The Novak Consulting Group

May 1, 2018

Mayor and City Council
500 Roemer Boulevard
Farrell, PA 16121

Dear Mayor and City Council:

The City of Farrell's Financial Condition Assessment was officially filed with the City on November 22, 2018 and posted on the City's website. The Financial Condition Assessment is enclosed for reference. The written comment period was open until Wednesday, December 13, 2017. The Coordinator held a public meeting to receive comments on the Report beginning at 6:00 P.M. on Monday, December 18, 2017, at the City of Farrell municipal building City Council Chambers, located 500 Roemer Boulevard, Farrell, PA 16121. No comments were received in writing or during the public meeting.

In summary the Act 47 Coordinator found that financial conditions within the City of Farrell are strong and that the City is poised to exit distressed status. The Coordinator found: 1) operational deficits of the City have been eliminated and the financial conditions demonstrate a reasonable probability of future balanced budgets absent participation in Act 47 by the close of 2018; 2) obligations have been structured so that there is a reasonable probability of continued timely debt service absent participation in Act 47; 3) there are no claims or judgments that would place the City in imminent jeopardy of financial default; and 4) reasonably projected revenues of the City are sufficient to fund ongoing necessary expenditures, including pension and debt obligations, the continuation of collective bargaining agreements, and the provision of municipal services.

However, it is recommended that the City's duration in Act 47 be extended under the "three-year exit plan" alternative under Act 199 but it is also the Coordinator's finding that the City will be in a position to exit Act 47 status at the close of 2018 and, as such, should exit the program at that time. The additional Act 47 enabled revenue that enabled through the extension can be accrued to address capital infrastructure investment needs; economic development projects; and the further development of an Emergency Reserve Fund. This extension will strengthen the City's financial condition, grow its tax base, and offer a more sustainable Act 47 exit plan at the close of 2018.

As a result, the Act 47 Coordinator's recommended exit plan that the City initiate the necessary administrative and legal processes to eliminate the collection of Act 47 enabled EIT revenue effective January 1, 2019. This is the only procedural step required of the City to exit Act 47.

Sincerely,

J. J. Novak

President

City of Farrell, Pennsylvania

Act 47 Financial Condition Assessment

January 2018

The Novak Consulting Group

Pennsylvania Economy League
Information, Insight, Integrity.

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January 17, 2018

Mr. Dennis Davin, Secretary
PA Department of Community & Economic Development
Governor's Center for Local Government Services
Commonwealth Keystone Building
400 North Street, 4th Floor | Harrisburg, PA 17120-0225

Dear Secretary Davin:

Enclosed please find the final Act 47 Coordinator's Financial Condition Report for the City of Farrell. The Draft Report was officially filed with the City on November 22, 2018 and posted on the City's website. The written comment period was open until Wednesday, December 13, 2017. The Coordinator held a public meeting to receive comments on the Report beginning at 6:00 P.M. on Monday, December 18, 2017, at the City of Farrell municipal building City Council Chambers, located 500 Roemer Boulevard, Farrell, PA 16121. No comments were received in writing or during the public meeting.

The Coordinator's finding set forth in the Report is that conditions within the City of Farrell warrant a three year extension in Act 47; however, it is recommended that the City exit Act 47 at the close of 2018. This extension will augment the City's ability to sustainably exit the program and provide ongoing financial capacity to invest in capital development and economic development initiatives.

In summary, the Coordinator found: 1) operational deficits of the City have been eliminated and the financial conditions demonstrate a reasonable probability of future balanced budgets absent participation in Act 47 by the close of 2018; 2) obligations have been structured so that there is a reasonable probability of continued timely debt service absent participation in Act 47; 3) there are no claims or judgments that would place the City in imminent jeopardy of financial default; and 4) reasonably projected revenues of the City are sufficient to fund ongoing necessary expenditures, including pension and debt obligations, the continuation of collective bargaining agreements, and the provision of municipal services.

Sincerely,

Julia Novak
President

CC: Rick Vilello, Deputy Secretary, DCED
Marita Kelley, Deputy Director, DCED
Edward, Fosnaught, Local Government Policy Specialist, DCED
City of Farrell, Mayor and City Council
Michael Ceci, City of Farrell City Manager

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Executive Summary

The City of Farrell (City) is in Mercer County in Northwest Pennsylvania. The City's estimated 2015 population is 4,829. The City is governed pursuant to the Home Rule Charter the City of Farrell adopted by referendum in 1975. Under the Home Rule Charter, the City's governing body is a seven-member City Council composed of a Mayor and six additional Council Members.

Pursuant to the Commonwealth of Pennsylvania's Municipalities Financial Recovery Act, Act 47 of 1987, as amended, (Act 47) the City was declared a financially distressed municipality by order of the Secretary of the Department of Community and Economic Development (DCED) on September 23, 1987. Local Government Research, Inc. (LGR) was appointed Act 47 Coordinator under Act 47 in December, 1987. The firm prepared an Act 47 Recovery Plan (Recovery Plan) which was adopted by the Farrell City Council on May 19, 1988. In late 1990, DCED 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 DCED 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 (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. However, they were 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.

