

CITY MANAGER BUDGET MESSAGE--FISCAL YEAR 2009 PRELIMINARY BUDGET

City government operations are undergoing a transformation. This year, we enlisted Fairmont Capital Advisors, Inc. to conduct an in depth analysis of the Coatesville's financial performance over the past seven years and forward looking projections for the next five years. The Five Year Forecast has been presented to City Council and the Administration with different scenarios to understand the impact of different assumptions and events. One aspect of the study was to uncover ways for adjusting operations to either improve revenues or to reduce expenses. These recommendations have resulted from the study of best practices in other municipalities where improvements have been made. The administration will be adopting these recommendations in order to improve the delivery of service and the more efficient allocation of resources. I am confident that the effective implementation of the study recommendations will result in more efficient operations.

At the County level, we look forward to a more effective working relationship. We have identified areas of goal congruity, areas where the City's aspirations coincide with those of the County and open the door for constructive dialogue and joint operation. The administration looks forward to working closely with all of the Commissioners who share my belief that a thriving and successful Coatesville is key to preserving Chester County's open space goals. We will work with the County Commissioners and administrators to find a more equitable way to share the burden of so many tax-exempt and under assessed properties within Coatesville.

This evening, I am presenting a Preliminary General Fund Budget of \$9,649,145 – a 5% decrease over the FY 2008 budget. This Budget proposal reflects the goals and priorities of City Council for limiting the tax burden on taxpayers; sustaining and improving operations; and resisting our reliance on reserve funds to balance the City of Coatesville budget. The preliminary budget does not propose any increases in City taxes. However I will be asking City Council to consider a \$10.00 increase in solid waste fees to compensate for inflationary pressures on solid waste costs. This will help close the gap between solid waste revenues and expenses; it is also in line with guidance from both Fairmont Capital Advisors and the City's auditors. In order to minimize cuts in services, continue the revitalization effort and ensure a balanced budget, the administration is recommending a loan of \$1.1 million in anticipation of future sales of fixed assets.

General Fund Revenues

Earned Income Taxes are projected to surpass real estate property taxes as the largest single category of revenue to the City and are projected to increase nearly 125% from \$2.4 million this year to \$3.0 million in 2009. Real estate taxes, the traditional largest category for most municipalities, are projected to remain flat at \$2.5 million in 2009. Interest income from the reserve trust fund is the third largest source of revenue and is projected at \$1,000,000 for 2009. All other sources of revenue come to \$3.5 million and are projected at 33% of total revenue.

Maintaining and Improving Operations

Personnel salary and benefit expenses are projected to account for 66.0 percent of total General Fund expenditures in 2009. In 2009 salary expenses increased by 11% over the 2008 budget. The proposed 2009 General Fund budget includes 42 non-uniformed employees and 44 uniformed personnel including part-time firefighters but not including seasonal employees. Since I took office, we have hired 6 new firefighters and 11 new police officers to fill vacancies caused

by retirements of uniformed employees with decades of service. In 2009, benefits will increase by almost 6 percent, driven by Police and Fire Pension costs and, to a lesser extent, health insurance. Operating Expenditures are forecasted as flat compared to FY 2009 due to reductions in contracted services and liability insurance offset by increases in payroll and employee benefits. The City will pay \$275,000 in General Obligations Bond debt service in FY2008 and expects to pay the same amount in FY2009.

Reserve Trust Fund

Since 2002, the City has relied on its Reserve Trust Fund to balance the budget. According to the Fairmount Capital Advisors analysis, Coatesville would exhaust these reserve funds by the end of 20XX. Instead, last year we began to reduce our reliance on savings to balance the budget. We began 2006 with a budgeted \$5 million deficit and ended that year with a roughly \$2.5 deficit. The FY 2006 budget needed to use approximately \$5.1 million of Reserve Trust Funds to balance the budget. We started 2007 with a budgeted deficit of \$ 900,000 which was filled by a one year sale of fixed assets (the A. Duie Pyle property). In FY 2008 we projected a year-end deficit of \$1.3 million which was to be filled by the sale of fixed assets. This sale is still being pursued but may not occur until FY 2009 and so has been conservatively budgeted as such. This preliminary proposal does not project the use of reserve funds to balance the 2009 General Fund budget but may have to do a short term not if assets sales are delayed. The administration will continue to aggressively explore opportunities to reduce the use of the Reserve Trust Funds going forward.

Taxpayer Burden

Coatesville is burdened by one of the highest real estate taxes in Chester County—most of which is paid to the Coatesville Area School District. The only tax that the City can control by Commonwealth law is the City Property Tax. In 2008, this tax generated only 25% of our general fund revenues, while the cost of salary and benefits for police and fire alone accounted for over 50% of our expenses. In other words, the City property tax did not even cover the costs of providing public safety services. A principal reason for the insufficiency of the real estate tax is the concentration of so much tax exempt or under-assessed property within the City. The City is blessed by a plethora of churches, social service organizations, and public educational institutions but they do not pay real estate taxes although they require city services. Coatesville's historic steel mill once provided the City with over a million dollars annually but now generates less than \$60,000 a year due to under assessment. Based on our research, the Administration will be exploring a PILOT (payments in lieu of taxes) program by City non-profits to limit the burden on taxpayers. We will also be working with legal counsel to explore options for a fairer and more equitable assessment of City properties. Finally, next year we will propose changes in City fees for special services upon completion of a fee study currently being undertaken.

Closing Comment

This evening is the beginning of a process where the City Council, citizens and the administration will work together to adopt a final budget for 2009. A large part of the budget process is to probe deeper into the assumptions, update the assumptions, answer questions of

City Council and find additional information Council members may require. Several budget hearings have been scheduled between now and the end of the year. The administration looks forward to examining this budget more closely with City Council as we move toward final adoption.

Harry G. Walker
Monday, November 10, 2008