MUNICIPALITIES FINANCIAL RECOVERY ACT
AMENDED PLAN RECOMMENDATIONS

CITY OF FARRELL
MERCER COUNTY

MAY 2013

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SUMMARY

The City of Farrell is in a position to move out of the Act 47 program over the next four to five years. There are both external and internal conditions that must be met to make this possible. If these conditions are met, the City as a business entity will be viable and will no longer be dependent on an additional four-tenths of a percent non-resident earned income tax rate that has been levied under Act 47.

EXTERNAL CONDITIONS

- The Affordable Care Act will moderate health care costs increases and health care insurance premium increases.
- The economy will continue to improve, bringing increases in employment and compensation.
- The major employers in the City will continue to provide employment.
- The gap between the City's pension obligations and state pension aid will not increase.
- The Regional Police Commission will undertake an analysis of the Regional Department focusing on levels of service and expenditures. The City shall take the lead in seeking funds for the study.
- The Regional Police Department assessment will go down to $1,100,000 in 2014 and the rate of future increases will be three percent per year.

INTERNAL CONDITIONS

- There shall be no increases in full-time staff unless new staff can be supported entirely with new revenue sources.
- Wage and salary increases shall be within the rate of inflation.
- Departmental expenditures, excluding benefits, shall remain at 2013 budgeted levels in 2014 and increase by only two percent a year in the following years.
- The City shall continue to seek savings in health insurance expenditures.
- Current revenue collections rates, particularly sewer fees and real estate taxes, shall be above 90 percent. The City shall implement measures to improve revenue collections rates.
- Real estate tax collections shall increase by one and one-half a percent a year through collection rate increases and, as a last resort, millage increases.
- The resident earned income tax rate shall be increased over two years to 1.75 percent in 2015, the rate in Hermitage and Sharon.
- The non-resident earned income tax rate shall be reduced by one-tenth of a percent each year beginning in 2015 until the rate is one percent.

If these conditions cannot be met, the City's exit from the Act 47 program could be delayed indefinitely. The City would remain in a distressed status.

The 2013 Recommendations are intended to make it possible for the City to meet the internal conditions. The recommendations include administrative actions. The City has already begun to implement many of these actions. The recommendations also include budgetary actions that should be taken as part of the preparation of the budgets for 2014 and later years.

INTRODUCTION

This report reviews the past and current recovery efforts in the City of Farrell. It presents findings and recommendations on whether the City should remain in a distress status under the Municipalities Financial Recovery Act (MFRA), Act 47 of 1987, as amended.

In a petition notarized on September 23, 1987, the City of Farrell asked the Department of Community Affairs to declare it a distressed municipality under Act 47 of 1987. The City of Farrell was declared a distressed municipality on November 12, 1987.

Local Government Research, Inc. (LGR) was appointed Act 47 Coordinator under Act 47 in December, 1987. The firm prepared a Recovery Plan which was adopted by the Farrell City Council on May 19, 1988. In late 1990 the Department of Community Affairs carried out a re-evaluation of Farrell's financial condition to determine whether the distress determination should be continued. The evaluation recommended that the City remain in a distressed status.

The March 1994 Recovery Plan update was prepared by Department of Community Affairs officials James Cavenaugh and Leo LaChance. The updated plan recommended the continuation of the city's distressed status and participation in Act 47 due to the overall continued stagnation of Farrell's tax base and the continuing uncertainty concerning the Sharon Steel plant and its operations.

Amendments to the Recovery Plan were prepared by the Pennsylvania Economy League in 1998 and 2000. These amendments were adopted by the City. In 2005, the League prepared further recommendations that were not presented to the City as amendments to the Recovery Plan. They were, however, incorporated into the 2006 City Budget. At that time, it was anticipated that the City could exit distressed status within a few years. Subsequent events, including the great recession and significant increases in benefit costs made this impossible.

There have been three consistent themes in the original plan and the subsequent amendments. These themes are the need to

- continually improve the city's administrative and financial practices,
- continue to pursue economic development to improve the city's tax base, and
- continue to explore cooperation and possible merger or consolidation with surrounding municipalities.

The City has made significant improvements in the administrative and financial practices. These have allowed the City to reduce staff and hold the line on costs.

The City has been less successful with economic development. Sharon Steel and its successors have downsized the operation on the industrial site and the City has not been able to attract large manufacturers and employers to make up this loss. As a consequence, the City's real estate and earned income tax bases have not improved. In cooperation with other economic development agencies, the City continues to promote development.

The City has been able to develop intergovernmental initiatives, primarily through the Mercer County Regional Council of Governments and the Southwest Mercer County Regional Police Department. This has enabled the City to outsource a number of services. A number of services still remain including administration and finance, real estate tax collection, public works, fire, library, and code enforcement.

Not all intergovernmental efforts have been successful. The City participated in a major effort to consolidate five municipalities in the Shenango Valley. This failed at the ballot box in 2004. Voters in Sharon and Farrell approve the consolidation. Voters in Hermitage, Sharpsville and Wheatland voted it down.

The 2013 recommendations, presented below, have two goals. They are intended to meet the financial challenges that the City faces, and to allow the City to eliminate the non-resident earned income tax levied under Act 47. This will make it possible for the City to exit the Act 47 program.

FINANCIAL STATUS

Farrell's recent financial history has been a difficult one. In the years leading up the great recession, the City was able to generate small year-end surpluses. During these years, the City under estimated revenues, over estimated expenditures, and budgeted a use of reserves to balance revenues and expenditures. The reserves were not needed. In 2008, however, the City had to dip into reserves with a small deficit of $23,881.

In 2009, the deficit ballooned to $277,001. Part of this was anticipated. The City had budgeted $40,000 in reserves and $116,000 in transfers from other funds into the General Fund. Only $28,018 in transfers were made. Revenues dropped by $220,000 from $2,628,035 in 2008 to $2,389,911 in 2009. The decrease came primarily from a drop in local enabling taxes from $1,216,690 in 2008 to $1,014,057 in 2009. Within the local enabling taxes, the loss was fairly evenly divided between the real estate transfer tax, a loss of $98,619, and earned income taxes, a loss of $113,137. Other smaller declines came in earned interest, the payment in lieu of taxes from the housing authority, the sale of fixed assets and miscellaneous revenues.

The City was able to recover in 2010. Revenues increased from $2,389,911 in 2009 to $2,628,709 in 2010. The recovery came with an increase in most revenues and the use of $216,635 in transfers into the General Fund from other funds. The City also increased the real estate tax rate by two mills. The Sewer Fund was the major source with a $132,638 transfer into the General Fund. This transfer was budgeted. The City had a small year-end surplus of $17,536 in the General Fund.

In these two years, 2009 and 2010, expenditures remained within budget. In 2009, expenditures increased by one percent from $2,651,916 in 2008 to $2,666,912 in 2009. In 2010, expenditures dropped by two percent to $2,611,174.

In 2011, the surplus grew to $67,225. Revenues grew at a faster rate than expenditures. The six percent growth in revenues was due primarily to an increase in the transfer from the Sewer Fund to $182,558 and an end to the Keystone Opportunity Zone. Real estate revenues increased from $606,834 in 2010 to

$840,444 in 2012. Most of the increase in real estate revenues was off-set by the loss of the payment in lieu of taxes made by the steel company. Expenditures increased by five percent.

In 2012, revenues dropped by one percent from $2,798,699 to $2,767,339. This drop was despite an increase in the transfer from the Sewer Fund of $210,000. The losses came in a drop in pension aid from $175,453 in 2011 to $71,522 in 2012, and in the loss in reimbursement from collecting the school district's earned income tax. Tax collection costs, however, went down.

Expenditures continued to increase from $2,731,474 in 2011 to $2,848,520 in 2012. The increases came in both pension and health care costs, as well as an increase in the cost of the Regional Police Department. Over a two year period, benefit costs went from $447,730 in 2010 to $577,009 in 2012. During the same two-year period, the police costs went from $1,122,799 to $1,182,955. In the short run, these types of expenditures cannot be easily managed by the City. The City's departmental expenses, however, remained relatively stable. Both Fire and Public Works expenditures went down slightly while Library expenditures went up slightly.

The problem that the City faced was a dramatic loss in revenues in 2009. With the recovery in 2010 and the following years, revenues have been relatively stable. Since 2010, however, expenditures, particularly those that the City cannot easily control, have increased, leading to a deficit in 2012. For 2013, the City has budgeted the further use of reserves, $98,000, and further increases in the use of transfers from other funds into the General Fund. These transfers are budgeted to increase to $391,000 in 2013 from actual transfers of $264,887 in 2012. Unfortunately, the budgeted transfers from the Sewer Fund could eliminate balances that could be used in future years. The City is faced with a future of flat revenues at current rates and increases in expenditures that are largely out of the control of the City.

REVENUES

The City should consider two approaches to increase tax and fee revenues. The first is to improve collection rates; the second, to increase tax and fee rates so that they keep up with inflation.