The penultimate Act 47 Coordinator, Dr. Michael Weir, worked with the City to develop a Recovery Plan that was adopted on May 22, 2013. The Novak Consulting Group was appointed Act 47 Coordinator effective August 1, 2013 and has worked with the City to implement many of the initiatives outlined in the Recovery Plan, and respond to unexpected issues and opportunities since the Recovery Plan was adopted.

Act 199 of 2014 (Act 199) amended Act 47. Among other provisions, it limited the amount of time a municipality may be declared financially distressed. Since the City of Farrell was operating under an existing Recovery Plan on the effective date of the Act 199, it is subject to a termination date five years from the effective date of its then most recent recovery plan, which May 23, 2017 to May 22, 2018. As part of the Act 199 process, the Coordinator is required to complete a report stating the financial condition of the municipality no later than 180 days after the beginning of the final year of distressed status – which is 2018. The report is required to include one of the following findings based on the conditions within the municipality:

(1) Termination of distressed status;
(2) Municipal disincorporation;
(3) Fiscal emergency; or
(4) A three-year exit plan.

The Mayor and City Council have cooperated with the Coordinator in implementing many of the initiatives included in the City's Amended 2013 Recovery Plan, as well as other important initiatives not enumerated in the Recovery Plan. The City of Farrell has taken numerous steps that have substantially improved the financial position of the City and that will continue to provide a reasonable probability of future balanced budgets without operating under the provisions of Act 47. However, there is also an opportunity to extend the City of Farrell's Act 47 status by seven months, through December 31, 2018, to allow the City to more sustainably exit the program without the need to implement Real Estate Tax and Resident EIT Tax rate increases in the next five years.

The Act 47 Coordinator has prepared this Financial Condition Report and finds that financial conditions within the City of Farrell are strong and that the City is poised to exit distressed status; however, it is recommended that the City's duration in Act 47 be extended under the "three-year exit plan" alternative. However, it is also the Coordinator's finding that the City will be in a position to exit Act 47 status at the close of 2018 and, as such, should exit the program at that time. The additional Act 47 enabled revenue that enabled through the extension can be accrued to address capital infrastructure investment needs; economic development projects; and the further development of an Emergency Reserve Fund. This extension will strengthen the City's financial condition, grow its tax base, and offer a more sustainable Act 47 exit plan at the close of 2018.

This Financial Condition Report will review the factors that led the City to its Act 47 designation, which will be fully remediated at the close of 2018. Those factors are summarized below:

(1) The municipality has maintained a deficit over a three-year period with a deficit of one percent or more in each of the previous fiscal years;

(2) The municipality's expenditures have exceeded revenues for a period of three years or more;

(3) The municipality has experienced a decrease in a quantified level of municipal service from the preceding fiscal year, which has resulted from the municipality reaching its legal limit in levying real estate taxes for general purposes.

Operating Budget Review

In 2012, the City of Farrell's General Fund concluded the year with a slight surplus of $8,138. In 2013 and 2014, the City experienced significant operating deficits in the General Fund totaling $291,946 and $156,633, respectively. These deficits were attributable to a number of factors related to both revenue and expenditures.

From 2012 through 2014, total General Fund revenue increased by three percent. Though the City collects revenue from multiple sources, three sources composed over 70 percent of the City's General Fund revenue. These include Real Estate, Resident Earned Income Taxes, and Non-resident (Act 47 enabled) Earned Income Taxes. From 2012 through 2014, Real Estate Tax revenue increased by approximately four percent. Resident and Non-resident EIT revenue also increased over this period by $23,679 (2.8 percent) and $38,969 (18.2 percent), respectively.

While revenue increased at a modest rate from 2012 through 2014, expenditures increased by 8.8 percent, outpacing modest revenue growth. These increases in expenditures were largely the result of unexpected cost overruns in police services contract expenses from the Southwest Mercer County Regional Police Department (SWMCRPD). These expenses increased by 15.6 percent over the review period. Beginning in FY 2014, a number of proactive steps were taken to address the General Fund deficit and ultimately work toward eliminating the City's reliance on Act 47 enabled revenue.

