

155 W. Connelly Blvd
Sharon, PA 16146

cityofsharon.net



P: (724) 983-3232
F: (724) 983-1961
citymanager@cityofsharon.net

October 31, 2014

Sharon City Council
155 W. Connelly Blvd.
Sharon, PA 16146

RE: SUBMISSION OF 2015 PROPOSED OPERATING BUDGET

Dear Members of Council:

The Home Rule Charter requires that on or before the 60th day prior to the beginning of the [year], the City Manager shall submit to Council a budget for the ensuing year and an accompanying message." This letter and attached budget are meant to fulfill that requirement.

The Home Rule Charter says that "the total of the *proposed* expenditures shall not exceed the total of estimated income..." As such, the budget I am proposing is a balanced one, with revenues and expenses equal at \$8,386,557. The 2014 budget was roughly the same dollar amount as the 2013 budget because great strides were made in cost-savings, especially in the areas of healthcare. Between 2013 and 2014 the city was able to control its expenses and keep the budget from inflating because of healthcare. As we head into 2015, we are seeing our healthcare savings evaporate and there are huge increases once again in our pension obligations. These costs combined with several other factors are the reason why our estimated expenses are over \$500,000 more next year than 2014's. The increased costs require additional revenue, or cost cutting in other areas.

The City of Sharon expects a 30% increase in healthcare premium costs in 2015. What started as a 38% increase in Highmark Community Blue *may* be "lowered" to 30%. Even that discount is not carved in stone. The City has explored several other health insurance carriers to little avail. At this time, there is only one other carrier (United) that is being explored. Our anticipation is that United's cost will reflect an increase that is about 30%. Because of changes to Highmark's plan, the city has little choice but to institute United next year. Starting in 2015, should the city remain with Community Blue, we could be balanced billed by UPMC for patients who seek care there out of network. The cost exposure is unlimited and could be tremendous. Almost all of the departmental increases are due to the increases in healthcare and pensions.

Almost every departmental budget is expected to increase expenses in 2015. These increases are primarily related to healthcare and pension. In addition, there are contractual wage increases next year. AFSCME will receive 1.5%, Police receive 2% and Non-Union employees are budgeted to receive 2%. Fire has a contractual wage freeze for 2015, but the budgeted overtime for 2015 far exceeds the cost of any wage increase.

This budget proposes a 2.49 mill real estate tax increase. Based on an 87% collection rate, the additional revenue will generate approximately \$250,000. The revenue is needed to operate the city and meet our increased costs. \$50,000 of it will be designated as capital improvement contribution funding. \$200,000 of it is funding the services that the City of Sharon is providing. If anything, it can be said that the additional revenue is funding pensions and healthcare, because those are the items that are increasing and necessitating additional revenue.

The Charter *requires* a balanced 1st draft budget. It is not possible to balance the budget and maintain service levels without increasing revenues in 2015. The alternative to the proposed tax increase would be to propose a budget that shows reductions to staffing, which may be as equally unpalatable as taxes. In addition, only a major structural change or a higher tax will provide the funds necessary for a meaningful capital improvement program. It is up to the public and elected officials (of all the taxing bodies) to decide the wisdom of the tax structure in Sharon and what services should be funded, and at what levels.

Real Estate Taxes & Act 511 Taxes:

The budget proposes real estate tax millage of 32 mills, which reflects a 2.49 mill increase. The county has provided a tentative real estate valuation for Sharon of \$110,049,150. At 32 mills and an 87% collection rate, I am anticipating real estate tax collections to be just over \$3,000,000 in 2015. I have also increased our estimated 2015 current EIT collections by \$150,000. The city has been collecting significantly more in current EIT than it had been projecting, so the increase to the projection has a basis. Having said that, it would be unadvisable to increase the projection until 2015 goes by and the collection total can be reviewed. Real estate and Act 511 taxes comprise 82% of the city's total operating budget.