PROPERTY TAXES

The City's assessed property values – the property tax base – have remained relatively constant. The same is true for market values. There have been increases in industrial property values, but these have been off-set by declines in residential and commercial values. There is no expectation that there will be significant changes in assessed values in the near future.

Because the real estate tax generates one-third of all revenues, these revenues must keep up with the rate of expense increases. The lack of growth in the assessed values leaves the City with two options to increase revenues. The first is to increase the collection rate; the second is to raise the real estate tax rate. The City may have to use both.

PROPERTY VALUES

	Market Value	Assessed Value	Ratio
2007	103,130,600.00	40,697,800.00	39.5%
2008	106,565,890.24	40,676,800.00	38.2%
2009	105,405,021.72	40,180,550.00	38.1%
2010	104,938,372.35	40,075,200.00	38.2%
2011	104,724,332.82	39,991,900.00	38.2%

The real estate tax collection rate has been low. It increased in 2011. This increase, however, was due to the end of the Keystone Opportunity Zone. The larger property owners, returned to the tax rolls, paid their taxes. This masks a persistent problem. In 2012, the City sent out bills for 3,541 parcels. At the end of the year, 1,265 delinquent bills were turned over to the Tax Claim Office.

COLLECTION RATES

	2008	2009	2010	2011	2012
Tax at face less discount	937,625	926,600	1,001,563	1,000,999	1,000,504
Current Collection	588,885	629,566	606,634	840,445	836,606
Current Collection Rate	63%	68%	61%	84%	84%

An analysis of the 2012 delinquencies found that two-thirds of the delinquent value was from properties with occupied structures. There was an active potential taxpayer. This amount, $110,000, if collected, could have a significant impact on tax revenues. The remaining one-third of the value was from vacant lots and abandoned structures.

Summary Past Trends

	2007	2008	2009	2010	2011	2012	2013 Budget
Revenues	2,615,958	2,628,035	2,389,911	2,628,709	2,798,699	2,767,339	2,902,006
Expenditures	2,480,098	2,651,916	2,666,913	2,611,174	2,731,474	2,848,520	3,000,006
Surplus (Deficit)	135,860	(23,881)	(277,001)	17,536	67,225	(81,181)	(98,000)

PAST TRENDS

	2007	2008	2009	2010	2011	2012	2013 Budget
Real Estate							
Current Real Estate	598,492	588,885	629,566	606,634	840,445	836,606	900,000
Delinquent Real Estate	108,858	119,043	110,759	106,905	107,465	116,936	120,900
Real Estate Total	707,350	707,928	740,325	713,539	947,910	953,542	1,020,900
Local Enabling							
Real Estate Transfer	105,417	146,867	48,247	83,128	52,325	49,908	50,000
EIT Resident	691,696	706,003	662,747	642,723	674,996	847,571	725,000
EIT Delinquent							
EIT Non-Resident	289,025	277,061	207,180	212,982	269,852	213,110	225,000
OP/EMS/Local Services	128,145	86,760	95,883	98,440	103,769	83,054	100,000
Total	1,214,283	1,216,691	1,014,057	1,037,273	1,100,943	1,193,644	1,100,000
Business Licenses and Permits							
Beverage	2,350	3,000	2,100	1,800	3,050	2,450	1,800
Amusements	1,200	1,900	375	1,325	1,200	1,225	1,500
Cable Franchise	58,546	58,342	60,108	61,936	61,804	64,602	62,500
Rental Licenses	6,330	6,000	5,200	4,211	3,870	9,241	20,000
Other	4,183	4,483	3,619	4,521	3,142	4,903	10,000
Total	72,609	73,725	71,402	73,793	73,066	82,421	95,800
Interest Earnings	65,550	36,849	7,826	779	344	103	500
Intergovernmental							
Winter Traffic	9,738	10,124	-	-	-		
Library	27,988	28,381	28,103	22,480	20,049	20,047	20,000
PUTRA	2,877	2,568	2,711	2,516	2,453	2,807	2,500
Pension	131,453	141,815	133,985	153,998	175,453	71,522	80,000
Total	172,055	182,888	164,799	178,994	197,956	94,376	102,500
Payment in Lieu of Taxes	27,492	20,106	7,386	20,106	32,826	20,118	20,106
Tax Collection Costs							
EIT School District	28,575	29,129	36,960	39,800	31,183	3,308	-
Real Estate County	27,824	28,724	36,258	32,624	24,922	9,030	21,000
Real Estate School District	28,252	29,925	36,665	33,114	25,459	9,448	21,000
Total	84,651	87,778	109,883	105,539	81,565	21,786	42,000

PAST TRENDS

	2007	2008	2009	2010	2011	2012	2013 Budget
Special Police Services							
Crossing Guards	6,824	6,858	6,581	6,998	7,067	4,341	8,200
Building Permits	799	80	305	80	4,054	30	1,000
Total	7,622	6,938	6,886	7,078	11,121	4,371	9,200
Rents	17,300	18,000	18,700	22,066	25,000	30,250	30,000
Miscellaneous							
Contributions	224,162	189,162	202,763	202,763	35,000	35,855	35,000
Misc.	19,285	42,689	17,868	48,775	69,515	36,969	50,000
Total	243,447	231,851	220,630	251,538	104,515	72,824	85,000
Fixed Asset Sale	3,600	-	-	1,370	-	1,000	5,000
Interfund Transfers	-	45,282	28,018	216,635	223,454	292,904	391,000
Total General Fund Revenues	2,615,958	2,628,035	2,389,911	2,628,709	2,798,699	2,767,339	2,902,006
Percent Change	4%	0%	-9%	10%	6%	-1%	5%

PAST TRENDS

	2007	2008	2009	2010	2011	2012	2013 Budget
Expenditures							
Legislative	26,823	32,226	36,691	30,131	28,837	32,282	35,640
Administration	112,948	148,398	159,209	161,403	178,404	199,402	185,381
Tax Collection	102,387	110,433	118,116	110,850	111,338	79,621	71,600
Law	36,937	38,786	32,988	22,962	24,403	22,862	44,200
Personnel Administration	435,332	446,116	465,418	447,730	511,715	577,009	641,669
Police	1,034,321	1,074,655	1,121,305	1,122,779	1,147,075	1,182,955	1,182,741
Fire	291,526	306,035	312,395	305,859	311,880	306,550	344,494
Code Enforcement							50,889
Public Service (Zoning)	6,824	8,348	6,893	8,446	7,813	9,342	6,200
Building & Ground Maintenance	10,299	10,058	3,431	4,311	4,391	11,072	10,000
Public Works	307,374	358,893	294,746	279,525	287,628	281,875	268,852
Parks and Playgrounds	5,000	5,000	5,000	5,000	5,000	24,572	14,000
Library	90,833	94,272	93,932	96,140	99,828	101,198	106,412
Debt Principal							
Debt Interest		3,000	750		406	263	500
Intergovernmental	19,495	15,695	16,038	16,038	12,755	19,519	17,428
Transfer to Capital Fund							20,000
Total General Fund Expenditures	2,480,098	2,651,916	2,666,913	2,611,174	2,731,474	2,848,520	3,000,006
Percent Change	3%	7%	1%	-2%	5%	4%	5%
Surplus (Deficit)	135,860	(23,881)	(277,001)	17,536	67,225	(81,181)	(98,000)

Increases in real estate tax revenue will only come with improvements in collections, increases in the millage rate, or a combination of the two. Each additional one-percent increase in the collection rate should generate an additional $10,000. Each additional mill should generate an additional $34,000.

SEWER USER FEES

When the City entered the Act 47 program, fee based activities – sewage collection and treatment, and solid waste pick-up – were subsidized with tax revenues. The subsidies were needed because of low rates and high delinquencies. As part of the recovery process, the City was able to get the Sewer Fund on a solid footing. Solid waste collection was turned over to a private hauler.

Until 2009, the Sewer Fund was able to generate small surpluses despite low collections rates. Delinquent collections make up about 10 percent of total collections. The auditor has identified the equivalent of another 10 percent of collections as bad debts. Only 80 percent of the amount billed is paid within the current period, another 10 percent is paid late, and the final 10 percent may be written off.

In 2009, a drop in collections led to a deficit of $76,682 in the Sewer Fund. In 2010, the City began to use the balances in the Sewer Fund as transfers into the General Fund. In 2010, the City transferred $114,389. This amount increased to $210,000 in 2012. The City has budgeted a transfer of $262,850 for 2013.

The City raised residential rates in 2011, and commercial and industrial rates in 2012 to generate the balances needed to make the transfers. Unfortunately, the problems with delinquent collections have persisted, the use of balances for transfers has lead to year-end deficits, and the balances in the Sewer Fund will be exhausted in 2013.

Because of the significance of the sewer revenues, the City has to increase current collections and maintain positive balances in the Sewer Fund. Under the current collection methods, this may not be possible. The sewer billing is done by the water company. The delinquent accounts are turned over to Sharp Collections. The City charges a 1.5 percent fee on delinquent collections. This is not enough to encourage on-time payments. Sharp Collections charges a 12 percent commission on collections.