The adopted 2014 General Fund budget included a Resident EIT rate increase to 1.3 percent; however, Resident EIT revenue unexpectedly declined from 2013 to 2014 because of a decrease in labor hours worked in the City. This trend, as well as the initiatives detailed in the Act 47 Plan, led the City to adopt further Resident EIT rate increases in 2015. The approved 2015 budget included an increase to the Resident Earned Income Tax rate to 1.6 percent. In 2015 the number of labor hours worked within the community increased which created new revenues from these Resident EIT rate increases. Resident EIT revenue increased by $132,855 or 15.2 percent. In addition, the City worked with the SWMCRPD to freeze any increases in the annual police assessment during the 2015 Fiscal Year. As a result of these efforts, as well as prudent expenditure reduction efforts led by City Administration, the Mayor, and City Council, the City achieved a slight General Fund surplus of $36,137 in 2015. However, several issues still remained, including:

- Continued reliance on Act 47 enabled revenue to support general government operations
- Unsustainable growth in police assessment expenses at the SWMCRPD
- Limited availability of contingency funds to absorb economic fluctuations or cover unanticipated emergency expenses

In 2015, the City collected approximately $268,885 in Act 47 enabled Resident and Non-resident EIT revenue. When factoring out the minor surplus, the City required $232,748 in Act 47 enabled revenue to fund day to day operations. With regard to the Police expenditures, even though the City negotiated a freeze in the 2015 police assessment, SWMCRPD notified the City of Farrell of a projected 2015 deficit of $119,000 and requested that participating communities absorb this cost. In addition, the SMCRPD requested five percent per year increases in the City's police assessment over a five-year period. After extensive effort to coordinate with the SWMCRPD to control these expenses, the City opted to create its own municipal police department to begin providing policing services to the community on January 1, 2016.

This option offered several operational and financial advantages to the City because it allowed them to create a new collective bargaining agreement under more favorable terms that reflected the City's constrained financial condition. It also allowed the City to create a more cost-effective deployment and staffing model that consolidated the overhead expenses required to maintain a comparably large regional police department. This expenditure reduction initiative allowed the City to reduce its policing expenses by $282,201 or 20.6 percent from 2015 to 2016, and the cost savings continue to compound through 2017.

In addition, the adopted 2016 General Fund budget also included revenue increases designed to generate sufficient revenue to offset the anticipated elimination of Act 47 enabled revenue by 2018. Specifically, the Adopted General Fund budget included a property tax increase of 3 mills; a Resident EIT rate increase from 1.6 percent to 2.0 percent, and; a corresponding 0.4 percent increase in the Non-resident EIT rate from 1.4 percent to 1.8 percent, per the EIT rate increase restrictions outlined in Pennsylvania Act 511. Revenue from the additional portion of the Act 47 Enabled Non-resident rate was also restricted to the development of an emergency reserve fund, capital investment, or debt elimination, and therefore could not be applied to ongoing operating expenses. These revenue increases, coupled with the cost savings derived from creating its own Police Department, allowed the City to restrict the use of Act 47 enabled revenue to specifically address issues necessary to help the City exit the Act 47 program. In 2016, the City ended the year with a General Fund surplus of $383,547.

These steps implemented in FY 2016 positioned the City to eliminate its reliance on Act 47 enabled revenue to fund general government operations. As a result, the Adopted 2017 General Fund budget did not require tax or fee increases. Furthermore, the adopted 2017 budget did not rely on any Act 47 enabled revenue to fund general government operations. The following table summarizes historic revenue and expenditure trends for the City of Farrell from 2012 through 2016. A summary by major revenue and expenditure category is included as Appendix A.

Table 1: Historical Revenues and Expenditures – 2012 through 2016

	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	Change 2012-2016	
Revenues	2,831,355	2,805,903	2,917,619	3,218,869	3,679,740	387,514	13.7 %
Expenditures	2,823,217	3,097,849	3,074,252	3,182,731	3,296,193	359,514	12.7 %
Surplus/(Deficit)	**8,138**	**-291,946**	**-156,633**	**36,137**	**383,547**	**-**	**-**

The 2017 General Fund budget reflects similar trends as those in 2016. As of October 31, 2017, the City has collected $3,356,118 in General Fund revenue and has expended $3,356,118. However, this expenditure amount includes a $351,592 transfer of Act 47 enabled Non-resident EIT revenue to the Capital Fund. This transfer amount will increase at year-end. This reflects a healthy surplus in the General Fund and the Act 47 Coordinator's Team's estimates indicate that the City will conclude FY 2017 with approximately $500,000 in reserve funds in the Capital Reserve/`Emergency Reserve Fund. These reserve funds are the direct result of the City's efforts to eliminate its reliance on Act 47 enabled revenue to fund local government operations.

The City's legacy costs include retiree healthcare, pension, and debt service. Although these ongoing legacy costs were incurred by the City in prior years, the City remains legally required to satisfy these commitments. The City presently commits current operating budget revenue to fulfill these legacy costs and the corresponding expenditures are included in the City's operating budget expenditures. During the 2015-2016 operating budget review period, the City's legacy costs varied. In 2015, the City's legacy costs were $330,869, or 10 percent of the City's total 2015 operating expenditures. In 2016, the City's legacy costs increased slightly to $383,635, or 11.0 percent of the City's total 2016 operating expenditures. This slight increase was due to the consolidation of the SWMCRPD pension assets and liabilities into the City of Farrell's PMRS Police Pension. However, total police pension Minimum Municipal Obligations (MMO) decreased by $67,694 from 2016 to 2017. Further, 2018 Police Pension MMO expenses are estimated to be $11,500 as the pension is funded at a rate of 117 percent. The City has no long-term debt obligations and eliminated all short-term revolving debt in 2017. These legacy costs have an impact on the City's operating budget; however, the City has a sufficient revenue stream to cover the expenses. The following table summarizes the City's legacy costs over the prior three years.

