958,243**	**$9,380,276**	**$9,836,854**
Police/EMS	$27,881,093	$29,723,456	$31,193,607	$32,257,117	$33,375,612	$34,552,304	$35,790,612
Communications	$589,910	$616,337	$638,448	$661,464	$685,583	$710,878	$737,427
Total Police	**$28,471,003**	**$30,339,793**	**$31,832,055**	**$32,918,580**	**$34,061,195**	**$35,263,183**	**$36,528,039**
Total Fire	**$14,759,654**	**$15,515,209**	**$16,045,390**	**$16,602,621**	**$17,188,479**	**$17,804,648**	**$18,452,926**
Total Management Systems Dept.	**$1,405,419**	**$1,460,153**	**$1,508,293**	**$1,555,033**	**$1,603,725**	**$1,654,478**	**$1,707,410**
Director/DCED	$1,485,098	$1,536,503	$1,582,439	$1,627,239	$1,673,713	$1,721,945	$1,772,027
Planning & Zoning	$776,350	$808,546	$836,698	$864,015	$892,573	$922,448	$953,719
Bldg Standards/Safety	$2,927,182	$3,051,368	$3,160,528	$3,266,842	$3,378,195	$3,494,896	$3,617,276
Recreation	$666,629	$687,516	$706,395	$724,988	$744,423	$764,752	$786,033
Swimming Pools	$311,278	$313,150	$314,817	$316,420	$318,063	$319,747	$321,473
Parks	$721,207	$749,124	$774,466	$799,502	$825,723	$853,202	$882,016
Health	$3,315,372	$3,450,568	$3,569,600	$3,685,492	$3,806,683	$3,933,491	$4,066,255
Total Comm. & Econ. Development	**$10,203,116**	**$10,596,775**	**$10,944,943**	**$11,284,497**	**$11,639,373**	**$12,010,482**	**$12,398,798**
Vacancy Allowance Initiative	**-$800,000**	**-$850,000**	**-$900,000**	**-$950,000**	**-$1,010,000**	**-$1,010,000**	**-$1,010,000**
TOTAL EXPENDITURES	**$74,190,835**	**$77,175,851**	**$82,633,865**	**$85,188,293**	**$87,542,469**	**$89,906,073**	**$92,563,102**

Putting the revenue-expenditure picture together

When the revenue analysis in the previous chapter is combined with the expenditure analysis here, it is clear that the City has made great progress since its initial EIP in 2005. At the same time, there are still significant challenges to its financial health.

The City's revenues are projected to grow at a slower rate than its expenditures in 2007 (0.9 percent versus 7.1 percent) and 2008 (2.7 percent versus 3.8 percent) before the trend reverses in 2010 – 2013 with the inclusion of new casino revenues. However, even with that casino revenue, the new baseline projection shows an operating shortfall each year from 2008 – 2013.

Scenario 1: Baseline Multi-Year Forecast

	2007	2008	2009	2010	2011	2012	2013
Total Revenues	75,550,403	76,237,079	78,276,374	81,395,795	85,348,964	88,647,179	92,036,995
Total Expenditures	74,190,835	77,175,851	82,633,865	85,188,293	87,542,469	89,906,073	92,563,102
Operating Balance	**1,359,568**	**(938,772)**	**(4,357,491)**	**(3,792,499)**	**(2,193,505)**	**(1,258,894)**	**(526,107)**

In 2007 the City refunded and restructured bonds to address the legacy debt service expenditure jump beginning 2009. However, this important step still left some projected deficit in 2009 and 2010. The remaining challenge is defined in part by structural risks such as:

- Tax revenues are projected to grow at an average rate of 2.5 percent from 2007 – 2013 while expenditures are projected to grow by 4.1 percent per year. Expenditure growth also outpaces tax revenue growth each individual year but 2011.

- The City's largest revenue source (property taxes) is only projected to grow by 8.8 percent from 2007 – 2013 while its largest expenditure (permanent wages) is projected to grow by 25.3 percent over this same period.

The statutory and practical limits on increasing tax related revenues exacerbate these problems, as would any shortfall in projected casino-related revenue. With this projected financial picture, it is critical that the City continue to find new, effective ways to control expenditures in order to sustain and build on its recent progress.

Workforce

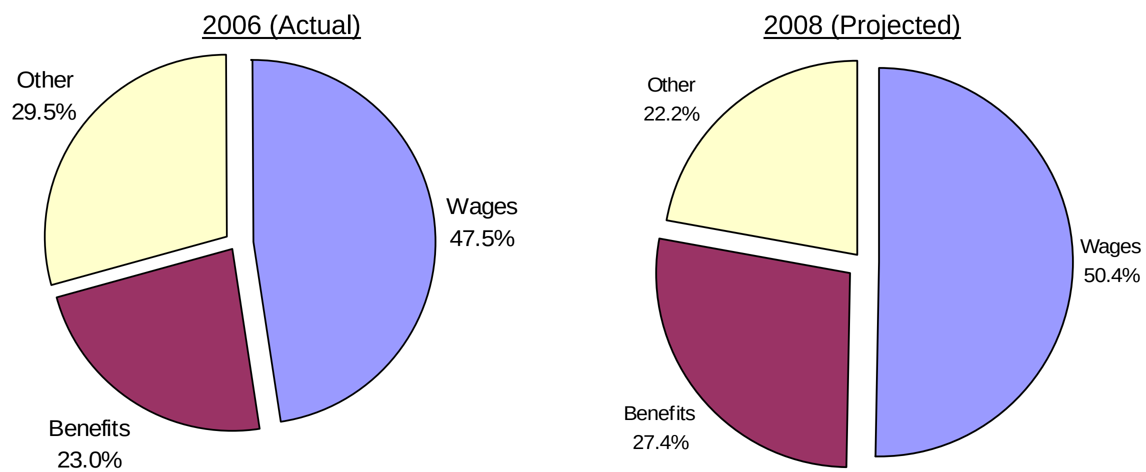
Workforce

Overview

Government is a labor intensive endeavor. It relies on people to patrol City streets, repair potholes, respond to emergency calls, and maintain parks and recreation facilities. The dedication and skills of municipal employees are critical to efficiently providing vital services to the citizens of Allentown.

Because people are central to providing most public services, expenditures committed to compensating those employees through wages, salaries and benefits represent the majority of the City's budget. As shown below, more than 70 percent of the City's General Fund expenditures in FY2006 were for employee wages and benefits,[16] and that share is projected to rise to 77.8 percent in FY2008.

Share of General Fund Committed to Wages and Benefits



Source: City budget data, 2006 and 2007.

With so much of Allentown's budget committed to employee compensation, the City must work to contain these costs to balance its finances over the next five years. If the City does not maintain a workforce cost structure it can afford, it will struggle to provide its citizens with critical public services and its employees with stable compensation over the long term.

