

## **2015 BUDGET ADDRESS**

J. Richard Gray, Mayor – City of Lancaster  
November 25, 2014

In accordance with the Third Class City Code, it is my duty to propose for your consideration and review General Fund and Enterprise Fund Budgets for Fiscal Year 2015. Our goal as elected officials and as a community is to maintain the vibrancy of Lancaster and to sustain financial stability. The proposed 2015 Budget reflects our on-going commitment to provide high quality services to our residents while preserving our City's long-term financial viability. I present a budget for 2015 that maintains police and fire personnel at levels that continue to provide a safe environment in Lancaster. Because of a number of factors, we can only do this with an increase in the one source of revenue the General Assembly has given us the legal authority to adjust, property taxes. Therefore, I am proposing a tax increase in the 2015 Budget of .98 mills. This is a 7.5% increase and will amount to an increase of \$74 for the average city homeowner

For 2015, my proposed General Fund Budget includes total expenditures of \$52,668,000, reflecting an increase of 4.5% from the 2014 budget. Pension and public safety costs continue to drive increases in our General Fund Budget expenses. In 2015, the City's total pension costs will increase by nearly \$1 million dollars, with more than \$850,000 of that increase in the General Fund alone. In fact, pension contributions will consume 12 percent of next year's General Fund budget revenues.

Overall, costs for the Police and Fire Bureaus account for 65% of General Fund expenses in our proposed 2015 Budget. Property taxes continue to be our major source of revenue and represent 50% of the City's income. Consequently, property taxes do not generate enough revenue even to cover the cost of police and fire services.

As I have said in prior budget messages, Federal, State, and County policies continue to undermine the City's financial stability and threaten our ability to provide vital services. On the Federal level, we anticipate that cuts to the Community Development Block Grant Program will continue into next year's Federal appropriation. These CDBG funding cuts threaten to negatively impact our neighborhood revitalization efforts, including lead paint abatement, critical home repair programs, housing inspections, police overtime, and street paving.

At the State level, we, along with our sister cities, have asked the Commonwealth for relief and reforms. We have asked for relief from our over reliance on property taxes as a method of funding local governments. The time has long past when the mere ownership of property equates with an ability to pay an ever increasing share of the costs to provide necessary government services. And yet the General Assembly's failure to enact tax reform has forced property owners to bear most of the burden of funding police, fire, public works, schools and county government. Though we and many others have asked those in the state government to work with us to reform this system, the General Assembly appears to be unable to compromise to allow reasonable alternatives to property taxes

In addition, the exemption of between one-quarter and one-third of our property base from any tax results in those who must pay shouldering an ever greater burden. Further complicating this problem, the delay by the County in reassessment has led to regular reductions in the valuations of larger commercial properties; as a result, two thirds of the growth in our tax base since 2006 has been lost. At current tax rates, these downward reassessments have resulted in a loss of more than \$500,000 in annual revenue to the City.

As we all know, lack of tax reform isn't the only problem we face. As I noted earlier, our state mandated pension obligations will increase by nearly \$1,000,000 in 2015. In the last decade, our pension obligations have more tripled – increasing from \$1.9 million in 2006 to nearly \$6.4 million in 2015. If our pension obligations were the same in 2015 as they were when I first took office in 2006, I would be presenting you with a budget that cut property taxes by nearly 20%. Instead, these rising pension costs are the driving force behind the tax increase I am proposing.



Here too we have asked the General Assembly for some meaningful reforms. As in other reform efforts at the state level, pension discussions have been mired in partisan disputes. Though proposals have been made which would begin to address the long term funding of local pensions, I am sorry to say that my party has been less than helpful in addressing these problems or in putting forth suggestions for solutions.

These failures to act leave cities such as Lancaster with very difficult choices. Most of our spending is on personnel. Most of our personnel expenditures are for public safety. If we want to cut personnel costs we must cut public safety personnel. In view of the fact that our current staffing of the Bureaus of Police and Fire provide a level of services to assure public safety, under current circumstances I am unwilling to reduce that personnel.

Our relationship with our bargaining units, representing our municipal workforce, has shown that they too appreciate the fiscal precipice on which the City rests. Negotiations with AFSCME and police bargaining units have resulted in mutually beneficial contracts which are fair to our employees and to the public. Similarly, negotiations with the firefighters union are moving towards a fair resolution. To all of these public servants, we owe a debt of gratitude and we must continue to recognize not only the substantial costs of the provision of these services, but also the substantial good provided to our community by the Police, Fire, AFSCME and management employees who provide those services.

Lancaster has been an exception to the current problems plaguing Pennsylvania cities. York is in a crisis where it has proposed that 47 police officers, close to half of its police force,

be laid off. Lebanon is facing a twenty-eight percent tax increase. Scranton's 2015 budget includes a nineteen percent tax increase. Harrisburg has teetered on the edge of bankruptcy, and Reading's severe fiscal problems caused it to declare Act 47 distressed status in 2010.

The fact that Lancaster is currently fiscally sound is not by accident. In fact, the City's fiscal condition today is the result of our decision nearly a decade ago to be honest with taxpayers and to increase taxes incrementally as needed. Imagine where we would be today had we instead chosen to spend all of our reserve funds – our savings -- and sell all of our assets to avoid raising taxes. The result of the difficult decisions we've made in partnership with City Council are clear. We have the highest bond rating of any city in Pennsylvania. We have a reserve which we continue to maintain for use in budgeting. And we have preserved vital services for our residents, businesses and visitors.

That said, if there are no reforms from Harrisburg our ultimate fate can be foretold by looking at the condition of other Central Pennsylvania cities. We may be an exception to the rule right now, but unless the state government begins to take non-partisan action, based on an objective view of the facts we face, Lancaster will no longer be that exception.

It has become increasingly apparent that the future of our nation resides in small cities like Lancaster. Yet in Pennsylvania, cities are struggling to survive. In Lancaster, this isn't happening because of failed local leadership or complacent residents. My administration, in partnership with local business leaders, has laid out a policy reform agenda. And our residents have spoken clearly to us - and to state lawmakers in Harrisburg - about the need to strike a balance between providing necessary services and overly burdensome taxes. In short, Lancaster has done its part. Now the state government needs to do its part too.

The policy agenda laid out in our Municipal Finance Task Force Report, "Prosper or Perish," must be given full consideration and be subject to fair debate. Harrisburg lawmakers must put aside regional differences, partisan squabbles, and the narrow demands of special interests to ensure that Pennsylvania cities are ready and able to participate in that bright future for small cities. We stand willing to work together for those goals for the good of both Lancaster and Pennsylvania.

J. Richard Gray  
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