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City Council
155 W. Connelly Blvd
Sharon, PA 16146

Dear Members of Council:

Attached is a general operating budget for 2016. The Charter requires that the budget be submitted to Council on or before October 31st of each year. Once received by Council, the budget is to be posted on the city's website and several hearings are to be scheduled before adoption. My intent is to determine the budget calendar at the upcoming workshop meeting.

The proposed 2016 budget totals \$8,294,276, which is \$108,595 larger than the 2015 budget. The budget contains a contractual 2.5% wage increase for police and fire, a 2.5% increase for non-union employees and a contractual \$1,200 payment for members of AFSCME. The total cost of wage increases next year for all three bargaining units and non-union employees is approximately \$67,000. In addition, all employees will share the cost of healthcare by contributing 15% of the premium cost next year.

With only a few marginal differences, the 2016 operating budget is nearly identical to the operating budget of 2015. The 2016 budget proposes no increase in real estate taxes. However, the fact that there is no increase in real estate taxes is not necessarily a cause for celebration and I would invite the public and Council to read the rest of this message and review the budget to make a decision as to whether this budget is truly best for Sharon at this time.

The challenge of the 2016 budget is balancing operational expenses with the desire to dedicate money towards reconstituting a much-needed capital improvement program. The budget I am presenting makes reductions in the staffing compliment in Police, Fire and Streets in 2016 as a way to free up funding for capital expenses. The alternatives to that approach are: 1) a budget that keeps the positions, but contains a millage increase for capital improvements or 2) a budget that keeps the positions but contains no budgeted-for capital contribution at all for the 2nd year in a row.

It is up to the City whether to fund capital and how best to fund it. In my view, it can only be funded by tax increases or by drastically cutting expenses. Even borrowing to cover capital will require room in the budget on the expense side for debt service. In looking at the current budget, hundreds of thousands in debt service will not fit into the expense side without first reducing expenses to offset it, or without additional revenue.

Borrowing funds for capital only leads the city back to the dilemma of raising revenue or reducing expenses. However, if the City does not begin to fund capital soon, then there is little sense believing that the city will be able to tackle road resurfacing, or provide the equipment needed for departments to meet their obligations. Any promise of capital expenses that is not accompanied with greater revenue or a dramatic reduction in expenses is disingenuous.

There are three *unfilled* positions removed from the 2016 budget: one (1) unfilled fulltime fireman's position, one (1) unfilled fulltime police officer and one (1) unfilled fulltime street department laborer. Removing the positions allows the city to reallocate for a capital improvement fund contribution in 2016. The \$95,000 contribution in the first draft budget is a start, but it is still inadequate to meet all of Sharon's needs. In fact, the contribution should be closer to \$250,000 to make a dent in the list of capital needs that the city reviewed in the summer.


As stated, another option would be to implement a millage increase for 2016 and have the revenue designated for the capital fund. One mill generates approximately \$80,000. I did not propose the real estate tax increase because I do not believe it is likely to pass, nor do I believe it is intended to pass under the Home Rule Charter. After preparing five operating budgets for Sharon, it is my belief that the Charter favors a spending plan that cuts expenses as a way to balance the operating budget. The Charter requires a supermajority for real estate tax increases and it also requires that any increase in earned income tax rates be revenue neutral. When those two provisions are construed together, my conclusion is that the Charter intends for the city to cut expenses and staffing in order to balance and free up capital funds, unless the tax base (assessed valuations and working population) grows substantially.

Therefore, by eliminating positions, I believe I am giving the city the budget that the Charter calls for. It is not, however, the budget I prefer nor is it the budget that I believe

most residents might want. The residents of Sharon, through their elected representatives on Council, have to answer the question of what to do when expenses cannot be reasonably reduced any further, and whether modest real estate tax increases are a better option than shrinking departments to a point where they cannot meet their obligations to the residents. I submit that we have already reached that point in the Street Department.

The above is a synopsis of the larger, over-arching issues in the 2016 budget and an explanation for why I submitted the budget in the form that I did. However, there is more discussion to be had concerning each revenue category and department. I look forward to having that discussion at the upcoming budget hearings.

Respectfully submitted,


Scott Andrejchak
City Manager