

Lehigh County Executive  
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Financial Outlook Presentation  
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It's a pleasure to have all of you here today to listen to my comments on the financial outlook for Lehigh County's government. The crowd is a bit larger than my previous addresses so I could surmise that I am more popular than ever before. And, what a wonderful supposition it would be. But, as I've learned from the record-breaking attendance at my recent news conferences, bad news announcements are the equivalent of a traffic accident. They simply get more onlookers than a free flowing highway. And, I certainly don't want to disappoint those who have gathered here but our outlook is not quite so simple.

During the last year, I've thought often of the Bertrand Russell line: "To be without some of the things you want is an indispensable part of happiness." That's true but a tough pill to swallow; and, about as understandable as I remember it being when my dad said, "this is going to hurt me more than it hurts you," as he applied the flat side of a wooden spoon to my backside.

Governing through difficult financial times helps one to understand both the wisdom of Bertrand Russell and my dad, who I assume was borrowing a parental pearl passed down and polished for millennia.

It's not in my nature to deliver 20 minutes of doom and gloom. And, I'm certain that it's not in yours to want to listen to it. And, I understand the reality that some of you just came for the lunch. These reports are much more fun when the economy is growing, income is rising, budgets are easily balanced and there is no talk of job losses, deep cuts and shared pain. We all may want to call Bertrand Russell an idiot and counter that -- having ALL you NEED is the indispensable part of happiness.

I've been leading governments now for 15 years. I've governed with money and without it. Having money is more fun. Not having it is difficult but it makes you better. Makes you work harder and smarter. I saw it in Bethlehem when Steel closed and we lost 20 percent of our tax base. I was a 32-year-old mayor and I remember that it nearly killed me. But, it made us smarter, leaner, meaner and more aggressive.

Today, we face a similar situation because of the national recession. The last time we saw new revenue in county government was the beginning of 2008, about two-and-half years ago. We don't project any new money coming in, any growth in 2011 or, for that matter, the foreseeable future. In fact, our income will drop for the third consecutive year. Since 2008, overall revenues to the county will have declined by nearly \$5 million by next year. No surprise; we have recessed; we have lost ground. You know the story.

- Hotel tax revenue to our coffers is down 19 percent since 2007.
- The first four months of this year, hotel tax revenue to Lehigh County was 29 percent less than the same period in 2007.
- Investment earnings have slid from almost \$7 million to only \$1 million.
- Revenue from deeds is down 27 percent since 2008, almost half a million dollars.
- Losses in the stock market have more than tripled pension fund contributions, skyrocketing to almost \$10 million this year.

- And, the big one, real estate tax revenues have remained close to flat. Any minor gains from slight growth have been offset by an explosion of assessment appeals that have stripped away nearly \$1 million in real estate tax earnings in the past year alone.

For counties, cities and municipalities, the real estate issue is the biggest problem. Local governments in Pennsylvania are property tax addicts, junkies; not by their own choosing, understand. The “pushers,” if you will, in Harrisburg cling to this long antiquated system, creating the annual need for every community to build more real estate to get a “fix,” or new money. No new buildings, no new money, unless you raise the rate, of course. You know the story.

We are 70 days from a gubernatorial and U.S. Senate election and, unless I’ve missed it, not one candidate has talked about tax reform. So, expect no change from the top. Therefore, here at the bottom, we need to adapt, to change in a big way. In this climate, Bertrand Russell has to be our prophet on the pathway to happiness, remember: “To be without some of the things you want is an indispensable part of happiness.”

A government that is run well should always be looking for reductions, for efficiencies, for smarter ways to do things. Fortunately, we have done that for the last five years. That’s how we’ve kept our average annual operating growth to two percent and our total county employment at 1990 levels. This year, however, we’ve needed to step on the accelerator. Efficiency is not enough. As Peter Drucker, the management guru, wrote: “There is nothing so useless as doing efficiently that which should not be done at all.”

There is no one size fits all model in government. You have to manage government to fit the times. In the end, what we do cannot exceed what the taxpayers can afford.