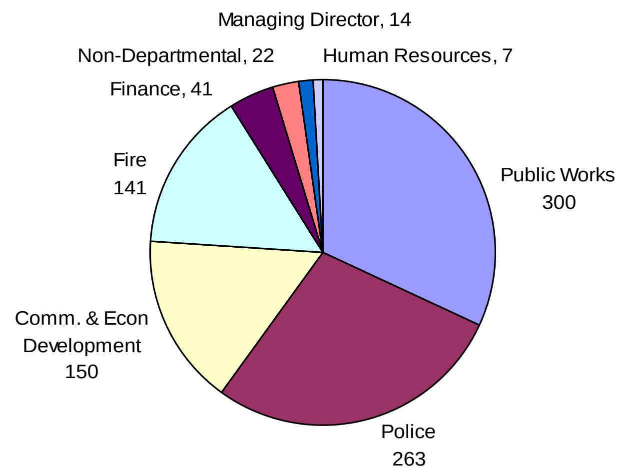
City Workforce Trends

Allentown's FY2007 budget funds 938 positions.[17] Public Works is the largest department with 300 positions split across the General, Sewer, Water, Solid Waste and Liquid Fuels funds. Police is the next largest department with 263 budgeted positions. Those two departments plus

[16] Wages includes permanent wages, holiday pay, education and uniform allowances, premium pay, extra duty pay, shift differential and temporary wages. Benefits include FICA, pension, health insurance and general insurance.
[17] Unless otherwise noted, all position figures are for *budgeted positions* and may not reflect the actual number of positions filled during the year.

Community and Economic Development and Fire account for more than 90 percent of the City's budgeted positions.

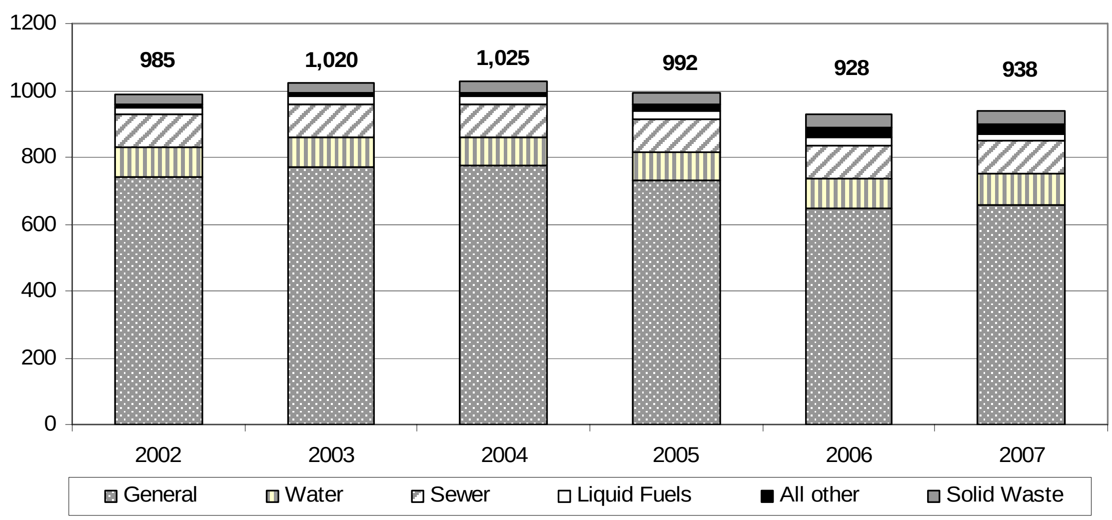
FY2007 Budgeted Positions by Department



Source: FY2007 budget

Looking at the City's workforce by fund, the majority (656) of City employees are in the City's General Fund. When the City reduced its workforce from 1,025 in FY2004 to 928 in FY2006, those reductions happened exclusively in the General Fund. Staffing in the Water, Sewer and Liquid Fuels funds have remained stable from FY2002 to FY2007. The Trexler Fund experienced the most growth in budgeted positions, increasing from 3 in FY2002 to 24 in FY2007. The graph below shows how employees have historically been distributed across the City's major funds.

Budgeted Positions by Fund, 2002 - 2007



Source: Data for 2002 – 2005 from 2005 Five Year Plan. Data for 2006 and 2007 from City budget. All positions shown are budgeted, not filled.

Looking at the departmental level, the Police Department has had the biggest reduction over the last four years, dropping from 333 to 263 positions[18] (21.0 percent), somewhat greater than the overall General Fund position allocation reduction over this period. The City's soft hiring freeze and the early retirement incentives offered to police officers and firefighters in 2005 contributed to this reduction. The table below shows the number of budgeted positions within each major department and fund from FY2002 to FY2007.

Budgeted Positions by Department and Fund, FY2002 - FY2007

Department (Fund)	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007
Police (General)	306	331	333	317	258	263
Fire (General)	151	151	151	149	141	141
Comm. & Econ Development (General)	137	141	142	128	115	121
Public Works (General)	64	64	66	53	52	49
Finance (General)	50	51	49	50	39	39
Non-Departmental (General)	26	26	26	26	23	22
Managing Director (General)	0	0	0	0	14	14
Human Resources (General)	6	6	6	6	7	7
Public Works (Sewer)	99	100	99	99	99	98
Public Works (Water)	88	89	87	87	87	93
Public Works (Solid Waste)	29	29	31	34	37	37
Public Works (Liquid Fuels)	22	22	22	22	22	23
Comm. & Econ. Development (Trexler)	3	5	7	15	26	24
Comm & Econ. Development (Golf)	3	3	4	4	6	6
Finance (Risk Management)	1	2	2	2	2	2
TOTAL	**985**	**1,020**	**1,025**	**992**	**928**	**938**

Source: Data for FY2002 – FY2005 from 2005 Five Year Plan. Data for 2006 and 2007 from City budget. All positions shown are budgeted, not filled.

Moving from positions budgeted to dollars spent, expenditures on General Fund employee compensation grew by 8.6 percent from FY2002 to FY2006.[19] In conjunction with the headcount reduction, general fund spending on employee wages and salaries peaked in FY2004 and then dropped in FY2005 and FY2006, resulting in a total five-year growth of 3.2 percent. However, expenditures on employees' benefits, particularly health insurance, have increased by more than

[18] This includes sworn officers and civilian employees.
[19] It is possible that the City included premium pay, education and uniform allowances and shift differential under "permanent wages" until FY2005. Given the potential for grouping the same kinds of compensation differently, it may be more useful to look at the wages and salary subtotal when making year-to-year comparisons.

20 percent resulting in an overall employee compensation increase of 8.6 percent. Over five years, spending on employee health insurance grew by 29.3 percent even as the number of budgeted positions decreased by 12.3 percent. In comparison, other operating expenses not related to personnel grew by 2.2 percent and the national inflation rate was 10.7 percent for this period[20].