The City is bringing current and delinquent collections in-house. The sewer billing will be outsourced to a billing service company and the collection will be taken through a bank drop box arrangement. This will include allowing credit card and internet payments. The City will increase delinquent fees to encourage current payments. The City will eventually take over delinquent collections. This should increase the collection rate and it may decrease the costs.

LOCAL ENABLING TAXES

These taxes are collected by other agencies. Until 2012, the earned income tax and the local service tax were collected by the City. They are now collected by the county-wide collector. The real estate transfer tax is collected by the County Treasurer along with the state real estate transfer tax. These taxes are based on local economic activities and rise and fall with the local economy. Because the City does not collect these taxes, there are delays from the payment by the taxpayer to the transfer of the payment to the City.

In the years leading up to the great recession, the City saw regular increases in both the resident and non-resident earned income tax, and in the real estate transfer tax. In 2008, these taxes totaled $1,216,691. In 2009, they dropped to $1,014,057. Since then, there has been slow but steady recovery. In 2013, these taxes may return to 2008 levels. In 2012, the countywide collections did improve resident earned income tax collections. About half of the 2011 to 2012 increase is due to delayed payments from the Hermitage earned income tax collector. Non-resident collections, however, declined in 2012. It is anticipated that the non-resident collections will increase.

The only way to bring a significant increase in these revenues is to raise the earned income tax rate on residents. The rate on residents is 1.3 percent and, on non-residents, 1.4 percent. The resident rate is levied under the City's Home Rule Charter. One percent of the non-resident rate is levied under Act 511, the Local Tax Enabling Act. The remaining four-tenths of a percent of the non-resident rate are levied under Act 47. This additional rate on non-residents requires annual approval by the County Court of Common Pleas. A one-tenth of a percent increase in the resident earned income tax could generate another $50,000 to $60,000.

Charges for Service

The City charges fees for the services that it provides and fines for violations of City ordinances. The fees are intended to reimburse the City for the activity associated with the fee so that the cost of the service is not borne by the taxpayers. The City has reviewed the code enforcement fees and increased them where warranted. The most significant fees are the sewer fees. Lesser fees range from $5 to allow a curb cut to a maximum fine of $1,000 for property maintenance violations.

As noted above, sewer fee collections are a challenge.

Expenditures

Staffing

Wages, salaries and benefits usually make up a majority of a local government's expenditures. The best way to reduce these expenditures is to reduce staff. Concessions from employees and changes in health care plans can produce savings, but these will only temporarily halt the increases in employee expenses.

Since the City entered into the Act 47 program in 1987, there have been substantial reductions in the number of employees The Police Department was eliminated and replaced with a regional department. The Fire Department was reduced to two full-time firefighters supplemented with part-time and volunteer firefighters. The City stopped solid waste pickup with City employees and a private hauler provides this service now. Economic development functions have been turned over to outside consultants and regional agencies. The City has taken advantage of the services of the Mercer County Regional Council of Government wherever possible.

These efforts brought the number of employees to 16 full-time employees supplemented with part-time employees on an as-needed basis. Over the past three years, the number has been further reduced to 14 by combining the positions of Fire Chief and Public Works Director and with the reduction of staffing in the Public Works Department. The most recent staff reduction has been the elimination of the earned income tax collector in 2012 with the implementation of county-wide collections. The only increase has been with the addition of a second Code Enforcement Officer to handle the implementation of a new rental inspection program. This position should be paid for with inspection fees.

COMPENSATION

Total compensation increased from $945,565 in 2007 to $1,001,846 in 2011 driven by pay increases and a temporary increase in staffing to provide coverage for an extended leave of a public works employee. In 2012, total compensation dropped to $926,668 with reductions in staffing. The pay increases have been within inflation. During the great recession, employees, including union employees, gave up one annual pay increase.

BENEFITS

Health care insurance and other benefits have not increased. Employees hired after 1991 are not eligible for post-retirement health care benefits. Employees hired before 1992 are eligible for post-retirement coverage until they are 65. The City has tried, but with only limited success, to convince retirees with post retirement health insurance who have access to anther insurance plan either through a family member or post-retirement employment to drop the city coverage. Unfortunately, there is no way to force the retirees to do so. It will be about ten years before all pre-1992 hires reach age 65 and are no longer covered by the City. Spousal coverage may extend beyond this. The City's liability for post-retirement health coverage, assuming a five percent annual increase in premiums, is about $900,000. This is an unfunded liability.

The three city pension plans are now managed by Pennsylvania Municipal Retirement Services. At the time of the last valuations of the three City plans in 2009, the funded ratio for the police plan was 76 percent, the fire plan was 66 percent, and the non-uniformed plan was 93 percent. With the recovery from the great recession, these ratios should improve. There are no active members in the police plan.

Unfortunately while benefits have not changed, both pension and health insurance costs have increased. These increases are having a major impact on the City's finances. Before 2005, the pension plans were well funded and state pension aid covered most, if not all of the City's costs. In 2004, the City's cost was $51,682 while state pension aid was $55,316. This has not been the case since 2005. The pension fund investment returns and state pension aid have not been enough to cover the expenses. In 2012, the City's pension expenditures reached $184,239 while pension aid was $71,522.

Health care insurance costs have increased in fits and starts over the last dozen years from $125,630 in 2000 to $259,120 in 2012. The average annual increase has been about six percent. The City's experience, compared to Pennsylvania-wide health care insurance experience, has been good. The Commonwealth Fund, relying on Bureau of the Census *Current Population Survey* data, found that premiums for family coverage went up by 65 percent from 2003 to 2011. Over the same period, the City's costs increased by 55 percent.

In 2013, the City is participating in a plan administered by Teamsters Local #261. The premium cost is $1,245 per month for each employee and retiree participating in the plan. The in-network deductable for an individual is $500. The deductable for a family is $1,000. The plan provides 100 percent coverage after the deducible. Copayments for most services are $20. Out-of-network coverage is less generous with deductibles of $2,500 and $5,000 and only 60 percent coverage after deductibles.

Most of the cost of the health insurance is carried by the City. Union employee contributions are limited to $20 per pay or $520 per year. By way of comparison, in 2013, Medicare premiums are $1,259 a year and a Medicare Advantage plan with coverage similar to the City's plan can cost an additional $900 a year. Employees who chose not to enroll in the health care plan receive a buy-out equal to one third of the premium cost. The buy-out is $4,980. Retirees are not eligible for the buy-out.

Worker's Compensation costs have not increased.

DEPARTMENTAL EXPENSES

Departmental expenses, including pay, have remained remarkably stable over the last decade.

LEGISLATIVE

From 2000 to 2012, the budget for the governing body has remained the same. The only change in actual expenditures has come in fluctuations in travel expenses.

ADMINISTRATION

In 2000, actual administration expenditures were $106,159. In 2012, they had increased to $199,402. The growth averaged six percent a year. The increases came from increases in individual line items and in new expenses. The Manager's salary increased from $39,018 to $52,276. Supplies increased from $1,847 to $19,287. Accounting services went from $10,000 to $39,500. The major additions were the transfer of the City Clerk's salary from the CDBG fund to the General Fund and the addition of contracted services to the Administration. The City Clerk's pay was $39,277 in 2012. Contracted services were $21,515. Contract services include pest control, office equipment leases, internet charges, software licenses, and other miscellaneous services.

TAX COLLECTION

In 2000, tax collection expenses were $89,661. By 2012, they had gone down to $79,621. The change came with the elimination of the Earned Income Tax Collector and most of the related expenses. The transfer of earned income tax and local service tax collections to Berkheimer did leave some expenses behind including a $20,017 commission on the collections and $7,200 in auditing expenses. The City also lost reimbursement from the School District for wage tax collection. This revenue had covered half of the earned income tax collection expenses. The City still receives reimbursement for collecting the real estate tax for the County and the School District. This reimbursement is budgeted at $42,000 in 2013.

LAW

From 2000 to 2012, the solicitor's retainer and legal expenses have fluctuated from a low of $21,856 in 2000 to a high of $65,739 in 2003. In 2012, the expenses were $22,861. The Solicitor's retainer increased by $5,000. The other changes were due to additional legal expenses.

Police

In 2000, the City's assessment for the Regional Police Department was $705,547. By 2012, the assessment had increased to $1,169,446. The average annual rate of increase was 4.3 percent. The police assessment is based on the budget for the Department. The budget is set by the Police Commission. The City has only partial control over this budget. Control is shared with the other municipalities covered by the Department.

Fire Department

Since 2000, the Department's expenditures have fluctuated from a low of $211,046 in 2002 to a high of $312,395 in 2009. Since 2006, however, the expenditures have gone up or down by a few thousand each year. In 2012, expenditures were $306,550. The major increase came in 2006 when the Fire Chief's salary was moved from the CDBG Fund to the General Fund.

Code Enforcement

Code enforcement has been budgeted in the CDBG Fund. Until 2009, there was one Code Enforcement Officer. This was increased to two in 2009. For 2013, one position was moved the General Fund. The program is partially supported by fees, primarily the rental inspection fee. Residential and commercial construction permits are handled by the Council of Governments.