During the last month or so, I’ve announced about \$7 million in cuts for the 2011 budget through freezes, eliminations and reductions. Some of these things would survive in better times, others would not have been found except that we are in tough times. Employment is the largest.

- We are cutting another 50 jobs by the end of this year, for a total of 150 positions removed during my time in office. This will reduce full time employment to 2,122 people, create a government smaller than it was more than 20 years ago, and shave \$3 million from payroll. This is a testament to our managers, our employees and our unions. They are truly delivering more with less for our taxpayers.
- Included in those cuts are two cabinet-level positions within my Administration and a community development position. Those job functions will still be done but shifted to others. I believe that the pain needs to be shared and you need to lead by example.
- Our green future funds program has been a focus of my administration. At the outset of 2008, we moved \$12 million in surplus funds into farmland and open space preservation and to help with municipal parks. We achieved great success. We have preserved more than 20,000 acres of farmland and only two counties in Pennsylvania have more preserved farms. All told, we’ve spent more than \$30 million in county and state funds on our green future program. It will, however, need to be frozen for the near future, saving us a minimum of \$3 million a year, our historic funding level.

- I have and will remain an advocate of using a small portion of our budget to support the cultural arts in our community through the quality of life grant fund. I've fought to save it in past years. We can retain it but we will need to cut funding by 13 percent.
- I mentioned earlier that hotel tax proceeds to the county have dropped by 19 percent. We simply cannot sustain all the programs those funds support. We will end the "More for Children" program that funds educational trips for our school districts to cultural institutions.
- I announced last week that we will close our Organic Recycling Facility in Schnecksville and our three satellite centers. This is a good program but counties are not required to do this and county taxpayers have greatly subsidized its operation since the PA Supreme Court struck down tipping fees on municipal waste to pay for recycling. There is no reason this cannot be in another way. We will work with our local governments to find a replacement solution.
- Spending reductions need to be borne by all: county employees and those who are subsidized by the county. For the second year, we will need to freeze or cut funding to organizations like the Lehigh Valley Planning Commission, the Conservation District, LVEDC and LANTA.
- Non-union employees now pay 20 percent of the cost of their health care. A figure that is more in line with the private sector than most governments. Just last night, our Commissioners ratified a new labor agreement with the Deputy Sheriff's union that starts the process of achieving parity between our union and non-union employees on health care, which is vital to cost control.
- During the last round of contracts with our unions we were able to consolidate all our employees into the same health care plan. Our leverage with our insurance carrier increased dramatically and we realized millions of dollars in savings the last four years. Next year our health care costs will rise by 4.5 percent. It's vital in this round of contracts to achieve parity on helping to pay for health care.

Next week I will give our 2011 budget to the Commissioners, who have the final say in all the purse string decisions. I can tell you a few things today.

The combination of all these cuts, a drop in capital project spending and state reductions in pass through spending will result in a budget that is at least \$20 million less than this year's \$412 million budget. Yes, you heard that right, next year's budget will be lower than this year's budget. And, our work force will be smaller than it was twenty years ago.

For the last four years, we've held growth in our general county operating spending to two percent. Next year, there will be no increase in our general county spending, despite wage and health care cost increases. These \$7 million in cuts help to achieve that.

And, because of previous spending controls, we will finish this year with \$4.5 million untouched in the much talked-about Tax Relief Fund, which was scheduled to have run out in 2008, but remains alive and well still this year.

In light of the depth of this recession, all of these reductions are still not enough to sustain the full tax cuts county property owners were given in 2004 and 2006. Fiscal responsibility does not just mean cutting taxes, it means maintaining a financially sound operation at the lowest possible tax rate. We have seen this year in Northampton County and Bethlehem discussions about selling county assets to plug shortfalls and local

governments running actual deficits. In my view, neither should happen. As we finish the budget, I can assure you that the property tax rate will be lower than it was in 2003, prior to the two recent tax cuts.

The bottom line is that Lehigh County government is smaller today than it was in the past. Everyone thinks that government only gets bigger. And, maybe that's true in some cases but here in Lehigh County we've shown that government can get smaller. We have fewer employees than we did 20 years ago, a smaller total budget than last year and a tax rate that will remain lower than it was eight years ago.