General Fund Compensation Expenditures, FY2002 – FY2006

	FY2002	FY2003	FY2004	FY2005	FY2006	Change ($)	Change (%)
Permanent Wages	$27,987,515	$32,199,720	$32,684,195	$30,390,084	$28,123,268	$135,753	0.5%
Premium Pay	$3,072,455	$4,017,445	$2,919,335	$2,893,267	$2,649,987	-$422,468	-13.8%
Holiday Pay	-	-	-	$969,073	$943,227	-	-
Temporary Wages	$766,233	$645,642	$682,716	$735,268	$717,980	-$48,253	-6.3%
Extra Duty Pay	$143,283	$66,520	$70,908	$105,590	$210,607	$67,324	47.0%
Shift Differential	-	-	-	$191,060	$176,372	-	-
Education & Uniform	-	-	-	$175,181	$174,250	-	-
Wages & Salaries Subtotal	**$31,969,486**	**$36,929,327**	**$36,357,154**	**$35,459,524**	**$32,995,691**	**$1,026,204**	**3.2%**
Health Insurance	$6,091,696	$6,203,302	$6,779,425	$7,471,868	$7,878,233	$1,786,537	29.3%
Pension	$5,820,014	$5,454,266	$4,997,119	$6,471,190	$6,817,143	$997,129	17.1%
FICA	$1,199,769	$1,405,885	$1,385,266	$1,338,015	$1,219,076	$19,307	1.6%
General Insurance	$34,374	$39,007	$30,782	$217,926	$85,000	$50,626	147.3%
Benefits Subtotal	**$13,145,853**	**$13,102,460**	**$13,192,591**	**$15,498,999**	**$15,999,452**	**$2,853,599**	**21.7%**
Salaries & Benefits Total	**$45,115,339**	**$50,031,787**	**$49,549,745**	**$50,958,522**	**$48,995,143**	**$3,879,804**	**8.6%**
Other Operating Expenses	$10,515,264	$11,176,861	$10,253,872	$9,541,174	$10,745,283	$230,019	2.2%

Source: City budget data, 2002 - 2006

Compensation

While Allentown reduced the number of positions budgeted in its General Fund from FY2002 to FY2006, the City's spending on employee wages did not decline proportionally. In some departments, like Police and Public Works, spending on employee wages declined by a smaller percentage than the decrease in budgeted positions. In other departments, like Fire or Finance, City spending increased despite the position reduction.

[20] The annual US city average chained CPI (all items, non seasonal adjusted) in 2002 was 105.6. The same annual index in 2006 was 116.9, or 10.7 percent higher.

Changes in wages and budgeted positions, FY2002 - 2006[21]

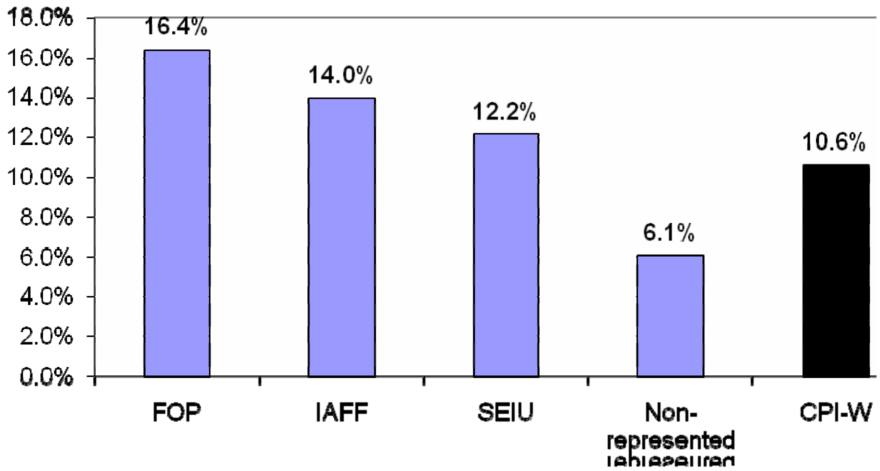
	Wages			Budgeted Positions		
	2002	2006	Change	2002	2006	Change
Police	$12,582,692	$11,959,088	-5.0%	306	258	-15.7%
Fire	$6,323,088	$6,947,777	9.9%	151	141	-6.6%
Comm. & Econ. Development	$3,992,312	$4,012,663	0.5%	137	115	-16.0%
Public Works	$2,111,759	$1,899,549	-10.0%	64	52	-18.8%
Finance	$1,366,918	$1,572,877	15.1%	50	39	-22.0%
Non-Departmental	$854,602	$831,856	-2.7%	26	23	-11.5%
Managing Director	$499,087	$576,991	15.6%	N/A	14	N/A
Human Resources	$257,056	$322,467	25.4%	6	7	16.7%
TOTAL	**$27,987,514**	**$28,123,268**	**0.5%**	**740**	**649**	**-12.3%**

One explanation for the disparity is that, even though the City reduced the number of budgeted positions, the compensation per employee increased. Most City employees are members of collective bargaining units and received annual wage increases through their associated labor agreements. Depending on the bargaining unit and the year, union represented employees received across-the-board increases, a cost-of-living adjustment (COLA) or both.

The chart below shows how wage increases for the City's three major bargaining units – 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) – compare to changes in the cost of living as measured by the consumer price index that the City uses to set its COLAs. The chart also includes the base wage growth for supervisory employees who are not represented by bargaining units. From 2005 through 2007, the contractual wage increases for each bargaining unit outpaced this measure of inflation. The non-represented employees lag behind because of their wage freeze in 2005 followed by 3.0 percent increases in 2006 and 2007.

[21] This table only shows wages and positions funded through the General Fund for each department.

Base wage increases versus cost of living increases, 1/05 – 12/07



Notes: The City uses the consumer price index for urban wage earners and clerical workers (CPI-W), US city average, all items, not seasonally adjusted, to set COLAs.

The previous chart gives a conservative estimate of employee wage increases since it only accounts for base wages. Employees may also receive step or longevity increments over and above these across-the-board raises and any additional merit-based promotions, resulting in higher salary growth than shown here.

Looking beyond 2007, the FOP has two more wage increases before its contract with the City expires on December 31, 2008. The IAFF has several increases before its seven-year contract expires on December 31, 2011 as does the SEIU with its seven-year contract running through December 31, 2012. Those future increases are shown below.

Negotiated future wage increases, FOP, IAFF and SEIU

	2008	2009	2010	2011	2012
FOP	2.05% COLA (Jan) + 3% (July)	Contract expired			
IAFF	3% + 1.8% COLA (January)	COLA (January)	COLA (January)	COLA (January)	Contract expired
SEIU	1.8% COLA (July)	3% + COLA (July)	3% + COLA (July)	3% (July)	3% (July)

Source: Agreements for FOP Lodge No. 10 (page 29), IAFF Local No. 302 Agreement (11-12) and SEIU Local 473/395A (41). The 2008 COLA has been set as shown above. Annual COLAs are based upon the CPI-W with a difference in calculation methodology accounting for the difference between the FOP and IAFF/SEIU percentages.

Non-represented supervisory employees will receive a 3.0 percent base wage increase in 2008.

Progress toward 2005 goals

The 2005 Five-Year Plan included three goals related to containing the City's workforce costs.