There are not significant changes proposed to the remainder of the revenue side of the operating budget. For the most part, revenues that are shown for 2015 are the same as or very close to estimates for 2014, with some exceptions. Of note are the following revenue items:

- \$15,000 increase to the building permits category
- Estimated State Aid for pensions is kept at \$391,000 (no change)
- Increase in the estimated Employee Contributions towards health insurance premiums
- \$20,000 reduction from Liquid Fuels Reimbursement. The state recently instituted a minimal increase in the city's liquid fuels allocation. The funding should be used towards road repairs and road equipment. My strategy is to continually leave more of the funding in place for paving and repairs. In addition, the city is seeking PennDOT funding for improvements to traffic signal controllers and the Liquid Fuels funding can be used as a match for PennDOT's grant dollars.

Nearly every departmental budget will increase next year, mostly due to health care and pension increases.

Fire Department: 12% Increase. 13 Officers and 1 Chief of Code and Fire

More than any other area of the city's budget, the fire department has the most potential for cost savings. Slow and gradual changes are not the best answer to this department but unfortunately, those are usually the answers that governmental entities are best equipped to provide. In order to avoid future shortfalls and to fund a meaningful capital improvement program, a fairly radical approach should be considered, and soon. The capital needs cannot continually be placed on a backburner in order to fund the service. Each year, almost \$1 million in funding is being allocated towards the service when those same dollars could be used to pave roads and improve quality of life in Sharon. That assumes that Sharon could fund a fire service of \$700,000 annually. While a conceptual plan to overhaul fire services ultimately failed to gain support in 2014, the discussion represented the most headway Sharon has made on the issue in many years. It also served as a way to have an early discussion about the budget, which is usually done in November.

The budget is moving in the wrong direction and the city is paying a premium for the service, at the expense of many other services and improvements. Next year budgeted overtime costs will

quadruple with no apparent benefit to the citizens or the service itself. As part of a plan to begin putting the department on a new footing, I am also proposing to eliminate the position of Fire Chief, in favor of a new position of Chief of Code and Fire. The new position will encompass the duties formerly assigned to the Fire Chief, along with the duties of Code Director and Emergency Management Coordinator. The new position will save the costs that had previously been associated with Code Director and Emergency Mgt. Coordinator. In addition, if the city can acquire the proper license, the responsibility of Health Officer could fall under this position as well.

Police Department: 15% Increase. 27 Officers, 1 Chief and 1 Clerk

The increases in the police department budget are related to Pension, Healthcare and wage increase (in order of severity). Aside from the costs of employment, there are no significant expense increases projected for this department's budget.

For 2015, the police chief is proposing to eliminate one (1) clerk position from the budget in favor of adding one (1) patrolman. Some functions that had previously been performed by a clerk would now be completed by an officer who would manage his time between the desk officer function, and the patrol. It is my expectation that during the upcoming budget hearings that the police chief will provide more information about his plan and why he is requesting it. As a general proposition, funding that would be used to fill a clerk position in the department is being shifted in order to field another fulltime officer.

The police and fire budgets represent well over ½ of the city's total operating budget. After these two departments are accounted for, there remains approximately \$3.5 million, which must fund vehicle maintenance, debt service, street lighting and administrative costs.

Street Department/ Vehicle Maintenance: 0% Budget Increase. 1 Mechanic, 1 Foreman and 4 Laborers.

I have included \$25,000 for winter help and \$25,000 for summer help in these budgets. There are no increasing in staffing proposed for this budget in 2015.

Debt Service: You may notice a significant reduction in the bond principal payments the city is expected to fund next year. What the city will save in principal, it will pay out in interest. The total of what is paid out in debt service does not significantly change overall next year. The only

change is that while our principal bond payments are reducing, our interest payment is increasing by a near-equal amount.


Insurances:

Of note is the fact that in 2015, there is no increase to our worker's compensation or liability policies.

This budget process began in August 2014 during a discussion about public safety. At the time, I did not anticipate 30% health insurance increases. My expectation was to see healthcare increases that were in single digits and propose a balanced budget with no increases to the millage. After many, many hours of considering every possibility, it was only with great reluctance that I settled on recommending a real estate tax increase to the Council. To present an unrealistic financial picture, deflate expenses or to increase revenues to unrealistic levels to balance a budget will not do the city any good in the long run.

If it is the Council's desire to avoid a millage increase, \$250,000 of expenses must be removed from the attached budget. There is no way to remove \$250,000 from the expense side without reductions in the services the city provides.

Sincerely,


Scott Andrejchak
City Manager