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Lehigh County Financial Outlook 2010
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I want to thank all of you for being here this morning. Many of you have listened to me often give these updates and status reports in various forums on finances, the economy and state of governments at the city, the county and state level.

During that time, I've been fortunate enough to serve as a councilman and mayor in Bethlehem, a state cabinet secretary and now your county executive. And, all of you here – and many elsewhere – have been partners in the impressive growth and transformation of our Lehigh Valley during those last 15 years.

We join together today at a time when the daily drumbeat of news and commentary tells us this is the worst national economy of most of our lifetimes. We hear of diminished hope for average Americans. That our governments are out of control and we need to rise in anger at something, anything, someone.

There is no doubt these are difficult times. I'm not a national economic historian. I can't tell you if these are the worst of times in our nation. But, I can tell you that I've seen worse here. I remember as a teenager in Bethlehem the "black Fridays" at Bethlehem Steel in the early 1980s where tens of thousands of my dad's fellow steelworkers – along with Mack Truck workers – lost their jobs and unemployment was in the double digits. I remember as a young mayor in 1998 when the steel company closed and our city lost nearly 20 percent of its tax base within a year – where we muscled our way through budgets with less operating reserves than many of you this room have in your bank accounts. And, look at Bethlehem today.

I saw how the people of Bethlehem, Lehigh County and the Lehigh Valley responded during those times. How they weathered the storm. I saw how the leadership responded with plans for action, efforts for new economic development and a vision for a Lehigh Valley that would be better and stronger.

And, that is what we have today a better and stronger Lehigh Valley and Lehigh County.

I was not here for the Great Depression or World War II but the resolve of those who lived then was even tougher and unwavering. In much more difficult times, Roosevelt told us we had nothing to fear but fear itself. I think today that we have nothing to fear but making anger, whining and complaint our national - or local - policy.

There will always be challenging times. Budgets will not always be easy to balance. Things will not always go perfectly in life. I learned that at 14 when my mom died. It's not what happens to you in life that determines whether you succeed or fail; it's how you respond to it.

What we need today is sound leadership – across all sectors. Solid plans. A continued focus on tightening the belt, doing more with less, being good fiscal stewards while we find ways to grow our economy and improve our quality of life.

We are on a good course in Lehigh County. We remain strong – and, I believe, the future will be brighter. Times are a little tougher so it's a time for stronger leadership not louder whining. It's also not the time to raise taxes or dismantle the solid, responsible

foundation of limited but effective government that has been built over decades in this county by Republicans and Democrats alike.

Four years ago, I laid out a few simple principals that our Administration has lived by.

First and foremost, we need to give people a government that focuses on getting the basics done – doing it well – and at a good price. Our most sacred obligation is to manage your money.

Second, we need to invest in our public infrastructure and fix what is broken in an efficient and cost-effective way.

Third, we need to form partnerships to ensure positive economic growth and development while we protect our quality of life, farmlands and open spaces

Equally important, is the critical role of county governments to protect our at-risk children, our senior citizens and those among us struggling with mental challenges while at the same time operating courts, corrections, probation, parole and public safety operations to ensure a safe community that protects the law-abiding and punishes and rehabilitates those who don't.

County government is wide-ranging but the mission can be pretty simple and clear. Let me quickly review what we've done and where we are going.

I will present my fourth budget next week as your county executive. This year's budget in total was \$405 million. As most of you know, more than half of that is state, or federal money or budgets for the Cedarbrook nursing home that do not represent the spending of Lehigh County taxpayer dollars.

During the last four years, the county general fund spending to support our operations has grown by an annual average of just 1.02 percent. That's local spending growth of just a tick over one percent – for four years. And with the exception of a mandatory pension fund contribution outside our control and a quirky pay period issue – which I will explain in a moment – that includes the 2010 budget. One percent growth is well below the rate of inflation, yet I've heard some say Lehigh County has a spending problem. If this is a problem; it's a good one – and an unusual one – to have. My guess is that one would be hard pressed to find another county that for four years has averaged local spending growth of just one percent.

When I present my proposed 2010 budget next week, it will contain the smallest number of employees that this county has had since 1990. With the help of our judges, the district attorney, the sheriff, the clerk of judicial operations, the controller, the coroner all our administrative department heads and our labor unions, this county will have less employees than it had 20 years ago – yes, 20 years ago. I'm not sure that there's another government in the Lehigh Valley that can equal that statistic.

What that means is that all of our operations collectively – courts, corrections, human services, our nursing homes and elsewhere – have found ways to do more with less; increase productivity and deliver more services with less people. This has occurred despite a large increase in population during those 20 years, an increase in crime and lawsuits, murder investigations, an increase in people needing human services and an expanded role of county governments.

This was not done with across the board cuts to all departments but strategic realignments that shifted positions from where they could be eliminated to where they are needed. It also came from saying no to a lot of requests for growth and adding positions.