- **Achieve the right sized workforce and deploy that workforce effectively**: As shown above, the City has reduced its workforce since FY2004. The City used a "soft hiring freeze" in 2005 through which vacancies were reviewed, positions eliminated or left vacant and hiring completed only when funding was available to meet specific operational objectives.

  In 2005 the City also offered an early retirement program to Police and Fire employees that led to the resignation of 54 police and seven firefighters. The incentive's primary goal was to replace retirees with lower cost, early-career employees, not to dramatically cut overall public safety headcount. In October 2005 the City projected a post-retirement headcount of 219 police and 139 firefighters. As of December 2007, the City had 185 sworn police officers and [xx] firefighters.

- **Reduce the per employee cost of compensation:** Because compensation for most City employees is set by their governing collective bargaining agreements, the primary means for achieving this goal is collective bargaining. The FOP and IAFF agreements have not expired since these goals were set in 2005, but the City did have an opportunity to change compensation for SEIU, its largest labor union. The new seven-year agreement has provisions to reduce workforce costs, though they are coupled with other benefit increases.

  As shown above, the agreement provides COLAs through 2010 with additional 3.0 percent across-the-board wage increases in 2009 and 2010. The July effective dates for the raises generate some savings by delaying wage increases until the mid-point of each year. Though the full cost of these raises is unknown since they are indexed to ongoing changes in the CPI-W, the additional 3.0 percent increases in 2009 and 2010 ensure wages will grow at a faster rate than this measure of inflation, at least through 2010.

  The City also raised longevity payments and shift differential, which will in turn increase the per employee cost of compensation. The agreement reduces the rate at which employees can accrue sick leave from 21 to 18 days a year, but increases the maximum number of sick leave they can accrue from 180 to 200 days. The number of paid holidays increased by one, generating more holiday pay, without a corresponding reduction in vacation or personal leave.

  The new agreement does have health care cost containment measures including a new monthly employee contribution of 5.0 percent or $25, whichever is less, toward the cost of Blue Cross coverage.[22] As described above, rising health care costs are a significant part of employee compensation and controlling those costs is critical to the City's financial health.

[22] Employees participating in the City's Keystone HMO plan made premium contributions under the terms of the previous contract. The City's contributions toward the HMO coverage were capped at the amount the City paid for Blue Cross and Blue Shield coverage so employees paid the difference.

The City must continue to make progress toward both having a properly sized workforce and controlling per employee compensation. Otherwise any savings achieved from streamlining departments and reducing headcount will be eroded if per employee compensation rises too rapidly.

- **Strengthen human resources management**: The previous goals contribute to a broader effort to make the City more efficient so it can provide the best services possible given limited resources and financial challenges. Another key part of that effort is a strong human resources system with effective recruiting and hiring processes; employee training and professional development opportunities; workplace safety policies and safeguards; and employee benefit administration.

  Some of these activities are handled at the departmental level. For example, the Fire Department has its own Division of Training and Fire Academy where new recruits and current members receive training specific to the Department's activities. The Department also has improved its recruitment process by expanding to Spanish language radio and newspapers and removing the Allentown residency restriction.

  This Plan identifies opportunities to build on this progress at the City level and at the departmental level with specific training opportunities discussed in each of the relevant chapters.

Opportunities for further progress

As with the SEIU contract, the upcoming expiration of the City's contract with the FOP is a critical opportunity to make progress toward these workforce goals. There are at least 170 active employees – 18.1 percent of the City's 2007 budgeted workforce – whose wages will be set through the upcoming FOP collective bargaining process[23]. Given the financial pressure created by the current Act 111 Arbitration Awards, the City must take advantage of this opportunity to achieve critical workforce savings.

The 2005 Five-Year Plan includes several strategies for containing workforce costs that should be considered during FOP negotiations including:

- Pay plan restructuring
- Freezing or reducing premium pay (e.g. longevity, shift differential, holiday pay, uniform allowances)
- Healthcare plan redesign, including employee premium contributions
- Other healthcare initiatives (e.g. health savings accounts, wellness programs, disease management)
- Changing work rules to improve management's flexibility to control overtime costs
- Strengthening worker's compensation or sick leave monitoring policies

[23] Per the Department, there were 180 active employees in the FOP as of January 3, 2008. Officers at the lieutenant or higher ranks can be members of the FOP but are not represented by the bargaining unit for wage negotiations, resulting in the lower count here.

Beyond the City's labor negotiations with the FOP, there are other opportunities to control or reduce workforce spending.

WF01: Offer employees a financial incentive to opt-out of the City's health care plan

Allentown budgets an average of $12,000 per employee for its self-funded health care plan (excluding prescription coverage). Following the lead of the private sector and many public and quasi-government entities, the City should offer employees an incentive to opt-out of this plan if the employee has access to another plan.

Comparable organizations offer a fairly wide range of such incentives from $1,200 to $3,000 annually. The Philadelphia Gas Works (PGW) recently increased its incentive to a range between $1,500 (individual coverage) and $3,000 (family coverage). Several cities in California offer $1,200 - $1,800 annually, and the States of California and Illinois offer $1,800 annually. Employees of the City of Worchester, Massachusetts receive 40 percent of the City's savings if they opt-out for two consecutive years.

Potential incentive structure

If the City offers this incentive, it should consider implementing a tiered structure, such as the one offered by PGW. A tiered structure provides more options and may be more attractive to families in which the spouse is employed by an organization that contributes 100 percent of employee coverage and substantially less for family coverage. A hypothetical structure is shown below.

Hypothetical Tiered Opt-out Structure

Level of Coverage	Amount
Employee Only	$1,500
Spouse Only	$2,400
Spouse & Dependents	$2,700
Family	$3,000
Non-weighted Average	$2,400

It is recommended that the City offer these incentives as lump sum monthly payments. For liability reasons, the City should ensure that employees electing to opt-out provide proof of other insurance, and understand that a qualifying change of life event, such as the spouse's job or insurance coverage loss, would enable employees to opt back into the City's plan.

Savings

Savings associated with the opt-out incentive depend on employee participation, the level of health coverage offered to those participating employees, and the size of the opt-out incentive. However, a simple projection using the hypothetical tiered structure above indicates significant savings for the City. Assuming five percent employee participation and a $2,400 average incentive cost, the City could achieve $450,000 in savings.

Cost Savings Projections

Percentage Participation	Employee Participation	Gross Savings	Opt-Out Payment	Net Annual Savings
5%	47	$562,800	$112,560	$450,240
8%	70	$844,200	$168,840	$675,360
10%	94	$1,125,600	$225,120	$900,480
12%	113	$1,350,720	$270,144	$1,080,576

Notes: These calculations are based on a workforce of 938 employees and a $12,000 average cost for employee health coverage.

These projections exclude administrative fees, prescription drug costs and weighted calculations for coverage levels. Including prescription drug costs would increase the annual savings.

WF02: Offer a revised pension plan to new Police and Fire Department hires.