But, most importantly, we remain fiscally sound and prepared to come out of this recession stronger than before.

- We will retain a \$20 million cash reserve. We are not eating up savings or going without a savings account and rainy day fund to accomplish this.
- Our pension fund is fully funded. Despite payments that have tripled, we are the rare government that is fully funded.
- The rating agencies have rewarded our approach. The county's bond rating was upgraded twice by Moody's Investment Service to Aa1 rating.
- Our debt burden is very low, about 14 percent of our budget payments. And, most of it goes out only twelve years, unlike many governments that extend debt as much as 40 years, increasing interest rates and payments.
- And, now our buildings and infrastructure is new and sound. We are in the final stages of the most productive capital project and maintenance program in the county's history.

In the last four years, we built Coca-Cola Park, renovated and expanded our Courthouse, relocated and upgraded our 9-1-1 Emergency Communications Center to a state of the art operation, re-built or repaired more than 20 million bridges, upgraded and improved our IT infrastructure, developed a Central Booking operation to help local police departments expedite bookings, relocated and improved our Domestic Relations Office, and overhauled our Cedarbrook Nursing Homes for energy savings efficiency, reducing energy consumption by 20 percent, a move that we will repeat this year in all our government buildings. We built the Trexler Environmental Center and the Autism Resource Center, two one of their kind facilities. In addition, we invested tens of millions of dollars toward the preservation of open space, building nature trails and improving municipal parks.

The final phase of this aggressive capital campaign includes the installation of solar panels on the government center and the new courthouse, which will provide 10 percent of the electricity for those buildings, a partnership with Cetronia Ambulance to relocate our coroner's operations and emergency response equipment to a mixed-use facility, renovation and expansion of our community corrections facility and development of a regional crime data center, to collect and distribute crime data for all 17 of our police departments in real time.

The money for all these new projects is already in place. We need not borrow any money to finish this work. Much of this capital plan was made possible by pursuing a lower cost option in the renovation and expansion of our Courthouse, a project that in its final stage came in nearly \$4 million under budget – and that was after reducing the initial scope of the project by \$20 million. As the farmers like to say, we made hay while the sun was shining.

We also have put a strong emphasis on public safety and law and order during the last five years. While we have cut elsewhere, we have added in this area. We have right-sized our workforce. Fifty-five positions have been added in the area of public safety and law and order. But, for any new position added, two have been cut elsewhere. Along with central booking and development of the crime data center, we have worked with District Attorney Jim Martin on a unique Safe Streets program that partners with our local police and among other things has funded 10 new community police officers in the county. I believe that safe communities are the foundation upon which everything else is built. You cannot develop your community or grow your economy if you don't have public safety. That's why we've invested there and will continue to do so.

It was President Martin Van Buren that said, "It's easier to do a job right than to explain why you didn't."

We believe we are doing the right thing for the greater good. I realize that not every one will be happy with these actions, not employees, not local governments, not all the cultural institutions and agencies that we fund and not all the taxpayers. And, despite Bertrand Russell's great statement, the pain that this economy is causing isn't likely to make many of us happy in the short term. But, it has made our county government better and leaner. I know it's made us better, more focused managers. And, this will help us to weather the storm and come into port even stronger than when we left. The sun will rise again. And this too shall pass, some day. It is our job now to manage and to lead.

I believe in government. I believe it can do good. I believe that it has a purpose to do collectively what we cannot at times do individually. Despite the rhetoric and bombast of recent years, we all look to government to help solve problems. The key is not to create problems for people while we govern. It's all about striking a balance. The Tea Party folks make some good points, many of which we've adopted, but like most ideologies on the right or the left they often simplify the complex and paint everything with the same broad stroke. Government can be responsive. It can create something to serve a particular need and then take it away. And, yes, government can get smaller. And, it can realign its focus and priorities to fit the time. It just takes work and the right focus.

If you don't believe it, come to Lehigh County. I'm confident we can prove the point.