And, all but a few of the reductions we've made during the last four years have come through attrition without affecting an active employee. We've been in a permanent state of what Tom Muller, our great county director of administration, likes to call a hiring "frost" not a freeze, where every position that opens up is fully reviewed for need before it is filled. The credit for this rests solely with our sound fiscal managers and all of our employees, who are a dedicated group of public servants.

The 2010 budget I present next week, for my fourth straight year, will contain no tax increase. We don't need one and now is not the time to reach deeper into the pockets of businesses and residents who are working hard to re-establish their financial footing. Nor will the budget touch our cash reserves. In accordance with sound public finance principals, we will retain our full \$20 million stabilization fund, which is our only reserve or rainy day fund. This is a healthy level for a county our size. The budget will use the Tax Relief Fund that was created solely for the purpose of using tax dollars already collected to relieve us from raising taxes during challenging times. Just like we use our office supply fund to buy office supplies. This seems to bother some people – and while I don't know why – I pledge to you that I will veto any proposed tax increase while we already have your tax dollars sitting in a fund designed to avoid raising taxes. I did not create this fund. It was created under former Executive Jane Ervin and the previous Commissioners. We did, however, add dollars to it when times were good.

The 2010 budget I present next week, however, will be more challenging for those entities affected or helped by county government because it contains no net growth. As revenue growth has disappeared because of slowed economic development, losses in the market and declining interest rates, we've had to tighten the belt. With the exception of needing a large pension fund payment to make up for stock market losses and a strange Haley's comet-like employee pay cycle that comes around every 11 years, the 2010 budget will actually be smaller than this year's \$405 million budget. Employee raises not dictated by contract will be lower than years past and contributions to health care will increase. We will maintain but not increase our quality of life funding. We will reduce some operating funds set aside for the Green Future fund and there will be either no increases or cuts to important entities that we support like LANTA, the Planning Commission and the Conservation District. It's my hope that all of this is temporary but future budgets will depend upon future revenues and available resources.

Aside from limiting growth to one percent and utilizing our Tax Relief Fund, there are two major successes that allow us to manage increased labor, energy and general operating costs without raising taxes: a \$41 million avoidance of health care costs -- realized through aggressive and creative management -- and working to increase our state human services funding by \$35 million. That's a net positive of \$76 million.

There are some who are confused about the county's role in Human Services funding. The county administers programs that primarily are of the making and funding of the state and federal governments. For example, about \$170 million of our total budget is dedicated to Human Services, but only \$7.1 million of that comes from local tax dollars. The rest are pass-through dollars from the state and federal governments. We have aggressively held the line for four years on the amount of local tax dollars used to fund these programs. These programs should remain state funded.

The \$7.1 million we have devoted to Human Services is actually \$100,000 less than what the previous administration had budgeted but yet we've increased total state

subsidies for the department by 25 percent or \$35 million. That money has gone to good use, increasing child care subsidies for low income families, improving the quality of day care facilities and expanding programs for the mentally ill.

If the state changes funding significantly, services may have to be cut to very needy clients in our county. We don't expect this to happen. We have based our 2010 budget on last year's funding. I have, however, asked Tom Muller and Lynn Kovich, our director of Human Services, to develop contingency plans to handle a variety of potential actions by the state. This is one of the challenges of having the earliest budget cycle of any county or municipal government in Pennsylvania when our state elected leaders don't get their job done on time -- a luxury we don't have at the local level.

On a positive note in the area of state funding -- and one that could have huge financial implications for years to come -- the Supreme Court of Pennsylvania recently ruled that the state is required to fund its obligation for county court operations. If the state complies, that translates to \$26 million for Lehigh County, costs that are currently borne by local taxpayers. That could preserve our Tax Relief Fund well into the future.

The reality is that on average 70 cents of every dollar that we spend of county taxpayer money goes to what we call Law and Order -- the operations of the Courts, the District Attorney, the Coroner, our jails and juvenile detention centers and our anti-crime and anti-recidivism efforts. Unfortunately, this is also a growth business. It is by far the biggest cost in our budget. But, I believe it's the core function of every government to keep our communities safe.

That's why we've worked so closely with District Attorney Jim Martin and the police chiefs from 17 departments on new initiatives. That's why we created a Safe Streets Program and awarded \$1 million in matching grants to seven municipalities to hire 10 additional police officers to patrol high crime areas on foot or bicycle. We are the only county in Pennsylvania to do this -- and it's helping our local governments to draw people to our downtowns and make our neighborhoods safer. Not only are we providing money to beef up police patrols we're helping officers be more effective at their jobs.

At the behest of DA Martin, we created a Central Booking Facility to process all bookings in Lehigh County at no cost to municipalities. This allows police officers to get back on the street quickly instead of spending hours mired in paperwork.

We've granted money to our local police departments to create a common records management system that will allow for a Regional Crime Data Center, the first of its kind in Pennsylvania -- where crime data will be analyzed in real time across all police departments, creating a virtual county-wide crime information operation.