Public Works

Since 2000, the Department's expenditures have fluctuated from a low of $232,249 in 2001, to a high of $358,893 in 2008. The 2008 expenditures included approximately $20,000 in time due buyout for the retiring Public Works Director and unusually high overtime. The Director was not replaced. Expenditures dropped to $294,746 in 2009. They were $281,875 in 2012. The Department's expenditures include utility and telephone expenditures. These have gone up but not enough to have a significant impact on departmental expenditures.

Library

In 2000, Library expenditures were $70,136. They have increased to $101,198 in 2012. The average rate of increase has been slightly less than four percent each year. The increases were driven by pay increases and an increase in the cost of books and periodicals. Library utility expenditures decreased. A portion of the expenditures is covered by a state library grant. The library grant was $25,957 in 2000. It has fluctuated from year-to-year, increasing to $28,380 in 2008. Since then, it has gone down. The grant was $20,047 in 2012.

Debt

The City has no General Obligation Debt. In 2008, the City issued $1,000,000 in bonds secured by Community Development Block Grant proceeds. These bonds will be retired in 2027. The funds were used for street paving. The City has a note payable secured by a fire truck. As of December 31, 2010, the balance on the bonds and the note was $1,024,402. The City has a number of PENNVEST loans guaranteed by sewer revenues. On December 31, 2010, the balance on the sewer notes was $1,809,634.

Legacy Costs

The City has two personnel-related legacy costs that it will have to deal with. These are the post-retirement health care coverage for employees hired before 1992 and pension costs. Employees hired before 1992 are eligible for post-retirement coverage until they are 65. All full-time employees are eligible for pension coverage. In 2012, these costs were $303,582, about one-tenth of the City's total expenditures. The total liability for the post-retirement health care coverage could be $800,000 until those eligible, and their spouses, reach 65. This calculation assumes that individual premiums will increase by five percent each year.

The great recession increased the unfunded liability in the three pension plans which the City has to amortize each year. With the recovery in the economy, there should be some recovery in these plans. This may lower the annual contributions to the plans.

The City has an extensive infrastructure that includes the sewer system and treatment plant, the municipal building, the public works building, the library, streets and alleys, and parks. The City has developed ad hoc plans to maintain this infrastructure including a multi-year paving plan and plans for the treatment plant. Most of the maintenance is planned and funded on a year-by-year basis. As part of the annual budget process, the City should develop and up-date a multi-year capital plan for the maintenance of the City's infrastructure.

The City has no General Obligation debt so it has no legacy costs for debt.

HEALTH CARE INSURANCE AND PENSION COSTS

Personnel Administration	2007	2008	2009	2010	2011	2012
Worker's Compensation	31,870.10	38,820.44	29,210.00	21,824.00	26,816.00	27,026.00
Retiree Health Benefits	68,504.50	66,589.30	78,455.52	84,262.46	89,817.36	119,344.93
Employee Health benefit	110,546.66	102,913.29	124,504.56	131,079.84	150,263.95	139,775.28
Total Health Benefits	179,051.16	169,502.59	202,960.08	215,342.30	240,081.31	259,120.21
Percent change	0%	-5%	20%	6%	11%	8%
Fire Pension	66,015.00	71,297.00	71,832.00	63,346.00	71,394.00	71,857.33
Police Pension	18,407.00	23,657.00	23,657.00	16,222.00	26,516.00	26,486.00
Non-Uniformed Pension	77,757.00	76,088.00	72,385.00	70,634.00	82,468.00	85,895.56
Total Pension	162,179.00	171,042.00	167,874.00	150,202.00	180,378.00	184,238.89
Percent change	12%	5%	-2%	-11%	20%	2%
Pension Aid	131,452.79	141,815.27	133,984.58	153,997.55	175,453.27	71,522.19

Revenue and Expenditure Projections

The revenue and expenditure projections are intended to provide a general understanding of City's financial future. The report provides two projections. The baseline projection is intended to provide an estimate of where the City could be from 2014 to 2017 if no corrective actions are taken. The projection assumes that the current City operation will remain in place and that there will be no changes in tax rates and in most fees. The recovery plan projection is intended to provide an estimate of where the City could be when it adopts the recovery plan recommendations.

The assumptions in the two projections are fairly simple. They can provide a general understanding of the City's financial future. But they are not intended to be detailed enough for budgetary purposes. Revenues are covered in more detail than expenditures because the City has less control over revenues than over expenditures. Many of the revenues depend on the out-side economy while expenditures are subject to internal legislative and administrative decisions.

Baseline assumptions

Property assessments and collection rates will not change

The economic recovery will increase real estate transfers to levels seen before the great recession

Earned income tax receipts will increase by two percent a year

Business licenses and permits will not change with two exceptions, cable franchise fees will increase by three percent per year as cable fees are increased and rental license fees will increase as the City implements the rental licensing and inspection program

Interest earnings will increase with increases in interest rates

Intergovernmental revenues will not change

Tax collection revenues will not change

Special police services will follow past trends with some increase in building permits

Rents will remain at the 2013 budgeted level

Miscellaneous revenues will remain at the 2013 budgeted level

Expenditures will remain at the 2013 budgeted level with exceptions. Benefit costs will increase by 10 percent a year, police costs will increase by four percent a year, and Fire, Code Public Works and Library Departmental expenses will increase at two percent a year

Summary Baseline Projection

	2013 Budget	2014	2015	2016	2017
Revenues	2,902,006	2,833,811	2,872,169	2,911,513	2,946,855
Expenditures	3,000,006	3,117,895	3,253,652	3,398,750	3,553,979
Surplus (Deficit)	(98,000)	(284,085)	(381,484)	(487,237)	(607,125)

BASELINE PROJECTION

	2013 Budget	2014	2015	2016	2017
Real Estate					
Current Real Estate	900,000	900,000	900,000	900,000	900,000
Delinquent Real Estate	120,900	120,900	120,900	120,900	120,900
Real Estate Total	1,020,900	1,020,900	1,020,900	1,020,900	1,020,900
Local Enabling					
Real Estate Transfer	50,000	50,000	60,000	70,000	80,000
EIT Resident	725,000	739,500	754,290	769,376	784,763
EIT Non-Resident	225,000	229,500	234,090	238,772	243,547
OP/EMS/Local Services	100,000	102,000	104,040	106,121	108,243
Total	1,100,000	1,121,000	1,152,420	1,184,268	1,216,554
Business Licenses and Permits					
Beverage	1,800	1,800	1,800	1,800	1,800
Amusements	1,500	1,500	1,500	1,500	1,500
Cable Franchise	62,500	64,602	66,540	68,536	70,592
Rental Licenses	20,000	30,000	35,000	40,000	40,000
Other	10,000	4,903	4,903	4,903	4,903
Total	95,800	102,805	109,743	116,739	118,795
Interest Earnings	500	500	500	1,000	2,000
Intergovernmental					
Winter Traffic					
Library	20,000	20,000	20,000	20,000	20,000
PUTRA	2,500	2,500	2,500	2,500	2,500
Pension	80,000	80,000	80,000	80,000	80,000
Total	102,500	102,500	102,500	102,500	102,500
Payment in Lieu of Taxes	20,106	20,106	20,106	20,106	20,106
Tax Collection Costs					
EIT School District	-	-	-	-	-
Real Estate County	21,000	21,000	21,000	21,000	21,000
Real Estate School District	21,000	21,000	21,000	21,000	21,000
Total	42,000	42,000	42,000	42,000	42,000

BASELINE PROJECTION

	2013 Budget	2014	2015	2016	2017
Special Police Services					
Crossing Guards	8,200	7,000	7,000	7,000	7,000
Building Permits	1,000	1,000	1,000	1,000	1,000
Total	9,200	8,000	8,000	8,000	8,000
Rents	30,000	30,000	30,000	30,000	30,000
Miscellaneous					
Contributions	35,000	35,000	35,000	35,000	35,000
Misc.	50,000	50,000	50,000	50,000	50,000
Total	85,000	85,000	85,000	85,000	85,000
Fixed Asset Sale	5,000	1,000	1,000	1,000	1,000
Interfund Transfers	391,000	300,000	300,000	300,000	300,000
Total General Fund Revenues	2,902,006	2,833,811	2,872,169	2,911,513	2,946,855
Percent Change	5%	-2%	1%	1%	1%

BASELINE PROJECTION

	2013 Budget	2014	2015	2016	2017
Expenditures					
Legislative	35,640	35,640	35,640	35,640	35,640
Administration	185,381	185,381	185,381	185,381	185,381
Tax Collection	71,600	71,600	71,600	71,600	71,600
Law	44,200	44,200	44,200	44,200	44,200
Personnel Administration	641,669	705,836	776,419	854,061	939,468
Police	1,182,741	1,230,051	1,279,253	1,330,423	1,383,640
Fire	344,494	351,384	358,412	365,580	372,891
Code Enforcement	50,889	51,907	52,945	54,004	55,084
Public Service (Zoning)	6,200	6,200	6,200	6,200	6,200
Building & Ground Maintenance	10,000	10,000	10,000	10,000	10,000
Public Works	268,852	274,229	279,714	285,308	291,014
Parks and Playgrounds	14,000	5,000	5,000	5,000	5,000
Library	106,412	108,540	110,711	112,925	115,184
Debt Principal					
Debt Interest	500	500	750	1,000	1,250
Intergovernmental	17,428	17,428	17,428	17,428	17,428
Transfer to Capital Fund	20,000	20,000	20,000	20,000	20,000
Total General Fund Expenditures	3,000,006	3,117,895	3,253,652	3,398,750	3,553,979
Percent Change	5%	4%	4%	4%	5%
Surplus (Deficit)	(98,000)	(284,085)	(381,484)	(487,237)	(607,125)

Recovery Plan Assumptions

Most of the baseline assumptions carry over into the recovery plan assumptions with a few notable exceptions.