The City currently offers Police and Fire Department employees a generous pension plan with a replacement level of 75 percent of income versus the state mandate of 50 percent. To contain long-term pension obligations, it is recommended that the City offer new hires a new pension plan at the 50 percent income replacement level.

While there are immediate savings based on a reduced minimum municipal obligation (MMO) contribution for every new hire, the benefits are more dramatic in the long-term as shown by the future value of savings in the tables below. Decreasing long-term obligations is critical to establishing a foundation for fiscal responsibility and fiscal health.

Cost Savings Projections

	Year 1	Year 2	Year 3	Year 4	Year 5
Annual Savings	$59,570	$59,570	$59,570	$59,570	$59,570
Cumulative Savings	$59,570	$119,141	$178,711	$238,282	$297,852
Future Value of Savings	**$61,060**	**$123,646**	**$187,797**	**$253,551**	**$320,950**

	Year 21	Year 22	Year 23	Year 24	Year 25
Annual Savings	$59,570	$59,570	$59,570	$59,570	$59,570
Cumulative Savings	$1,250,979	$1,310,549	$1,370,119	$1,429,690	$1,489,260
Future Value of Savings	**$1,659,802**	**$1,762,356**	**$1,867,475**	**$1,975,221**	**$2,085,662**

<<Figures to be updated once IAFF staffing numbers received>>

These calculations are predicated on the assumption that the City of Allentown will hire seven Police or Fire department employees annually and does not reflect any change in State aid. The assumed inflationary rate is 2.5 percent.

WF03: Explore opportunities to partner with the County for employee training

The City and Lehigh County have a history of working together on employee training and preparation, particularly between public safety organizations. The City's Health Bureau has trained County Corrections officers in issues related to Sexually-Transmitted Diseases (STDs). City firefighters coordinate with the Lehigh County Emergency Management Agency for hazardous materials response and special operations. County agencies have made use of the City Police Academy for Act 120 firearms training.

In 2006 Public Financial Management worked with the City and Lehigh County on a joint services assessment that identified opportunities to build on these successful efforts. As detailed in that assessment, the County occasionally has human resource management capacity that the City could access at little or no cost. Those opportunities include:

- Expansion of the County's online job posting and résumé gathering capacity to the City
- City participation on the County's Training Advisory Committee
- City attendance at County-conducted basic compliance training (e.g. courses on sexual harassment, violence in the workplace, computer and Spanish language skills)

As part of the City's goal to improve human resources management, it should reach out to the County's Human Resources Department to discuss these and other opportunities to partner in a way that helps both governments.

Debt Management

Debt Management

Overview

The annual amounts the City of Allentown pays in debt service – principal and interest on outstanding bonds – is an important factor in its fiscal health. Because most capital projects are funded with long-term debt, debt service affects current and future operating budgets. The City has planned to restructure its debt to reduce its debt service expenditures over the period of this EIP and beyond.

Allentown's general obligation (GO) debt is primarily used for capital projects or refinancing older debt. The capital projects fit within the framework of Allentown's Capital Improvement Program (CIP) that includes the following guidelines[24]:

- Any capital project financed through the issuance of a general obligation bond should be financed for a period not to exceed the expected useful life of the project
- Bond sales should be planned and scheduled in order to maintain or improve the City's bond rating and obtain interest rates at or below the published bond yield averages for bonds of similar ratings
- The schedule of capital facility improvements should be in such a manner as to level the City's annual debt service payments to the maximum extent possible and to minimize fluctuations in tax rates caused by debt-financed capital improvements
- Short-term debt outstanding at the end of the fiscal year should not exceed five percent of operating revenues
- Net direct debt should be maintained below $1,000 per capita
- Debt service should not exceed 10 percent of government expenditures in order to minimize the impact on tax rates while providing for the normal replacement of public facilities

The City's CIP as of its last bond issue is outlined below.

Allentown Capital Improvement Program, 2005-2009[25]

Project Type	2005	2006	2007	2008	2009
Public Safety	$0	$705,000	$665,000	$0	$0
Municipal Buildings	$190,000	$85,000	$685,000	$85,000	$85,000

[24] Guidelines for the Allentown Capital Improvement Program are taken from Official Statements corresponding with debt issued by the City of Allentown.
[25] Information on the 2005-2009 Capital Improvement Program is taken from Guaranteed Parking Revenue Bond Series of 2005 Official Statement, p. A-4.

Project Type	2005	2006	2007	2008	2009
Parks	$180,000	$1,272,000	$250,000	$210,000	$160,000
Streets/Bridges	$1,219,735	$1,575,000	$1,480,000	$1,605,000	$1,710,000
Economic Development	$0	$700,000	$700,000	$400,000	$400,000
Water/Sewer	$3,675,000	$4,850,000	$11,724,000	$9,724,000	$6,400,000
Total	**$5,264,735**	**$9,187,000**	**$15,504,000**	**$12,024,000**	**$8,755,000**
Source of Funds	**2005**	**2006**	**2007**	**2008**	**2009**
General Obligation Bonds	$1,134,735	$4,007,000	$3,570,000	$2,175,000	$2,275,000
Water Revenue Bonds	$2,130,000	$2,305,000	$3,134,000	$3,224,000	$2,095,000
Sewer Revenue Bonds	$575,000	$1,700,000	$8,275,000	$6,200,000	$4,160,000
General Fund Operating Budget	$0	$0	$0	$0	$0
Water/Sewer Operating Budget	$1,425,000	$1,175,000	$525,000	$425,000	$225,000
Solid Waste Operating Budget	$0	$0	$0	$0	$0
Total	**$5,264,735**	**$9,187,000**	**$15,504,000**	**$12,024,000**	**$8,755,000**

The City currently has approximately $34.0 million in principal remaining on its tax-exempt GO bonds. Including interest on this principal, the total outstanding tax-exempt GO debt service is approximately $46.0 million. Additionally, the City's 2004 refunding bonds and Lease-Sublease Allentown Commercial and Industrial Development Authority (ACIDA) note are both taxable with total outstanding debt service of $42.3 million. The City also has one series of federally taxable Pension Obligation bonds outstanding in the amount of $34.7 million with total debt service of $65.0 million. The table below shows the City's current debt service requirements through fiscal year 2034, the last year of maturity for the City's outstanding debt.

Debt Service Requirements through 2034

	Total Outstanding
Non-Taxable General Obligation Bonds (Principal)	$ 33,987,000
Non-Taxable General Obligation Bonds (Interest)	$ 11,986,324
Taxable General Obligation Bonds (Principal)	$ 26,867,168
Taxable General Obligation Bonds (Interest)	$ 15,424,264
Total General Obligation Debt Service	**$ 88,264,757**
Taxable Pension Obligation Bonds (Principal)	$ 34,675,000
Taxable Pension Obligation Bonds (Interest)	$ 30,344,285
Total Pension Obligation Debt Service	**$ 65,019,285**

Debt detail

The City of Allentown currently has eleven outstanding bonds including the taxable Pension Obligation bond, taxable refunding bond, taxable ACIDA note, and tax-exempt GO bonds.