Table 2: Legacy Cost Summary

	2015 ACTUAL	2016 ACTUAL	2017 BUDGET	2018 BUDGET
Retiree Healthcare	61,495	95,011	90,000	80,000
Fire Pension	133,345	124,586	79,636	105,984
Police Pension	49,083	167,694	100,000	11,500
Non-uniform Pension	86,946	90,141	113,799	82,288
Debt Service	0	0	200	200
Total Legacy Costs	**330,869**	**477,432**	**383,635**	**279,972**
Total Expenditures	**3,196,103**	**3,296,190**	**3,371,118**	**3,500,158**
Legacy Costs as a percent of Total Expenditures	**10 percent**	**14 percent**	**11 percent**	**8 percent**

The largest legacy cost increase during the review period was the City's annual pension obligation for the Police Pension and Retiree Healthcare which increased by $28,505 and $50,917 over the review period. These increases were the result of the consolidation of the SWMCRPD pension assets and liabilities, and retiree health care obligations into the City of Farrell's PMRS Police Pension. Total Legacy Cost expenditures as a percentage of Total Expenditures have decreased from 10 percent in 2015 to 8 percent budgeted in 2018. These expenses are not anticipated to increase significantly in the future and the ratio of legacy costs to total expenditures is reasonable.

Current Financial Condition

The City proposed a balanced 2018 operating budget on September 25, 2017, and provided recommended adjustments reflecting the Act 47 Coordinator's review at the November 20, 2017 City Council meeting. The proposed budget included revenues and expenditures equal to $3,507,118. This includes a projected transfer of $499,000 at year-end including $399,000 to the Capital Reserve Fund and $100,000 to the Fund Balance Reserve Fund. This proposed budget assumes that Act 47 enabled Non-resident EIT revenue will be available to the City through December 31, 2018. The proposed budget does not allocate any Act 47 enabled EIT revenue toward operating expenses.

As of the date of this Report, the City has a typical amount of accounts payable with none known to be over thirty days due and a sufficient cash balance to meet anticipated costs. The City ended 2016 with $213,555 in cash and $73,579 in accounts payable. The City is projected to end 2017 with $145,000 in cash and $76,000 in payables, after fully funding the City's Emergency Reserve Fund. Total projected cash on hand at the close of 2017 is $293,568. The City does not require a Tax Revenue Anticipation Note (TRAN) in 2018, nor has it required one in the previous five fiscal years. The following table summarizes the proposed 2018 General Fund operating budget.

Table 3: 2018 General Fund Budget Summary

REVENUE/EXPENDITURE CATEGORY	2018 BUDGET
REAL ESTATE TAX	1,170,000
LOCAL ENABLING TAX	1,540,000
LICENSES AND PERMITS	93,300
FINES/FEES	36,500
INTEREST EARNINGS	200
INTERGOVERNMENTAL REVENUES	182,500
FEDERAL PAYMENTS IN LIEU OF TAXES	20,118
TAX COLLECTION ADMINISTRATIVE COSTS	50,000
SPECIAL POLICE SERVICES	16,500
PROTECTIVE INSPECTION FEES	500
RENTS	15,000
MISCELLANEOUS REVENUE	100,000
PROCEEDS GENERAL FIXED ASSETS	2,500
INTERFUND OPERATING TRANFERS	280,000
TOTAL REVENUES	***3,507,118***
REVENUE/EXPENDITURE CATEGORY	**2018 BUDGET**
LEGISLATIVE	35,000
ADMINISTRATIVE	159,250
TAX COLLECTION	97,900
LAW	38,200
EMPLOYEE BENEFITS	546,463

REVENUE/EXPENDITURE CATEGORY	2018 BUDGET
POLICE SERVICES	1,210,806
FIRE	313,350
CODE ENFORCEMENT	54,962
PUBLIC SERVICE	33,200
MAINTENANCE	20,000
PUBLIC WORKS	377,565
PARKS AND PLAYGROUNDS	30,000
LIBRARY	55,400
DEBT INTEREST	200
INTERGOVERNMENTAL EXPENSE	35,822
FUND BALANCE	100,000
INTERFUND OPERATING TRANSFERS	399,000
TOTAL EXPENDITURES	***3,507,118***

Cost Centers

Labor

The City currently has 46 budgeted positions, including 25 full-time and 21 part-time positions. The City's managerial and confidential staff are "at will" employees. Most of the City's employees are represented by one of two unions and are subject to Collective Bargaining Agreements (CBA) with the City.

