



## MAYOR'S BUDGET MESSAGE - NOVEMBER 15, 2011

Let me preface my remarks by sharing with you a postulate from a man I grew up admiring. He has left us with so much, but amongst his many commentary(s) one still especially holds true today. Sir Winston Churchill once said, "For a government to try to tax itself into prosperity is like a man standing in a bucket and trying to pull himself up by the handle". I agree! Thus, there are **NO** recommended tax or fee increases in the following budget proposal for 2012. With this in mind, as the outgoing Chief Executive for the City of McKeesport, I am presenting a budget for consideration by Mayor-elect Michael Cherepko and the City Council that I hope will provide a realistic forecast for the new administration, as well as, a sound template for the future of our City.

2012 will begin a new era for McKeesport without a revenue stream associated with our long-standing relationship with the Municipal Authority of the City of McKeesport. During the last two fiscal periods, the City ceased the collection of sewage billing and sold its' sewer lines to the Authority. This past year, the Authority pre-paid the mortgage for those lines and the remaining proceeds (\$14,763,000) of same from that transaction are deeply imbedded in this budget.

Moreover, those funds will establish a benchmark for not only the underwriting of the 2012 budget, but also the 2013 and 2014 budget, in addition to assisting with the preparation for the fiscal year 2015. This budget anticipates the use of \$1,548,000 from these proceeds to address the mandatory bond payments of principal and interest on the remaining \$21,600,000 indebtedness in 2012. Similarly, this same amount will be set aside for principal and interest due in 2013 and 2014. Three payments of \$86,000; \$39,000 and \$25,000 representing operating cash, will need to be returned from existing City by M&T Bank accounts in 2011 to meet current year payroll obligations. Another \$500,000 is projected to be placed in the 2012 budget as an operating reserve. Finally, \$9.5MM will need to be invested with a rate of return at approximately 2% until September of 2014, at which time another \$10MM of bonded debt will be redeemed, thereby further reducing the City's bonded debt to only \$10,000,000 by December 31, 2015. This will keep our City, its residents and businesses in a sound financial posture for years to come. I would like to congratulate the sitting Council for their vision in initiating this scenario and their commitment to endorse and implement this plan.

Another significant era will commence with the implementation of Act 32. This Commonwealth of Pennsylvania legislation creates a Tax Claim District, which takes place on January 1, 2012, will be responsible for collecting all earned income tax (EIT) collection from employees statewide. It will result in returning payments to our City in "real time". This mandatory payroll deduction is expected to increase by year's end, the monies heretofore collected by 10% in the current year. Previously, these payments, if they arrived at all, were delayed 1 year to 2 years due to filing and reporting processes. The City Treasurers office will, however, be assisting all of our residents in the first quarter of 2012 as they complete their 2011 obligations.

Due diligence monitoring for medical premiums, pensions, and bonds still top our litany of fiscal concerns. Though the exemplary efforts of Michael Krall at First Commonwealth, working through our payroll clerk, the City has been able to cap the unbridled health costs that face our society today with only a 1 1/2 % increase for the City of McKeesport in 2012. Nonetheless, the budget package presented still reflects contractual obligations for medical benefits from our collective bargaining agreements, which comprise over 10% of your City budget. Pension obligations are another \$1.3MM. Coupled with the aforementioned obligatory \$21.6MM bond interest/principal payments, the aggregate of these three components alone constitutes in excess of ¼ of the entire City budget. That is why keeping an eye on and controlling future costs must be a constant vidual.

As a result, this budget is not without its' austere ramifications. Except for negotiated cost of living salary increases for all bargaining unit employees from Teamsters Local 205 and Firefighters Local 10, there are no raises. This is unfortunately one cost savings measure – like that one of former Mayor, now Senator, James Brewster – that is necessary to keep this financial management tool realistic. There are also no new employment positions in the budget, and two vacant positions are being eliminated. Part of the cause and effect for this decision is a significant reduction in Community Development funding, which not only effects projects, but also impacts the City's ability to afford beat police and make lease payments on equipment like the fire truck and a street paver.

Nevertheless, there is optimism that despite the most severe recession since The Great Depression. In the last year alone, major development activities have taken place. First and foremost, this past month, elected officials from Federal, State and Local governments cut the ribbon over the long awaited flyover ramp to the former US Steel mill site. This will spawn new

interest in our City and new job opportunity! Some new job growth is already taking place. The new Bottom Dollar grocery store at Eden Park Boulevard and Walnut Street is about to open. Across the street, a new Family Dollar is being built. PENNDOT is also scheduled to install new LED traffic lights from Ninth Street and Walnut Street to Route 48 to assist with traffic flow. Soon, PENNDOT will hopefully be approving a highway occupancy permit (HOP) at Route 48 and 148, providing a basis for a new traffic light and egress to the former PBS Chemical site, where a new strip shopping center is planned. Furthermore, our downtown area is also marking renewed interest.

It's a result of the flyover ramp, Eat 'N Park is finalizing its plans to renovate and expand their restaurant at Lysle Boulevard and Coursin Street. Just a block away on Lysle Boulevard and Center Street, the old Car Wash is being retrofitted into a new car emporium. Across at Center and Fifth, a new parking lot is being completed to accommodate the needs of McKeesport Candy Company – a 100 year old business, who has transcended walk-in customers utilizing the streetcar to a world-wide internet sales leader. Our UPMC hospital reports reflect increased usage, and at the other end of Fifth Avenue, our McKees Point Marina, in February 2012, will receive national designation at a convention in Florida as an international marina and boatyard. The City's CDBG program has been the catalyst for a complete refurbishing of the central core business district – including a most recent addition of decorative street lights from Market Street to Water Street. Finally, the National Rails to Trails program has featured our City as a major destination point / trail head, with its connection across the Monongahela River via the former Riverton Bridge, and the park upgrades they have sponsored at the Marina across from McKees Café.

All these events should help make this \$18,033,652 budget a true work in progress. It reduces over \$1.5MM from last years budget. On the other hand, the administration is still projecting the need for a \$1.5MM tax anticipation note in 2012 due to cash flow to accommodate the transition to the implementation of Act 32 through our tax collection agent, Keystone Municipal Collections. This budget, as all that have preceded it during my 11 years on Council and 1 year as Mayor, will be a challenge. There is little or no room for uncertainty. Successful implementation will take the help and cooperation of all the elected officials to traverse what has become a globally trying time that affects us all. Therefore, as we go forward together, I would like to leave you with a quote from my friend Pericles (in 400 BC) ... "just because you do not take an interest in politics, doesn't mean politics won't take an interest in you". God bless you and our City.

A handwritten signature in black ink, appearing to read "Regis T. McLaughlin", written over a horizontal line.

Regis T. McLaughlin, Mayor