Property tax collections will increase by one and one-half a percent a year based on a combination of collection rate and millage increases

Resident earned income taxes will increase with a 0.45 percent increase in the tax rate spread over 2014 and 2015 with two percent increases in revenues in the following years

The non-resident earned income tax rate will decrease by one-tenth of percent per year beginning in 2015 until the tax rate is reduced to one percent

This reduction in the tax rate will eliminate the non-resident tax levied under Act 47

Benefit expenditures will increase by only four percent a year

Police expenditures will be reduced to $1,100,000 in 2014 with three percent increases in the following years

Departmental expenditures will increase by two percent per year beginning in 2015

Results

The baseline projection paints a bleak picture of the City's financial future. A stagnant tax base and ever increasing inflation-driven expenditures can only lead to ever increasing deficits. Of course, the City cannot incur these deficits for long. It will run out of cash. Within the next year or so, the City will be forced to take action.

The recovery plan projection contains the revenue enhancement and expenditure control actions that the City can take. They may not entirely eliminate any deficits after 2013. There are some aspects of revenues and expenditures, particularly those related to benefits, which are not within the City's control. However, as each budget is prepared, the City will be in a position to address future potential deficits. During the course of each year, the City will be in a position to bring in revenues over budget and expenditure below budget.

The City has already begun to prepare for this future in 2013. The Manager has identified over $50,000 in cuts in discretionary expenditures and hopes to implement programs to increase real estate tax and sewer fee revenues. The implementation of these steps this year should help increase revenues and reduce expenditures in future years. These steps include increasing the real estate collection rate, increasing the sewer collection rate, implementing reductions in discretionary expenditures, and implementing improvements in tax, fee and fine payment methods including credit card and internet payments.

SUMMARY RECOVERY PLAN PROJECTION

	2013 Budget	2014	2015	2016	2017
Revenues	2,902,006	2,962,729	3,102,585	3,121,135	3,135,942
Expenditures	3,000,006	2,933,932	2,998,288	3,064,460	3,132,507
Surplus (Deficit)	(98,000)	28,797	104,297	56,675	3,435

Recovery Plan Projection

	2013 Budget	2014	2015	2016	2017
Real Estate					
Current Real Estate	900,000	913,500	927,203	941,111	955,227
Delinquent Real Estate	120,900	123,318	125,784	128,300	130,866
Real Estate Total	1,020,900	1,036,818	1,052,987	1,069,411	1,086,093
Local Enabling					
Real Estate Transfer	50,000	59,000	68,000	77,000	86,000
EIT Resident	725,000	850,000	992,000	1,011,840	1,032,077
EIT Non-Resident	225,000	225,000	168,750	112,500	56,250
OP/EMS/Local Services	100,000	100,000	102,000	104,040	106,121
Total	1,100,000	1,234,000	1,330,750	1,305,380	1,280,448
Business Licenses and Permits					
Beverage	1,800	1,800	1,800	1,800	1,800
Amusements	1,500	1,500	1,500	1,500	1,500
Cable Franchise	62,500	64,602	66,540	68,536	70,592
Rental Licenses	20,000	30,000	35,000	40,000	40,000
Other	10,000	4,903	4,903	4,903	4,903
Total	95,800	102,805	109,743	116,739	118,795
Interest Earnings	500	500	500	1,000	2,000
Intergovernmental					
Winter Traffic					
Library	20,000	20,000	20,000	20,000	20,000
PUTRA	2,500	2,500	2,500	2,500	2,500
Pension	80,000	80,000	80,000	80,000	80,000
Total	102,500	102,500	102,500	102,500	102,500
Payment in Lieu of Taxes	20,106	20,106	20,106	20,106	20,106
Tax Collection Costs					
EIT School District	-	-	-	-	-
Real Estate County	21,000	21,000	21,000	21,000	21,000
Real Estate School District	21,000	21,000	21,000	21,000	21,000
Total	42,000	42,000	42,000	42,000	42,000

RECOVERY PLAN PROJECTION

	2013 Budget	2014	2015	2016	2017
Special Police Services					
Crossing Guards	8,200	7,000	7,000	7,000	7,000
Building Permits	1,000	1,000	1,000	1,000	1,000
Total	9,200	8,000	8,000	8,000	8,000
Rents	30,000	30,000	30,000	30,000	30,000
Miscellaneous					
Contributions	35,000	35,000	35,000	35,000	35,000
Misc.	50,000	50,000	50,000	50,000	50,000
Total	85,000	85,000	85,000	85,000	85,000
Fixed Asset Sale	5,000	1,000	1,000	1,000	1,000
Interfund Transfers	391,000	300,000	320,000	340,000	360,000
Total General Fund Revenues	2,902,006	2,962,729	3,102,585	3,121,135	3,135,942
Percent Change	5%	2%	5%	1%	0%

RECOVERY PLAN PROJECTION

	2013 Budget	2014	2015	2016	2017
Expenditures					
Legislative	35,640	35,640	35,640	35,640	35,640
Administration	185,381	185,381	185,381	185,381	185,381
Tax Collection	71,600	71,600	71,600	71,600	71,600
Law	44,200	44,200	44,200	44,200	44,200
Personnel Administration	641,669	667,336	694,029	721,790	750,662
Police	1,182,741	1,100,000	1,122,000	1,144,440	1,167,329
Fire	344,494	344,494	351,384	358,412	365,580
Code Enforcement	50,889	50,889	51,907	52,945	54,004
Public Service (Zoning)	6,200	6,200	6,200	6,200	6,200
Building & Ground Maintenance	10,000	10,000	10,000	10,000	10,000
Public Works	268,852	268,852	274,229	279,714	285,308
Parks and Playgrounds	14,000	5,000	5,000	5,000	5,000
Library	106,412	106,412	108,540	110,711	112,925
Debt Principal					
Debt Interest	500	500	750	1,000	1,250
Intergovernmental	17,428	17,428	17,428	17,428	17,428
Transfer to Capital Fund	20,000	20,000	20,000	20,000	20,000
Total General Fund Expenditures	3,000,006	2,933,932	2,998,288	3,064,460	3,132,507
Percent Change	5%	-2%	2%	2%	2%
Surplus (Deficit)	(98,000)	28,797	104,297	56,675	3,435

Current Revenue Enhancement and Expenditure Reduction Measures

Revenue Enhancements

The City is implementing a rental licensing and inspection program with fees that are intended to cover the cost of the program. The first round of inspections has been completed.

The City has increased other code related fees to cover the cost of the activities associated with the fees. For example, the sales inspection fee has been increased from $10 to $100.

The City is implementing a program to improve and simplify tax, fee and fine payments. The program will include credit card and internet payments. This program is intended to improve collections while improving services.

The City will be increasing other fees and fines. For example, the late fee for sewer bills is typically less than one dollar. It should be increased to at least five percent of the delinquent bill.

Expenditure Controls

The City has made a number of small but cumulatively significant expenditure reductions.

> Phone service has been changed to save $11,000.
>
> A new electric supply contract reduced expenditures by $18,000 during the first year.
>
> The City is considering an Energy Savings program to further reduce electricity costs.
>
> A program to encourage retirees to drop city health insurance coverage has provided a $10,000 buy-out to a spouse of a former employee for a savings of $110,000 over eight years. The buy-out costs are less than one year's premium.
>
> Health insurance deductibles have been changed for a savings of $46,000 in 2013.
>
> A Public Works position, vacant due to a retirement, has been replaced with two part-time positions for a savings of $30,000,
>
> All expenses, including payroll and overtime, are approved by the Manager prior to payment.
>
> Monthly staff meetings are held to coordinate activities, improve productivity and reduce expenses.

Intergovernmental Cooperation

Over the years, the City has entered into cooperation agreements other entities. The subjects of these agreements have run from animal control and internet services to police protection and first response for structure fires. These agreements have allowed the City to reduce costs while maintaining and improving service levels.

