Wilkes-Barre boasts a unique name, but its budget challenges are all too familiar – New Coverage

As the city of **Wilkes-Barre** works to finalize its FY13 budget, sources say it will face headwinds as it scrambles to manage a USD 3m gap in FY12 from lower-than-expected revenues.

"Time and events have caught up with the city," said a source familiar with the city's finances. "They are no different than most of the third class municipalities in Pennsylvania." He likened Wilkes-Barre to distressed cities such as Harrisburg, Scranton and Altoona.

The source familiar said that while there had been a county-wide reassessment of property values in 2009, Wilkes-Barre elected to continue using its old assessment base. "The mayor did not want to, for whatever reason, change the assessed values," he said. "I think he was afraid the assessment would increase the taxes on a lot of old longtime residents. I think looking back he would have been better, he might have been only looking at 5%-10% increase."

"The mayor has been able to use a combination of grants and other one-time revenues like the other municipalities to keep things floating along," the source familiar said.

The city did not return repeated requests for comment.

Mayor Thomas Leighton has proposed a 31% increase in property taxes in his FY13 budget, which totals USD 45m. He also asked municipal employees to forego a scheduled raise and take furloughs.

"Their budget has some operating challenges," said John Filan, a vice president with municipal restructuring firm DSI Civic. But Filan noted that the proposed revenue increases were "significant" and should help close the gap. It is to the city's credit, Filan said, that it has adopted multi-year budgeting and made substantial investments in its downtown center.

Wilkes-Barre has blamed much of the FY12 lapse in earned income tax collection on the bankruptcy of its collections vendor, Centax, a situation that has impacted several other Pennsylvania municipalities, Filan noted. "I would think that they will eventually get (the revenue) but they're in a tight cash position as it is so it's more costly for them to borrow again or delay paying back the bank."

The city's cash flow challenges prompted Standard & Poor's to drop its outlook to negative from stable in August, while maintaining its A rating. S&P noted that the city issues annual tax anticipation notes (TANs), with the current year's TANs due to expire on 31 October. Because of the issue with Centax, the city requested and was granted an extension on repaying PNC Bank for the TANs.

"Management's cash flow projections through the end of the calendar year assume full collection of earned income tax receipts, which we believe is questionable," S&P wrote. The agency also expressed concern about the city's USD 12m of variable-rate debt, which is backed by letters of credit from PNC. "If an event of default were to occur, we believe that all of these obligations could be accelerated and would have to be covered only by the city's resources."

The city's total debt outstanding was USD 76m, according to the FY11 Comprehensive Annual Financial Report.

The source familiar said that he expected PNC to continue to back its outstanding obligations with the city but be wary about doing future business with it. "(Being on CreditWatch) will mean Wilkes-Barre will not have access to the markets as readily as they have in the past years," he said. "The city is going to have trouble that other municipalities have had, which is access to reasonably priced debt. When you've got the financial community upset at you it's hard."

A USD 25,000 tranche of Wilkes-Barre Series 2012A general obligation bonds last traded on 6 November at 102.558, yielding 2.399%, according to Electronic Municipal Market Access. Bondholders could not be immediately identified. The paying agent is **Manufacturers and Traders Trust Company.**

by Andrea Riquier