Year	Total Debt Service ($)
2007	5,532,016
2008	**7,958,922**
2009	**10,484,555**
2010	10,486,005
2011	10,160,079
2012	9,632,304
2013	9,241,341
2014	9,027,586
2015	5,960,516
2016	5,723,806
2017	5,450,385
2018	5,467,791
2019	5,152,903
2020	4,903,424
2021	4,915,986
2022	4,620,406
2023	3,872,863
2024	3,882,993
2025	3,378,222
2026	3,383,681
2027	3,384,905
2028	3,382,746
2029	3,384,675
2030	3,382,677
2031	3,379,978
2032	2,378,363
2033	2,376,263
2034	2,378,650

Series 1993 – The City issued $2.5 million of debt for capital improvements.

Series 1993 Refunding – The City issued $13.815 million of debt to refund bonds issued in 1987, 1990 and 1991.

Second Series 1997 – The City issued several series of bonds in 1997. The Second Series of 1997 includes $8.775 million for capital improvements and to advance refund the Series 1992 bonds.

Series 1998 – This series totals $9.66 million in GO debt. The bonds were used for capital improvements and to advance refund the Series 1993 and Series 1996 bonds.

Series 2001 – The City issued $8.035 million in debt for capital projects and for a current refunding of the Series 1991 and Series 1995 bonds.

Series 2003 – This series, which includes $17.495 million in GO debt, was used for capital improvements and to current refund Series 1993 and Series 1999 bonds.

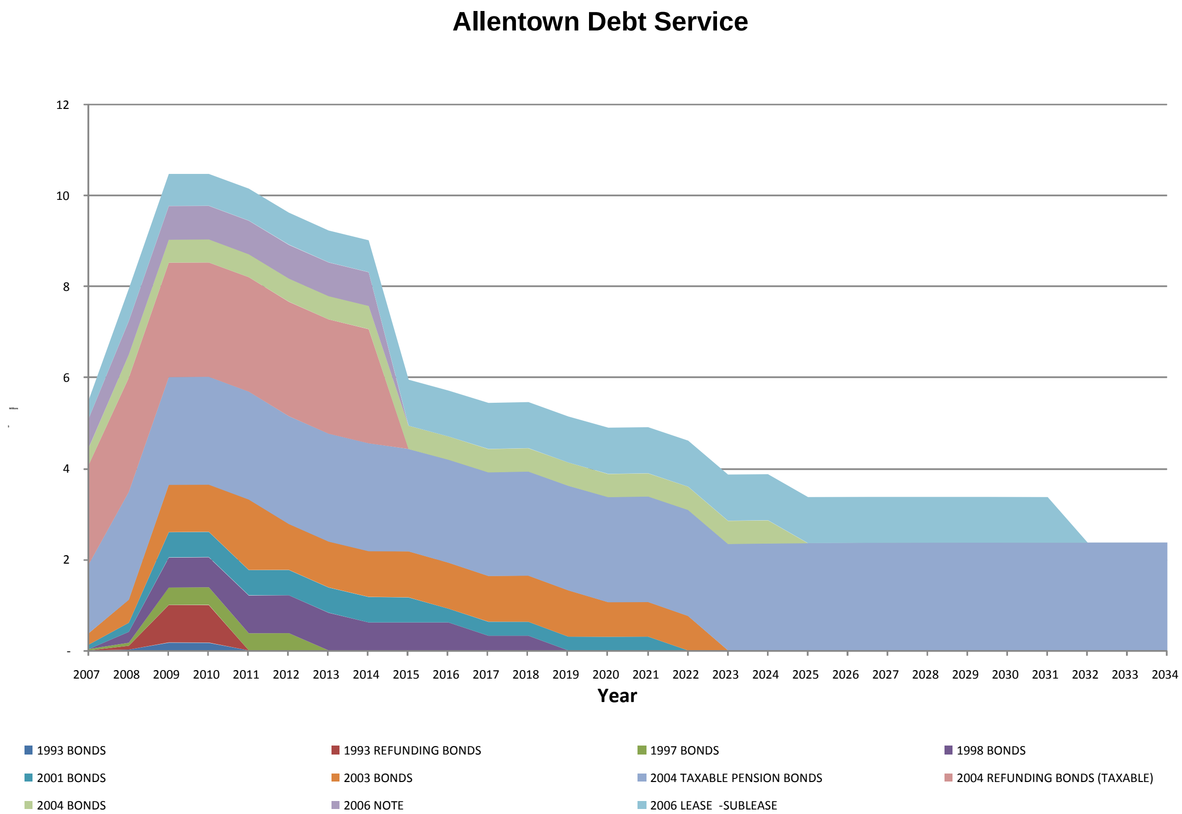
Pension Bonds – In 2004 the City issued a series of taxable pension bonds for a total of $36,865,000 in debt. The bonds were used to refund the taxable Series 1996 bonds issued to cover the City's unfunded liability on its three municipal pension plans.

Series 2004 – In addition to the Pension Bond Refunding series, the City also issued $21.935 million in taxable debt. The purpose of this series is to refund the Refunding Series 1995 and Series 1997, 1998, 2001, and 2003 bonds.

2006 Series – The City completed a current refunding in 2006. In addition, the Allentown Commercial and Industrial Development Authority (ACIDA) issued a taxable lease-sublease note.

As indicated above, earlier in this decade the City has refunded or refinanced many of its older bonds. However, this solution merely created near-term relief and did not address the scheduled leap in debt service between 2008 and 2009. In particular, the taxable 2005 Series, 1993 Refunding Series, 1998 Series, and 1997 Series bonds all have large increases in the next few years. Debt service on pension obligation bonds also increases, though by a lesser degree than GO debt service.

Debt service payments begin to abate in 2012 but they do not return to the 2007 level until 2015. The City has to find a way to restructure its debt service schedule to meet its payment requirements and avoid a credit rating downgrade or other fiscal distress.



Benchmarking Allentown to other cities

One important indicator of a municipality's fiscal health is its debt burden per capita. Debt burden per capita is the total outstanding debt divided by the municipality's population. This ratio also helps put Allentown's debt burden in a broader context. Allentown's current debt burden per capita is $1,428. This is moderate to high compared with other third class cities in Pennsylvania

Debt per Capita (GO and Pension Debt)[26]

	Allentown	Bethlehem	Easton	Erie	Lancaster	Reading
Population	107,294	72,704	26,209	102,036	54,779	81,183
Debt	$153,284,042	$74,875,370	$31,922,676	$117,665,031	$80,725,108	$107,740,242
Debt per capita	$1,429	$1,030	$1,218[27]	$1,153	$1,474[28]	$1,327

Another tool for comparing Allentown with other cities are the credit ratings issued by independent agencies, such as Standard & Poor's (S&P), Moody's Investor Service (Moody's) and Fitch Ratings (Fitch), to evaluate municipal governments on their ability to and likelihood of repaying borrowed funds. These ratings directly affect a city's cost of issuing debt; the higher the credit rating, the lower the interest rates the borrower will pay. To receive the most desirable rates, cities must qualify for an investment grade rating. S&P and Moody's award investment credit ratings on a rising scale from BBB/A/AA/AAA and Baa/A/Aa/Aaa respectively. When issuing debt, a city may have an investment grade rating based solely on its own underlying credit rating or its rating may be considered investment grade because the debt is backed by a bond insurance policy.