The City continues to seek cooperation opportunities with neighboring municipalities as well as with other entities. The City's Public Works, Fire and Library Departments could benefit from these opportunities. The City has discussed the purchase of public works services from Hermitage and cooperative efforts with Sharon. These discussions have not resulted in concrete proposals. The City has strengthened the ties between the Fire Department and Sharon's Fire Department. This has resulted in an agreement providing for first response on structure fires. A decade ago, there was an effort to create a countywide library system. Unfortunately, the effort was not successful. There is still some interest in a Farrell – Sharon municipal consolidation. These efforts will take time.

ECONOMIC DEVELOPMENT

The future of Farrell depends on a growth in the property and earned income tax base. Efforts can spread over a number of years before they produce results. The City cannot let up on efforts.

The original Recovery Plan and subsequent amendments called for the creation of an Economic Development position. This was done. The position eventually evolved into an as-needed contract consultant position. This has been a satisfactory arrangement. It has also reduced costs.

The City participated in the development of a regional comprehensive plan with the Regional Planning Commission. The City adopted the pan in 2011. The City is currently up-dating the zoning map.\

The City has actively pursued additional housing. This has resulted in the CHOICE Homes project that includes an apartment house and scattered site single family housing for assisted living. The City has had two HOMES grants for residential rehabilitation.

The City Council has created the Farrell Strategic Planning & Economic Development Committee to identify steps that can encourage further economic and community development. These steps have include beautification programs, efforts to attack blight, better public safety service, better communication, and improvements in signage.

The City is actively marketing the Hillside II industrial park. This property remains in the Keystone Opportunity Zone.

The City continues to work with other partners, including the City's largest employers, the Regional Planning Commission, and Penn-Northwest Development Corporation to encourage development.

The City is seeking an RCAP grant to help prepare sites along Martin Luther King Boulevard for development. This will take advantage of the improvements to the Boulevard that are being made by Penn DOT

2013 Recommendations

The City's financial future will be a challenge. The combination of a stagnant tax and fee basis, low collections rates and continuing expenditure increases has to be dealt with if the City is to avoid future deficits.

The 2013 Recommendations include administrative actions. The City has already begun to implement many of these actions. The recommendations also include budgetary actions that should be taken as part of the preparation of the budgets for 2014 and later years.

Revenues

Real Estate Revenues

Real estate tax revenues should increase at the rate of inflation if they are expected to cover expenditures increasing at the rate of inflation. This rate has been one to three percent per year. With a stagnant real estate tax base, this can only be accomplished by a combination of increases in the collection rate and, as a last resort, increases in the millage rate. The only recent increases in the real estate tax revenues were due to a two mill rate increase in 2010 and the end of the KOZ program on most of the industrial property within the City in 2011.

The real estate tax current collection rate in 2011 and 2012 has been 84 percent. The City's goal should be to increase the rate to over 90 percent.

The City and the Treasurer's office shall undertake an analysis of delinquent accounts to identify the factors that contribute to the delinquencies.

The City has begun this analysis.

The City shall increase real estate tax collections. The goal should be at least a 90 percent collection rate. This could be accomplished by

> ***Targeting property owners who are chronically delinquent***
>
> ***Making it easier to pay real estate tax bills by offering an installment plan, payment by credit card, and payment over the internet***

Each increase of one percent in the collection rate should generate over $10,000 in additional revenues. A six percent increase would generate as much additional revenue as a one mill increase in the tax rate.

If the real estate collections do not improve in 2013 and 2014, the City shall implement a one to two mill increase in 2015 and one-half to one mill increases in the following years.

The goal shall be to keep real estate revenue increases equal to the rate of inflation. The millage increases would not be necessary if there is a significant increase in the collection rate or if there are new revenues from other sources. Additional revenues generated by a collection rate increase and other sources can be used to reduce the level of increase in the real estate rate.

A one mill increase should raise revenues by $34,000. This is the equivalent of three percent of current collections at the current assessed value and collection rate.

Sewer Revenues

The City increased residential rates in 2011 as part of the effort to use the Sewer Fund as a source of transfers into the General Fund. Commercial rates were increased in 2012. Unfortunately, these rate increases did not generate similar revenue increases. Sewer delinquencies went up.

The City shall increase the sewer collection rate. This could be accomplished by increasing the penalties for delinquent payments and by an aggressive shut-off policy.

The City shall consider the feasibility of assuming control of both current and delinquent collections by assigning this task to a current employee and through the use of an out-side billing and payment service.

The City shall make it easier to pay sewer bills by offering payment by credit card and payment over the internet.

The City shall increase delinquent sewer fees to at least five percent and monthly delinquent interest rates to at least five percent.

Earned Income Tax

The earned income tax, particularly the resident earned income tax, has been a significant source of additional revenues. Recently, the increases in revenues have been the result of the slow recovery from the great recession.

The Cities of Sharon and Hermitage, both Home Rule municipalities, levy the earned income tax at a rate of 1.75 percent for a combined rate with the school district of 2.25 percent.

The City shall take advantage of its own Home Rule powers to raise the resident tax to 1.75 percent from the current 1.3 percent. This could be done over two years.

The higher rate could generate $250,000 a year.

The City shall lower the non-resident rate by one-tenth of a percent a year beginning in 2015 until the rate has been reduced to one percent.

This could result in the loss of $225,000 in annual revenues.

Fees, Fines and Departmental Charges

The fees, fines and departmental charges should cover the cost of the activity associated with the revenue.

The City shall prepare a schedule that includes all of the fees, fines and charges so that they can be levied on a consistent basis. The City already has a consolidated schedule for property code enforcement activates.

The City shall review the fees, fines and charges on a regular basis to make sure that they cover the direct cost associated with the revenue as well as a portion of overhead expenses.

EXPENDITURES

STAFFING AND COMPENSATION

The City has slowly reduced the size of the full-time staff to the point were further reductions could bring significant losses in services. The City has held pay increases to the rate of inflation. The City has not increased benefits.

The City shall not increase the number of full-time positions unless they can be supported by a new revenue source.

The City shall reconsider reducing the on duty staffing in the Fire Department from two to one on some shifts.

***Pay increases shall be kept within the rate of inflation**.*

The City shall not offer any new benefits nor increase the portion of the benefits paid for by the City.

The City shall constantly strive to hold down health insurance costs.

The City shall seek an increase in employee contributions for health insurance if premium cost increases exceed five percent.

The City shall continue to seek ways to reduce the cost of post-retirement insurance expenditures.

The City has been successful in making changes in some years to hold down health insurance premium increases only to see to costs increase in subsequent years.

DEPARTMENTAL EXPENDITURES

The City has been able to hold down departmental expenditures including salaries, but not benefits, so that increases have not been significant. The exception to this has been the Regional Police assessment. In recent years, the growth in the assessment has moderated, but it still remains the largest annual cost increase with the exception of benefits.

The City shall not increase departmental expenditures in 2014 and then limit increases to two percent per year in the following years.

In cooperation with the other municipalities in the Regional Police Department, the City shall participate in a study of the Department focusing on levels of service and expenditures. The City shall take the lead in seeking funds for the study through Act 47.

The goal in the study should be to lower the City's 2014 police assessment to $1,100,000 with three percent increases in the following years.

Capital Budget

As part of the annual budget process, the City shall prepare and up-date a capital budget.

Immediate Action

The City has adopted a three million dollar budget for 2013. The revenues within the budget include $391,000 in transfers from other funds, primarily the Sewer Fund. All of the funds needed to make these transfers may not be available.

There are a number of recommended actions that the City shall undertake now to avoid year-end problems. These include:

Increasing the real estate collection rate

Increasing the sewer collection rate

Implementing reductions in discretionary expenditures that total at least $50,000

Postponing the transfer of one Code Enforcement position from the CDBG Fund to the General Fund

Implementing improvements in tax, fee and fine payment methods including credit card and internet payments

APPENDIX ONE

PRIOR RECOMMENDATIONS

The City should continue to continue to be guided by the recommendations in the 1998 and 2000 Amendments and the additional recommendations made in 2005. Some of these have been adopted. Some however remain. The recommendations that remain works in progress are listed below.

There is some repetition in these recommendations. The repetition includes:

- Recommendations to lower the non-resident tax rate in stages to one percent
- Recommendations to pursue intergovernmental cooperation with the remaining services offered by the City
- Recommendations to explore the sale of city assets including the municipal building and the sewer treatment plant
- Recommendations to limit pay increases and to reduced staffing
- Recommendations to avoid taking on any general obligation debt
- Recommendations to integrate the Treasurer's accounting functions with the administration accounting functions

Some recommendations have changed. These changes include

- Recommendations to hire a full-time economic development director have been replaced with recommendations to use other agencies for economic development functions
- Recommendations to seek merger or consolidation with neighboring municipalities have been replaced with recommendations emphasizing shared services and other intergovernmental cooperation initiatives.

2005 RECOMMENDATIONS

The City should consider reducing the court-approved non-resident earned income tax by 0.1 percent to offset a portion of the increased burden on commuters with the full EMS tax rate. This would reduce revenues by $50,000. The rate can be lowered in steps in future years until it is gone.

The City should seek additional revenues and grants for the library. The City should undertake a feasibility study that considers the services that are provided by the library and the cost of the services. The library's cost to the City, net of the state library grant, is about $80,000 a year.