Police Department employees, excluding the Chief of Police, are represented by the City of Farrell Fraternal Order of Police (FOP) Lodge No. 34. The current CBA is for a four-year term beginning January 2017 and expiring December 2020. The financial and operational outcomes of the CBA are within the limitations set during the pro forma financial modeling completed in the development phase of the Farrell Police Department in late 2015 and within Act 133 spending limitation outlines in the Recovery Plan. The contract includes wage increases at an average rate of 2.25 percent over the contract period. Employees are required to contribute 10 percent of overall health care premium expenses; employees made no contributions in the prior contract with the regional department. In addition, employees are required to utilize a spouse's coverage if available, but are reimbursed one-third of the total annual premium cost.

The City's non-uniformed, non-management employees are represented by The American Federation of State, County, and Municipal Employees AFL-CIO Local 200 (AFSCME). The City's current collective bargaining agreement with AFSCME for the non-uniformed employees began on January 1, 2017, and will expire on December 31, 2021. The contract includes modest wage increases and is within the limitations set forth in the Recovery Plan and Act 133.

Debt

The City has no outstanding principal long-term debt. Further, in 2017, the City paid off all short-term revolving debt. The following table summarizes the City's 2017 and 2018 debt service expenditures.

Table 4: Debt Service Summary

	2017 BUDGET	2017 YTD 09/22/16	2018 BUDGET
Public Works Truck Loan Repayment	28,621	30,031	0
Public Works Tractor Loan Repayment	24,184	32,184	0
Police Vehicles	4,731	1,577	0
Total Expenditures	57,536	63,792	0

Pension

The City of Farrell participates in three single-employer pension plans. As of January 1, 2017, the Farrell Non Uniform Pension Plan (NUPP) funding ratio was 87 percent (Distress Level I – Minimally Distressed) with a Net Pension Liability of $225,000; the Farrell City Police Pension Plan (FCPPP) funding ratio was 117 percent with a Net Pension Liability of $300,000, which is projected to improve after a 10 year amortization is finalized; and the Farrell City Firefighter's Pension Plan (FCFPP) funding ratio was 55 percent (Distress Level II – Moderately Distressed) with a Net Pension Liability of $800,000. The City's annual minimum pension obligation in 2018 is estimated to be $199,790.

The City's retiree healthcare contribution in 2018 is projected to be $80,000. The City does not pre-fund this legacy cost like its pension liabilities but instead finances these costs on a pay-as-you-go basis. The Coordinator's review of these legacy costs indicates that the City can meet these obligations using existing revenue streams and can generate additional revenue as necessary to cover these and other operating expenses.

Financial Baseline

The Coordinator has reviewed Farrell's financial history and developed financial projections for 2018-2023, using the City's proposed 2018 budget as the projection baseline. These projections were made for two scenarios. Scenario 1 assumes the City of Farrell exits Act 47 and does not have access to $350,000 in Act 47 enabled Non-resident EIT revenue in 2018. Historical revenue growth trends were applied to 2018 budgeted revenue baselines. Over the five-year projection period, revenue is expected to grow at a rate of two percent. Expenditures are projected utilizing known cost increase factors, such as the City's existing CBAs, as well as Core Price Index assumptions. Based on these assumptions, expenditures are projected to increase by 6.5 percent over the five-year projection period. Based on these assumptions, the City will incur a General Fund operating deficit in 2019 of $24,503 growing to $140,657 in 2022, absent increases in revenue or decreases in expenditures. The following table summarizes the five-year revenue and expenditure projections under Scenario 1, which assumes no Act 47 enabled revenue in 2018.

Table 5: Projected Baseline Revenues, Expenditures, Surplus (Deficit) 2018 – 2022 – Scenario 1 with no Act 47 Revenue in 2018

	2018	2019	2020	2021	2022	Change 2018-2022	
	Projected	Projected	Projected	Projected	Projected	$	percent
Revenues	3,157,118	3,161,368	3,180,924	3,200,792	3,220,975	63,857	2.0 %
Expenditures	3,157,118	3,185,871	3,239,189	3,299,415	3,361,632	204,514	6.5 %
Surplus/(Deficit)	0	-24,503	-58,265	-98,624	-140,657		

Under Scenario 1 (No Act 47 revenue in 2018), the City will require a combination of three actions to overcome projected deficits. It will either have to increase revenue through Real Estate Tax or Resident EIT rate increases; decrease expenditures, and/or; utilize funds from the City's Capital Reserve/`Emergency Reserve Fund.

As a Home Rule community, the City is no longer bound by statutory limits on rates for EIT, property taxes, and realty transfer taxes, providing for greater flexibility in the future to generate tax revenue based on community needs. However, there are risks associated with Resident EIT and Real Estate Tax rate increases.