It's also why we built a brand new state of the art 9-1-1 Communications Center to dispatch emergency responders across the county. I believe that the county needs to be a partner in centralized public safety initiatives that lend a helping hand to local governments in combating crime and creating safer communities.

Obviously, no one foresaw the economic slowdown that started in 2008 but it was very fortuitous that we moved so quickly to do so much starting in 2006. As the farmers say, we made a lot of hay while the sun was shining. We've reaped the benefits of prudent planning and being aggressive.

The Lehigh County Courthouse is a great example. For forty years it leaked. Within this Administration's four years it will be fixed and expanded. We shaved more than \$20 million dollars from the inherited project while still maintaining a design

befitting the solemnity of a courthouse and giving employees and visitors a proper working space. The project is on budget and ahead of schedule.

And, roughly \$12 million of savings realized through the courthouse project has been redirected to replace or repair 22 of the county's aging bridges. This is a significant capital investment into infrastructure that allowed us to open four bridges that were sitting closed four years ago. In December, we will open the Linden Street Bridge here in Allentown, a main thoroughfare into the heart of Allentown. And, by using our resources, we will have done it at least three years faster than if we had waited for the state.

We may be in a recession now but during the last four years, 30 new large employers have moved into the Lehigh County, creating thousands of new jobs and \$1.5 billion in investments. In addition, 20 companies expanded operations. Unfortunately, it's usually the cuts and closings that grab the headlines. Next year's budget shows a small sign of economic growth over this year. We expect about \$1 million in real estate tax growth, a small amount, but much better than this year's no-growth

On the recreation front, we built this -- Coca-Cola Park -- home to our Triple-A Iron Pigs baseball team -- and it was done without using real estate tax dollars. Instead, money generated from the county's hotel tax and state grants paid for its construction.

We've invested millions of dollars to preserve open space and farms from development in our rural townships. By the beginning of next year we will have preserved 20,000 acres of farmland. Today, Lehigh is the third ranked county in our state for preserved farms. We've expanded the Trexler Nature Preserve to include miles of new trails for hikers, bikes and horse back riders. This is the same property that holds the Lehigh Valley Zoo, an educational gem that attracted a record number of visitors this summer. In jeopardy of closing, the county stepped in with small annual grants to keep the zoo from closing, just as previous leaders had made commitments to the world famous Trexlertown Velodrome.

We remain committed to the county's tradition of contributing a small amount of quality of life funds to cultural institutions, assisting our arts and cultural facilities and supporting the improvement of our downtowns and main streets.

We're also helping families with children who are autistic and directed \$1.7 million in state funding for an Autism Research Community Hub, the first county to do so in Pennsylvania.

We've also invested to make our facilities more energy efficient, conserving energy and dollars. By the end of the second phase, all our facilities will have been overhauled; replacing windows, light fixtures, upgrading cooling and heating systems and making other improvements that are expected to slash energy consumption by 20 percent, which would avoid \$1 million in energy spending. In addition, we are using federal stimulus funds to install solar panels on the roof of the government center and new courthouse addition, which will provide more than 10 percent of the energy for those buildings at no cost to county taxpayers.

We've done this all -- and much more -- while creating a government workforce that is the same size that it was in 1990 -- and holding the average growth of general county operating spending the last four years to just over one percent per year. I would say by any measure that we are getting more for less and keeping the belt tight.

And, we certainly have to. Losses in the market have tripled our contribution to the pension fund in two years -- going from \$4 in 2008 to \$12 million in 2010. In the last

two years, the slowdown in the real estate market has caused a loss of \$4 million in increased tax revenues and recording fees. And the slippage of interest rates caused a loss of \$3 million in investment earnings for 2010.

That's why keeping government tight and utilizing the tax relief fund has been vital to weather this economic recession. I remain optimistic about the future. We don't know what future years will bring. As we look ahead to 2011 and beyond we know our one-time cost of \$4.3 million for the extra pay will disappear. The stock market has improved 20 percent since January – any continued growth will reduce our unusually high pension fund contribution of next year. Any positive turn in the real estate and development market, leads to a reduction of the losses we've seen in tax growth. A rebound in interest rates to the traditional 4 percent level restores our earnings on investment income.

And, of course, if the state complies with the Supreme Court order and meets its obligation to fund some court operations, we will be able to restore the Tax Relief Fund.

We know not what tomorrow holds but we are managing well today. The state of our county government is very sound – probably more sound than most of the other 66 counties in this state – and I believe that just as we've weathered other economic challenges in the Lehigh Valley we will do so again. There is a bright tomorrow on the horizon.

History has shown us time and again that Americans are galvanized during upheaval. But we can't whine and complain our way out of it. We must lead our way to a brighter tomorrow, as we have done before. Our finest moments as a nation have always sprung from our most difficult times, just as they have here in the Lehigh Valley.