The City is currently rated Baa2 by Moody's with a positive outlook. Moody's sites a sizeable and mature tax base, improved financial position (albeit with one-time revenue sources) and operating surplus and structural balance expected for 2007. While the City's debt burden is above average in size, Moody's expects it will remain manageable after restructuring given no immediate plans to issue additional debt.[29] S&P rates the City BBB+. A sample of credit ratings for other Commonwealth cities is listed below.

	Allentown	Bethlehem	Reading	Scranton	Wilkes-Barre	Easton
Moody's	Baa2	Baa2	Not Rated	Not Rated	Not Rated	Not Rated
S&P	BBB+	A-	Not Rated	BBB	Not Rated	A-

[26] For these calculations, debt per capita is the total general obligation and pension debt divided by 2006 population figures as reported by the US Census Bureau.
[27] Easton calculates its debt per capita using all GO debt less pension debt. Using Easton's mode of calculation, the true debt per capita is $622.
[28] Lancaster calculates debt per capita as Easton does. The Lancaster debt per capita using this calculation is $1,157.
[29] Moody's information is taken from the latest rating issued for the City of Allentown.

In determining a municipality's underlying credit rating, the key factors that ratings agencies consider cover four primary areas: economy, debt, finances, and administration/management strategies. In 2002, Fitch Ratings published a report of best financial management practices for governmental debt issuers. These twelve practices, listed at left, encompass the four primary areas considered in the determination of an issuer's credit rating.

Best Financial Management Practices for Governmental Issuers

- Fund balance reserve policy/working capital reserves
- Multiyear financial forecasting
- Monthly or quarterly financial reporting and monitoring
- Contingency planning policies
- Policies regarding nonrecurring revenue
- Debt affordability reviews and policies
- Superior debt disclosure practices
- Pay-as-you-go capital funding policies
- Rapid debt retirement policies (greater than 65% in 10 years)
- Five-year capital improvement plan integrating operating costs of new facilities
- Financial reporting awards
- Budgeting awards

Source: FitchRatings, "The Twelve Habits of Highly Successful Financial Officers", 11/21/2002

While a city's economy is probably the least controllable of the four areas, it is critical to credit analysis because the economic base ultimately generates the resources that repay municipal debt. Indicators of economic growth include retail sales, building permits, and employment data. The Lehigh Valley is outpacing other Commonwealth metro areas in its population and economic growth. In addition to these measures of economic base growth, rating agencies also analyze demographic data such as the socioeconomic characteristics of the resident population.

Rating agencies also consider debt structure. Important attributes include the amount of outstanding short-term debt, reliance on variable rate debt obligations, and overall structure of debt service payments. The rate of principal retirement within 10 years is one measure of the city's ability to pay. Allentown retires 73 percent of its general obligation debt over the next 10 years prior to the refinancing or refunding. This is good performance according to S&P which states in a 2004 review of public finance criteria for GO debt that "an average maturity schedule for capital projects is one in which 50 percent is retired in 10 years." Given the importance of this ratio, the City should monitor it when structuring its future bond issues.

Another important criterion reviewed by bond rating agencies is the percentage of General Fund expenditures allocated to principal and interest payments for outstanding debt. Public sector finance experts and bond rating agencies generally believe that city debt service set at 10 percent or less of expenditures is acceptable. Excessive debt, perhaps as much as 15-20 percent of annual expenditures, is seen as risky and as a precursor to financial difficulty particularly in cities where the tax base is declining or stable. S&P's 1999 report titled "Benchmark General Obligation Ratios" identifies "moderate" ratios of debt service to operating expenditures to be around 10 percent, while categorizing ratios over 15 percent as "high". The City of Allentown's debt service ratio for 2008 is 10.3 percent, which would be considered moderate.[30] However, by 2010, the City's debt service ratio will be "high" at 13.4 percent.

[30] Debt service ratio is calculated by dividing the total debt service payment for the year by the General Fund expenditures. The General Fund expenditures figure used for this calculation is the expected General Fund expenditures before the application of any initiatives listed in the Five Year Plan Update.

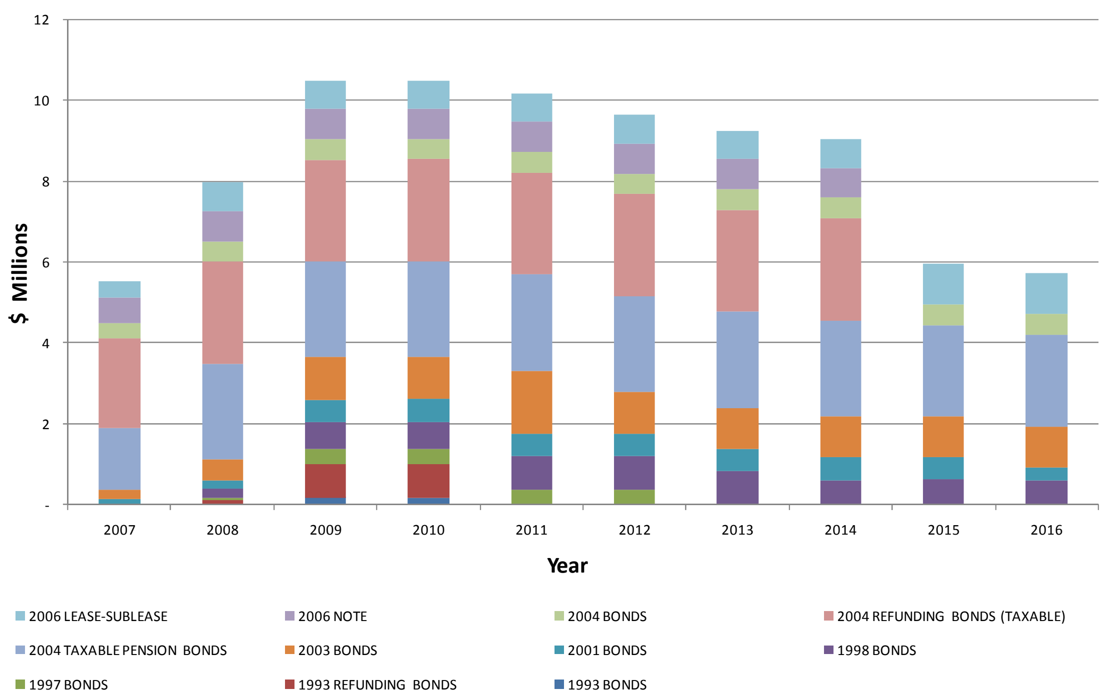
Rating agencies look at more than just the year-end financial statement, also examining examine trends in financial performance, management, and control. Therefore, the city's ability to budget effectively, its spending and growth policies and the potential use of surplus and shortfall contingency plans all affect the city's credit rating. Another important financial statistic monitored closely is the general fund balance as a percent of revenues. This ratio helps measure the potential reserves available to fund unforeseen circumstances.