Currently, Farrell has the highest Resident EIT rate of 2.0 percent in Mercer County. The cities of Sharon and Hermitage each have rates of 1.75 percent, and the City of New Castle has a rate of 1.6 percent. Farrell also has the third-highest real estate property tax at 27.67 mills. Only the City of Sharon (29.51 mills) and Greenville Borough (36.08 mills) are higher.

Examining total tax burdens reveals similar patterns. Farrell's Resident EIT rate is the highest at 2.5 percent (compared to 2.25 percent in the City of Sharon and 2.1 percent in the City of Hermitage). However, Farrell has a slightly more favorable overall property tax burden compared to Mercer County peers at 93.58 mills – the fifth highest among Mercer County communities. The City of Sharon has the highest overall property tax burden at 101.06 mills, followed by Greenville Borough, Sharpsville Borough, and French Creek Township.

Though the City has the legal capacity to raise Resident EIT and Real Estate Tax rates, Farrell's positon as having one of the highest tax burdens in Mercer County is problematic. Rate increases in these areas could preclude further tax base growth and potentially motivate Farrell residents to move to another community with more favorable tax rates. To that end, it will be important to minimize these rate increases as means to sustainably exit Act 47.

The second option available to the City to address projected deficits is expenditure control. The City has proven adept in recent years at tightly controlling expenditure growth. The City has fair but favorable CBAs that attempt to control costs and keep expenses within resources. The City's legacy costs represent a low percentage of the overall operating budget. It is reasonable to assume that the City will be able to continue the practice of tight expenditure control into the future.

The third option to address projected deficits is to utilize one-time revenue from the Capital Reserve/`Emergency Reserve Fund. The City is projected to begin 2018 with approximately $500,000 in the Capital Reserve/`Emergency Reserve Fund. Relying exclusively on these funds to close the deficits in the projection period would reduce the balance of the Capital Reserve/`Emergency Reserve Fund from $650,000 at the close of 2018 to $327,000 in 2022. This would significantly limit the City's ability to invest in capital infrastructure, equipment, and other resource needs in the future. Further it would detract from some of the important gains made by the City over the past five years and limit ability to invest in economic development initiatives.

The second financial scenario assumes that the City of Farrell's Act 47 status is extended through December 31, 2018, thereby giving the City access to an additional seven months of Act 47 enabled revenue. This revenue, which is projected to total approximately $350,000, would go directly to the City's Capital Reserve/`Emergency Reserve Fund and a new Fund Balance Fund, and would not be used for operations.

This would increase available cash reserves to approximately $1 million by the close of 2018. If the City relied exclusively on these funds to address annual operating deficits, it would still have over $670,000 in reserve cash at the close of 2022. This would fundamentally limit the City's need to increase Real Estate and Resident EIT rates, and allow the City's recovery efforts to continue to germinate and take root. The following figure summarizes the City of Farrell's five-year financial projections as well as the Capital Reserve/`Emergency Reserve Fund balance impact of both aforementioned scenarios.