The City should seek to expand intergovernmental cooperation in the remaining areas where the City continues to provide direct services – public works, fire, and library services. There may be additional opportunities for cooperation with Sharon.

2000 RECOMMENDATIONS

City has implemented many of the 2000 amendments to the Recovery Plan. Some of them, however, remain.

Reduce the non-resident earned income tax rate by one tenth of a percent a year, beginning in 1999. The city will lose about $25,000 in revenue each year until 2003 when the tax will be entirely eliminated. (Because of the Caparo Steel reassessment, it may be necessary to delay this until 2000.)

The City should seriously consider the sale of City assets. These include the municipal building and the sewer system, as well as land acquired for economic development purposes. The sale of any asset will provide one-time revenues and may reduce operating costs associated with the asset.

The City shall avoid all long-term borrowing. There will be significant reductions in debt service costs in 2001 and, by the end of 2003, all long-term debt will be retired. For the years 1998 through 2000, however, the city will still have significant debt service payments.

Wage, salary and fringe benefit increases for all city employees shall be strictly controlled and limited to any future increases in the city's tax base. Pay increases shall not exceed the lesser of changes in the Consumer Price Index for urban workers or the increase in the City's property and wage tax base. The city is not in a position to make regular cost-of-living increases that exceed increases in revenues without cutting services or raising taxes. The city must adhere to this policy in granting increases to non-union employees and in labor negotiations.

The City cannot provide any new or modified fringe benefits that may result in additional or increased costs to the City or that have unknown or uncapped future costs.

The City should continue to review its insurance packages with efforts to reduce costs.

The vacant position of Community and Economic Development Director shall be filled quickly. Because of the nature of the position, the League strongly recommends that the city contract with an established economic development agency to provide the services of a director. To this end, the city should begin discussions with the Shenango Valley Industrial Development Corporation and Penn Northwest Development Corporation.

The City shall continue, and seek to expand, its efforts in housing rehabilitation through the use of CDBG funds for housing rehabilitation, the pursuit of HOME funding either directly or in partnership with the County, and cooperation with the County Housing Authority.

The City shall strengthen existing shared service arrangements and review the recommendations contained in the Shared Service Study and in the Comprehensive Recreation Plan. Shared fire services could result in a substantial decrease in the cost of fire services. Shared recreational services should also reduce costs.

The City shall actively pursue the development of a partnership between the City, Mercer County, the SVIDC, Penn Northwest and any other group, which can contribute to the overall development of the City. This partnership arrangement shall be formalized through a memorandum of understanding between the partners. The agreement shall form the basis of an agreed upon set of priorities. These priorities shall be pursued with respect to local, regional, state and federal agencies.

The City shall continue to pursue discussions with neighboring municipalities and, if a willing partner is found, undertake a feasibility study of a potential consolidation or merger. The City should seek Act 47 Grant Funds to support the feasibility study.

The City shall institute procedures where by the Treasurer's Office will provide a method to bring the receipt and disbursement systems together in the accounting office.

APPENDIX TWO

STATUS OF PREVIOUS RECOMMENDATIONS

2005 RECOMMENDATIONS

There is no doubt that the past economic development efforts in the city have produced some additional taxable economic activity. However, the city's use of the tax incremental financing programs delays new tax revenues for some major projects for several years. Future efforts will be hampered by the lack of attractive sites, the comparatively higher tax rates in Farrell and the lack of a director of Economic and Community Development. The director resigned in August 1997 and the position remains vacant.

The City's major hope for strengthening its non-residential tax base should be the steel making facility and lands. There are over 700,000 square feet of industrial facility at Caparo under roof that is not currently being used. Some of the property is being sold to the Shenango Valley Industrial Development Corporation to be aggressively developed and marketed. The city has already sold a 17.5 acre greenfield site adjacent to the same property to the IDC. The potential for development is there. The likelihood that significant, tax-producing development will occur on the site within the near future is low.

The Pennsylvania Economy League, Inc. believes that the City of Farrell had satisfactorily positioned itself to exit the Act 47 program within the next few years. The property assessment appeal and the layoffs at the steel making facility, however, will delay the city's exit from the program. Based on a review of the City's current financial position, the Economy League recommends continued designation as an Act 47 distressed community in 1998.

Farrell cannot stay in the Act 47 program indefinitely. The city should assume that the steel making operations and facility will make only minimal contributions to the city's revenues and plan accordingly. Within the near term, the City cannot expect additional revenues to cover all projected shortfalls. The City, instead, should focus on the expenditure side of the budget equation to provide fiscal stability.

The City has been supporting five positions with Community Development Block Grant and revolving loan funds. Given the potential uncertainty with Community Development Block grant funds, two of the positions that are not directly related to development should be moved to the general fund. Limiting the use of grant funds to pay operating salaries and benefits has been recommended in past recovery plans beginning with the 1988 plan.

The Fire Chief should be supported by the general fund, not development funds. This would increase general fund expenditures by about $65,000 including benefits.

> *This has been completed*

The City Clerk should be supported by the general fund, not development funds. This would increase general fund expenditures by about $48,000 including benefits.

> *This was completed with the approval of federal auditors. The salaries of the Manager and the City Clerk are supported with both general funds and CDBG funds.*

In 2013, one code enforcement position is being moved from the CDBG Fund to the General Fund.

With the exception of the imposition of a $25 Emergency and Municipal Services tax in 2005, the City has not raised its tax rates for years. The City should consider raising tax rates in 2006.

The City should consider increasing the property tax rate by 1 mill or more to cover a portion of the increase in general fund expenditures. Each mill generates $31,000 in additional revenues.

The City increased the millage by two mills in 2010.

The City should increase the Emergency and Municipal Services tax rate to the full amount, $47 for the City and $5 for the school district. This could generate an additional $70,000 in tax revenues.

It was raised to $47 in 2006.

Eventually, the City will have to lower the court-approved, non-resident tax rate. The revenues from this source are now about $200,000 a year. It has been the fastest growing revenue source in recent years. Hermitage residents working in Farrell do not pay this tax. They do pay the EMS tax. Ohio residents would continue to pay the Act 511 one-percent non-resident tax.

The City should consider reducing the court-approved non-resident earned income tax by 0.1 percent to offset a portion of the increased burden on commuters with the full EMS tax rate. This would reduce revenues by $50,000. The rate can be lowered in steps in future years until it is gone.

The rate has not been lowered. A combination of increases in benefit expenditures and the great recession made it impossible to lower the rate.

There are only a few areas left where the City provides direct services and can cut costs. Because the City has already cut costs and services in these areas, any further cuts should be undertaken only after careful study.

The City should seek additional revenues and grants for the library. The City should undertake a feasibility study that considers the services that are provided by the library and the cost of the services. The library's cost to the City, net of the state library grant, is about $80,000 a year.

The City continues to seek additional funding. Unfortunately, with the exception of the state library grant, grant funds for libraries are limited.

There has not been a feasibility study of the library programs.

The City should determine if it is feasible to reduce the number of part-time firefighters on each turn by one to one. This could reduce expenses by $70,000 in wages.

The Fire Department considered a reduction in on-duty staffing to one inadvisable. The issue is being revisited in 2013

The City should determine if it is feasible to reduce the number of full-time drivers in the public works department by one to one. This could reduce expenses by $20,000 in wages and benefits.

> *The staff in the public works department has been reduced. In 2009, the number of full-time positions was reduced from four to three. There are now three full-time and one part-time position.*

The City continues to be an active participant in intergovernmental cooperation efforts. The City should seek to expand intergovernmental cooperation in the remaining areas where the City continues to provide direct services – public works, fire, and library services. There may be additional opportunities for cooperation with Sharon.

> *The City has approached other communities on intergovernmental cooperation with only limited results. The primary focus on intergovernmental cooperation remains the COG.*

The City has already stopped providing a number of services directly by contracting them out, working with the Mercer County Regional Council of Governments, and turning them over to the private sector.

Aqua American has expressed an interest in acquiring the four treatment plants in the Shenango Valley. Discussions have begun with the City of Sharon. If the results prove to be advantageous for that City, Farrell should consider entering into similar discussions.

> *The City discussed the sale of the treatment plant with the water company. Because the Sewer Department has rates that are below neighboring rates and because it generates operating income, a sale of this asset would not benefit the City's residents and businesses.*

The City should consider contracting out the collection of Act 511 taxes.

> *The City no longer collects the earned income tax.*

1998 Recommendations

The Economy League recommends that the city implement the following new or revised recovery plan amended/updated strategies:

Revenues

Reduce the non-resident earned income tax rate by one tenth of a percent a year, beginning in 1999. The city will lose about $25,000 in revenue each year until 2003 when the tax will be entirely eliminated. (Because of the Caparo Steel reassessment, it may be necessary to delay this until 2000.)