Finally, rating agencies consider administrative factors such as a city's organization, division of responsibilities, and professional staff. Agencies analyze whether a city has adopted sound financial policies and multi-year planning, and whether they have accurate financial reporting and effective debt management.

Initiatives

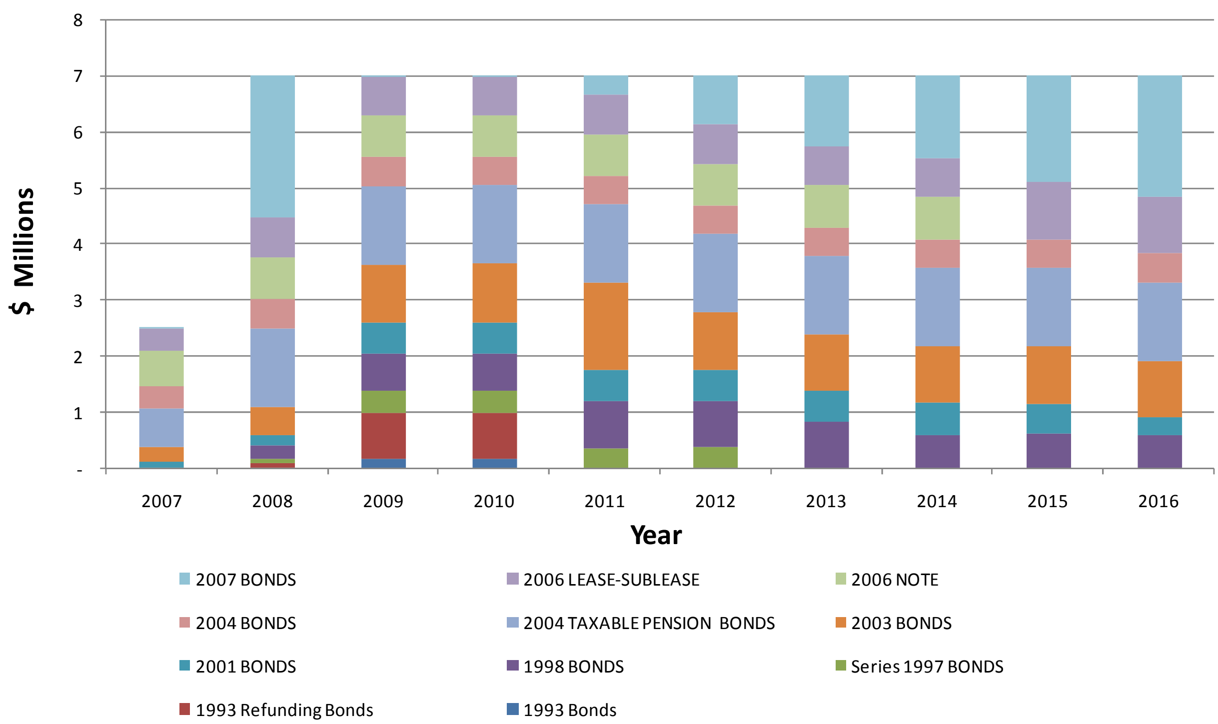
As shown earlier in this chapter and described in Allentown's first EIP, the City's debt service is scheduled to increase by $2.5 million to $10.5 million in 2009. Debt service will then average $9.7 million for the next five years before dropping to approximately $6.0 million in 2015. The City's debt structure for 2007 – 2016 is presented in the chart below.

Debt Service, 2007 – 2016



In response to this ominous debt service scenario in which the City faces a stretch of very high debt service payments, the City plans to restructure its debt through an advanced refunding. Instead of paying $9.7 million in average debt service for the next five years, the City would pay $7.0 million per year in average debt service. Annual average debt service relief from this restructuring is approximately $2.57 million for 2008-2014, with aggregate relief of approximately $18.0 million over this period.

Debt Service with Refunding, 2007 – 2016



At the time of these projections, the reduction in debt service and total expenditures generated by the refunding was scheduled to begin in 2007. With that reduction, the projections show a small operating balance in 2008, deficits in 2009 and 2010 and growing balances in 2011 - 2013. If the restructuring did not move forward according to this assumed schedule, the projected impact would have to be recalculated.

Scenario 2: Baseline with Debt Restructuring[38]

	2007	2008	2009	2010	2011	2012	2013
Total Revenues	75,550,403	76,237,079	78,276,374	81,395,795	85,348,964	88,647,179	92,036,995
Total Expenditures	71,176,173	76,216,004	79,147,176	81,698,674	84,382,195	87,271,219	90,320,180
Operating Balance	**4,374,230**	**21,074**	**(870,802)**	**(302,879)**	**966,769**	**1,375,960**	**1,716,815**

Beyond this specific refinancing, the City should also establish stronger policies related to debt service including:

- Developing guidelines for the General Fund: Ideally annual total debt service should not exceed 10 percent of General Fund expenditures. The City should monitor this ratio and focus on keeping this percentage close to 10 percent. Under the baseline projections, the City of Allentown's debt service ratio for 2008 is 10.3 percent but it rises to 13.4 percent by 2010.[39]

- Setting guidelines for the fund balance: The fund balance should be maintained at a level of 3.0 to 5.0 percent of General Fund revenues. Without the restructuring, the City is projected to have a $939,000 operating shortfall. The planned restructuring is projected to create a very small balance ($21,000 or 0.03 percent) but additional changes are needed to reach the 3 – 5 percent benchmark.

- Increasing the rate of retirement of principal: Under the restructuring, the City would retire 37 percent of its debt over the next 10 years. Fitch recommends that municipalities retire 65 percent of debt over a 10-year period. The City should monitor this ratio as it considers further debt restructuring.

In addition to adopting financial standards that establish allowable amounts of debt and debt service, the City should also consider adopting formal debt issuance and management policies. For example, the Government Finance Officers Association (GFOA) recommends that municipal issuers "avoid using a firm to serve as both the financial advisor and underwriter of an issue because conflicts of interest may arise."

Many governments also have established policies on the savings necessary to trigger bond refunding. For example, bonds selected for refunding may be required to produce a minimum net present value of savings on 2-3 percent (refundings undertaken for special restructuring or covenant changes could be exempt from the threshold). Others have required that most or all

[38] This baseline also includes the previously discussed new casino revenues and the addition of 13 police officers.
[39] Debt service ratio is calculated by dividing the total debt service payment for the year by the General Fund expenditures. The General Fund expenditures figure used for this calculation is the expected General Fund expenditures before the application of any initiatives listed in the Five Year Plan Update.

bond sales be competitively bid, and that all refunding escrows should be bid competitively on a maturity-by-maturity basis.