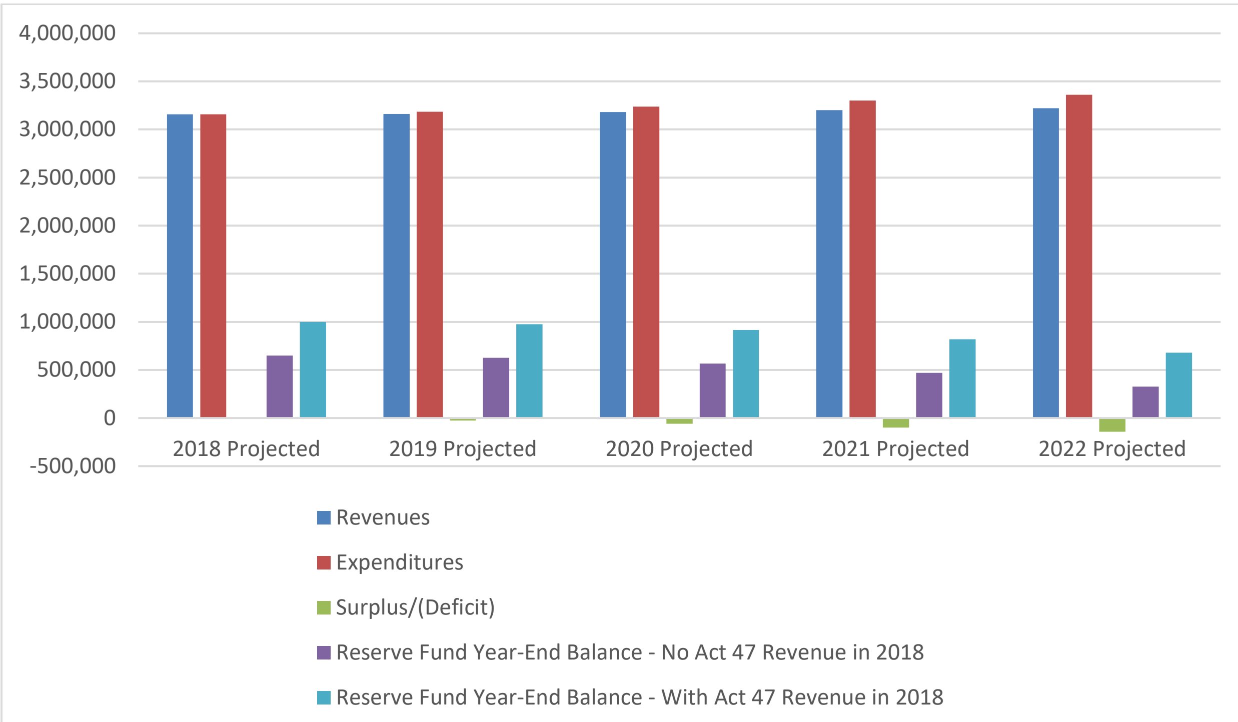

Figure 1: Summary of Financial Projections – 2018 through 2022

Findings

The City of Farrell now has a consistent series of revenue streams to provide realistic and affordable service levels. In addition, it has the capacity to increase tax rates should unexpected conditions impact the City's financial condition. Though the City has this capacity, it is also evident that the City has one of the highest total Resident EIT and Real Estate Tax rates in Mercer County. To that end, it will be important for the City to strive to meet its operating and capital needs with limited tax increases in the near term. This need is compounded by the fact that Mercer County has not completed a property tax reassessment since 1976. A reassessment may have a significant impact on the City's Real Estate Tax revenue. It will be important for the City to maintain some capacity to increase tax rates should a reassessment require such action.

The City has also taken extraordinary measures to control current and future expenditures. The decision to withdraw from the SWMRPD, though controversial, has proven to generate significant cost savings for the City. More importantly, the members of the Farrell Police Department are providing quality policing services to the residents and visitors of Farrell. The City also made the difficult decision to raise Real Estate Tax rates and Resident EIT rates in 2015, which were important steps toward the effort to eliminate its reliance on Act 47 enabled revenues.

The City's financial condition is strengthened by continued growth and discussion of expansion at its two major employers – NLMK Pennsylvania and the UPMC Hospital. Production at the NLMK steel plant continues to expand and UPMC is actively planning a hospital expansion. These conditions will result in new jobs in the community and will augment the City's Resident EIT revenue, home rule enabled Non-resident EIT revenue, and Real Estate Tax revenue.

There is concern in the community and among City Council members regarding the harmful impact that Administration's "Buy America" tariffs could have on NLMK USA Steel in Farrell. NLMK's production process outsources to overseas companies the conversion of raw materials into steel slabs that are then used to produce finished materials at the Farrell plant. This process does not meet the specifications defined in the "Buy America" rules and could therefore exclude NLMK from obtaining lucrative government infrastructure contracts unless they purchase slab steel from U.S. based companies. However, this steel is not readily available in the United States and is costlier. NLMK is one of the largest employers in Farrell and generates significant Earned Income Tax revenue. However, NLMK and other U.S. companies impacted by this rule are actively lobbying to protect their business interests. The prospect of potential contraction at the NLMK plant because of this rule does not alone justify that the City remain in Act 47 through the optional three-year extension period.

The Coordinator has worked with City officials to develop an ongoing strategy that will prevent the reoccurrence of past fiscal transgressions and point the way to balanced annual operating budgets. After termination of Act 47 status, the City's financial parameters will be constrained by the City's Home Rule Charter, Act 511, Act 111, Act 195, and related laws of the Commonwealth applicable to local governments. The ongoing challenge for the City is to maintain its fiscal discipline and continue to provide the level of public services expected and requested by its citizens, businesses, and visitors within the parameters of the financial resources that are available.

It is the Coordinator's finding that the City has made substantial progress on several fronts, and that that the City is in a strong position to exit Act 47 at the end of 2018. The City will begin 2018 with $500,000 in its Capital Reserve/`Emergency Reserve Fund and will be poised to meet operating needs using only Home-Rule enabled revenues. The City has the capacity to increase those revenues to address future operating deficits. Further, the City has negotiated fair collective bargaining agreements that will help control labor expenses through 2021. However, it is not just important that the City exit Act 47, but that it ***sustainably*** exit the program.

The City's current Recovery Plan expires on May 22, 2018. Extending the City's duration in Act 47 by seven months will provide a financial buffer that will allow the City to limit its need to pass Resident EIT and Real Estate Tax rate increases over the next five years. Further, it will allow the City to meet capital investment needs relating to the City's stormwater and transportation infrastructure, as well as vehicle, facility, and equipment infrastructure needs. It will augment the pool of resources available to the City for economic development investment, which will help continue to grow the City's tax base by investing in economic development initiatives. Lastly, it will provide sufficient `Emergency Reserve Funds that will allow the City to absorb and adjust to unanticipated disruptions in the American economy.