> *The rate has not been lowered. A combination of increases in benefit expenditures and the great recession made it impossible to lower the rate.*

Contract for a sewer plant operations and user fee analysis. This is critical with the additional sewage line problems in the 1800 block of Farrell Terrace on top of the $2.1 million dollar upgrade at the treatment plant facility. The study should recommend and the city should adopt a rate structure that will end any subsidy of the sewer fund by the general fund. In addition to this, the city must continue the aggressive collection efforts initiated in 1997.

The Sewer Fund has been self supporting. The City raised residential rates in 2011 and commercial rates in 2012

The city should consider making the final payment on the Act 47 loan by temporarily raising the property tax rate by 3 mills for 1999 and 2000. This could generate an additional $30,000 to $36,000 each year. The rate can be returned to 65 mills in 2001. To do so, the City should re-negotiate the Act 47 loan to extend the payments over the two year period.

The loan has been paid off.

The City should seriously consider the sale of City assets. These include the municipal building and the sewer system, as well as land acquired for economic development purposes. The sale of any asset will provide one-time revenues and may reduce operating costs associated with the asset.

Land is being sold for development. The City has not sold either the municipal building or the sewage treatment plant. The City discussed the sale of the treatment plant with the water company. Because the Sewer Department has rates that are below neighboring rates and because it generates operating income, a sale of this asset would not benefit the City's residents and businesses.

EXPENDITURES

Farrell should use an expenditure target of $1,650,000. This is the amount that the city can reasonably expect from on-going revenue sources once it has given up the non-resident earned income tax. This is $212,000 less than the 1998 expenditure budget of $1,862,826. If the non-resident wage tax is phased out over four years, 1999 through 2002, the full reduction will not be needed until 2002. For 1999 and 2000, the city can reasonably expect $1,700,000.

The rate has not been lowered. A combination of increases in benefit expenditures and the great recession made it impossible to lower the rate.

The City shall continue to reduce the full-time complement in the fire department to one full time paid fire Chief and one additional full time firefighter/driver. This can only be done through a commitment to paid part time and volunteer firefighters in conjunction with new arrangements with neighboring communities. These efforts must include shared first response for structure fires, purchase of services, joining of volunteer fire fighting forces, and other joint ventures.

The elimination of five paid firefighters through attrition, early retirement or some other means, could reduce salary and benefit costs by $125,000. These savings would be off-set by the additional use of part-time firefighters.

The full-time staff in the Fire department has been reduced to two.

The City shall avoid all long-term borrowing. There will be significant reductions in debt service costs in 2001 and, by the end of 2003, all long-term debt will be retired. For the years 1998 through 2000, however, the city will still have significant debt service payments.

The City has limited long term borrowing to Penn VEST loans for the sewage treatment plant and a Section 108 loan for street improvements with payments made from CDBG funds. The City has no General Obligation debt. All of the debt is secured by revenue sources.

Wage, salary and fringe benefit increases for all city employees shall be strictly controlled and limited to any future increases in the city's tax base. Pay increases shall not exceed the lesser of changes in the Consumer Price Index for urban workers or the increase in the City's property and wage tax base. The city is not in a position to make regular cost-of-living increases that exceed increases in revenues without cutting services or raising taxes. The city must adhere to this policy in granting increases to non-union employees and in labor negotiations.

The City cannot provide any new or modified fringe benefits that may result in additional or increased costs to the City or that have unknown or uncapped future costs.

Any increases in expenditure, even at general inflation levels, without comparable increases in revenues, will place the city in a deficit position.

Raises have been held within the rate of inflation.

There have been no changes in benefits.

The City should continue to review its insurance packages with efforts to reduce costs.

The City regularly reviews insurance plans and, over the years, have changes plans and carriers to gain lower costs.

Economic and Community Development

The vacant position of Community and Economic Development Director shall be filled quickly. Because of the nature of the position, the League strongly recommends that the city contract with an established economic development agency to provide the services of a director. To this end, the city should begin discussions with the Shenango Valley Industrial Development Corporation and Penn Northwest Development Corporation.

The City has had difficulty filling this position. The last was in a position shared with The Regional Planning Commission. Since 2010, in order to reduce costs, the City has relied on consultants for economic and community development. This has been a satisfactory arrangement.

The City shall continue, and seek to expand, its efforts in housing rehabilitation through the use of CDBG funds for housing rehabilitation, the pursuit of HOME funding either directly or in partnership with the County, and cooperation with the County Housing Authority.

The City has been the recipient of two HOME Grant totaling $800,000. There were problems with the administrator of the first grant which made it impossible to dispense the entire $500,000 grant. There have been no problems with the second, $300,000, grant. The City has also supported the CHOICE Homes development of assisted living facilities.

INTERGOVERNMENTAL COOPERATION

The City shall strengthen existing shared service arrangements and review the recommendations contained in the Shared Service Study and in the Comprehensive Recreation Plan. Shared fire services could result in a substantial decrease in the cost of fire services. Shared recreational services should also reduce costs.

> *The City has already consolidated functions with surrounding municipalities. These have included police and emergency dispatch. The City is active in joint COG programs. The City is using an outside agency for economic development purposes.*

The City shall actively pursue the development of a partnership between the City, Mercer County, the SVIDC, PennNorthwest and any other group, which can contribute to the overall development of the City. This partnership arrangement shall be formalized through a memorandum of understanding between the partners. The agreement shall form the basis of an agreed upon set of priorities. These priorities shall be pursued with respect to local, regional, state and federal agencies.

> *The City continues to pursue development opportunities with these agencies. There has not been a formal multi-agency partnership. The City participated in the development of a multi-municipality comprehensive plan through the Regional Planning Commission. The City has shared an economic development position with the Commission.*

The City shall continue to pursue discussions with neighboring municipalities and, if a willing partner is found, undertake a feasibility study of a potential consolidation or merger. The City should seek Act 47 Grant Funds to support the feasibility study.

> *Following a feasibility study, a five municipality merger was put on the ballot. Voters in Sharon and Farrell supported the measure. Voters in the other municipalities did not.*

Shared service arrangements alone may not be sufficient to overcome the erosion of the tax-base and the steady deterioration of City services brought on by the loss of revenue. The City may not be able to achieve long term financial stability. If this is the case, the residents of the City will be able to receive municipal services only if the City merges or consolidates with one of its neighbors.

PRIOR RECOMMENDATIONS

As part of the 1998 Plan, the Pennsylvania Economy League reviewed recommendations from prior plans and identified uncompleted recommendations from these plans. The implementation of some of these recommendations is now on-going while others have not been completed and remain in progress.

FINANCIAL MANAGEMENT

Institute procedures where by the Treasurer's Office will provide a method to bring the receipt and disbursement systems together in the accounting office.

> *In progress*

> *Because of statutory responsibilities under the Charter, the Treasurer continues to account for all receipts and disbursements in addition to their entry in the accounting system.*

Efforts are currently underway to use on accounting software application for all financial transactions. The lack of an integrated system has been a source of concern for past auditors.

Revenue Enhancement

Perform a cost study of the sewer fee structure and enact a sewer fee that covers all cost of operation and maintenance, to include indirect costs and capital improvements to the system. Review all other fees levied by the City for adequacy of charges.

Completed

The City has regularly reviewed fees and raised them to cover the cost of the activity associated with the fees. In 2011 and 2012 significant increases were made in the residential and commercial sewer fees and in the rental fee.

Cost Containment

Institute program to reduce overtime.

Completed

All overtime is now subject to prior approval by the Manager. This has effectively reduced overtime costs.

Provide no new or changes in fringe benefits which result in any additional or increased costs to the City or which have unknown or uncapped future costs. Fringe benefits are to be limited to their present percentage of salaries.

Completed

Benefits remained mostly unchanged.

Ensure all present and future employee pension benefits conform to applicable state law. Costs of adjustments to current and future pension benefits shall be assessed by the City's Actuary and be in conformance with State law. Adequate short and long term funding for adjustments to current and future benefits will be identified prior to establishing the adjustments.

Completed

Pension expenses have been controlled as provided by the actuarial analyses and state law.

Continue efforts to limit overtime.

Completed

All overtime is now subject to prior approval by the Manager. This has effectively reduced overtime costs.

Intergovernmental Cooperation

Pursue increased intergovernmental cooperation agreements.

In progress

Farrell continues to seek additional opportunities for intergovernmental cooperation.

The City is now part of a four municipality Regional Police Force, the Southwest Mercer County Regional Police Force. The City participates in programs provided by the Mercer County Council of Governments including purchasing, transit, building inspection, animal shelter, and internet service. The City has adopted a regional comprehensive plan developed by the Mercer County Regional Planning Commission.

The City's voters approved a five municipality consolidation plan. Unfortunately, voters in three of the five municipalities rejected the plan.

The City has explored public works cooperation with surrounding municipalities, but these efforts have not yet been successful.

Community and Economic Development

Hire an Economic/Community Development Director.

The City has explored a number of ways to support economic development functions. The City created and filled the position of Community and Economic Development Director. The last director was shared with the Mercer County Regional Planning Commission. The City began to use out-side consultants to provide these services. This was done as a cost-saving measure. This has been a satisfactory arrangement.