Based on the City's ability to achieve long-term financial sustainability, it is the Coordinator's finding that conditions within the City of Farrell warrant a three year extension of the City's Act 47 status with the goal to fully exit after one year, by December 31, 2018. At the closed of 2018 the City should exit the Act 47 program in accordance with Section 255.1. The Coordinator addresses each of the factors set forth in Section 255.1(c) in reaching this finding.

(1) Operating deficits of the City of Farrell have been eliminated and the financial condition of the City, as evidenced by the audited financial statements through 2016 prepared in accordance with generally accepted accounting principles and projections of future revenues and expenditures, demonstrates a reasonable probability of future balanced budgets absent participation in Act 47;

(2) Obligation issues to finance the City's debt have been retired, reduced, and reissued in a manner that has adequately refinanced outstanding principle and interest and has permitted timely debt service and reasonable probability of continued timely debt service absent participation in Act 47;

(3) The City did not and does not now have any claims or judgments that would place the City in imminent jeopardy of financial default;

(4) The reasonably projected revenues of the City are sufficient to fund ongoing necessary expenditures, including pension and debt obligations, the continuation or negotiation of collective bargaining agreements, and the provision of municipal services. Projections of revenues include anticipated tax or fee increases to fund ongoing expenditures for the first five years after a termination of distressed status.

Appendix A – Summary of Historical Revenues and Expenditures

Table 6: Summary of Revenue by Category – 2014 through 2016

	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	Change 2012-2016	
Real Estate Taxes	956,945	952,129	997,109	1,059,676	1,059,596	102,731	10.7 %
Real Estate Transfer	52,805	50,208	49,618	58,101	44,854	5,296	10.0 %
EIT Resident	847,571	919,626	871,250	1,004,105	1,136,588	156,533	18.5 %
EIT Non Resident	213,110	267,348	252,079	268,885	482,145	55,775	26.2 %
Local Services Tax	83,054	110,753	100,752	95,879	94,564	12,825	15.4 %
Business License & Permits	92,051	92,622	88,900	103,137	101,040	11,085	12.0 %
Fines & Fees	0	0	0	0	33,592	0	0.0 %
Interest Earnings	92	40	18	1	49	-91	-99.0 %
Intergovernmental Revenues	94,376	98,549	88,796	104,965	198,504	10,588	11.2 %
Federal Payments In Lieu of Taxes	20,118	22,381	20,386	20,804	20,515	686	3.4 %
Tax Administration Reimbursements	42,017	43,971	50,231	51,287	40,227	9,270	22.1 %
Police Service Charges	7,375	7,421	7,649	7,620	11,191	245	3.3 %
Building/Zoning fees	30	240	848	823	0	793	2643.0 %
Rents	30,250	27,500	31,250	24,950	15,000	-5,300	-17.5 %
Miscellaneous Revenue	82,866	72,500	83,000	139,782	161,625	56,917	68.7 %
Proceeds From Sales	1,000	24,000	1,500	3,800	0	2,800	280.0 %
Transfers	280,015	116,615	274,233	275,054	280,250	-4,961	-1.8 %
Total Revenue	**2,803,677**	**2,805,903**	**2,917,619**	**3,218,869**	**3,679,740**	**415,192**	**14.8 %**

Table 7: Summary of Expenditures by Category – 2014 through 2016

	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	Change 2012-2016	
Legislative Body	32,282	33,488	36,390	32,112	33,751	-170	-0.5 %
Administration	219,499	193,993	196,466	219,461	290,432	-38	0.0 %
Tax Collection	72,396	79,905	86,857	90,976	95,466	18,580	25.7 %
Law	22,862	50,067	49,635	39,680	44,264	16,819	73.6 %
Personnel Administration	532,490	719,277	578,185	534,858	650,982	2,368	0.4 %
Police	1,182,955	1,204,161	1,247,294	1,368,136	1,085,935	185,181	15.7 %
Fire	311,947	336,851	352,329	312,136	343,929	189	0.1 %
Code Enforcement	0	51,617	54,353	61,841	48,486	61,841	0.0 %
Public Services	10,331	6,482	4,983	7,004	19,585	-3,328	-32.2 %
Maintenance	13,576	18,547	13,885	15,149	25,400	1,573	11.6 %
Public Works	269,359	257,599	296,053	313,421	375,999	44,063	16.4 %
Parks & Playgrounds	33,562	28,822	40,859	64,351	42,826	30,789	91.7 %
Library	102,176	98,107	97,895	101,927	68,793	-250	-0.2 %
Debt Interest	263	0	163	0	0	-263	-100.0 %
Intergovernmental Expenses	19,519	18,933	18,905	21,680	20,346	2,161	11.1 %
Total Expenditures	**2,823,217**	**3,097,849**	**3,074,252**	**3,182,731**	**3,146,193**	**359,514**	**12.7 %**