8305

Adopted 08/22/2019

CB 2019-24

AN ORDINANCE

ADOPTING AND APPROVING THE IMPLEMENTATION OF THE REVISED EXIT PLAN, FILED WITH THE CITY ON JULY 19, 2019, PREPARED BY THE RECOVERY PLAN COORDINATOR PURSUANT TO THE MUNICIPALITIES FINANCIAL RECOVERY ACT AND AUTHORIZING AND INSTRUCTING THE CITY SOLICITOR AND CITY CLERK TO PREPARE FOR ENACTMENT, ADOPTION AND EXECUTION ANY ORDINANCES, RESOLUTIONS, AGREEMENTS AND OTHER DOCUMENTS NECESSARY FOR THE IMPLEMENTATION OF THE REVISED EXIT PLAN.

NOW, THEREFORE, BE IT ORDAINED AND ENACTED BY THE COUNCIL OF THE CITY OF NEW CASTLE, PENNSYLVANIA, AS FOLLOWS:

Section One: Declaration of Financial Distress.

Upon petition duly filed with the Commonwealth of Pennsylvania, Department of Community and Economic Development (hereinafter "Department") pursuant to the Municipalities Financial Recovery Act of 1987 (hereinafter "Act"), the City of New Castle was declared a financially distressed municipality on January 5, 2007.

Section Two: Provisions.

The Act provides that a Plan Coordinator be appointed for distressed municipalities and that a Recovery Plan be prepared by the Coordinator. Eckert Seamans Cherin & Mellott, LLC and Public Financial Management were appointed as the Plan Coordinator (hereinafter "Coordinator") in February, 2007.

Section Three: Recovery Plan and Procedures.

a. The Coordinator prepared, in accordance with the Act, the Recovery Plan, and on June 29, 2007, filed the Recovery Plan with the City Clerk. Following receipt of public written comments and following a public meeting on the Recovery Plan held on July 16, 2007, the Coordinator filed a revised Recovery Plan with the City on July 18, 2007. The Recovery Plan was adopted by Ordinance No. 7830 by the Council for the City of New Castle on August 8, 2007.

b. The Coordinator subsequently prepared a First Amended Recovery Plan and on November 6, 2009 filed it with the City Clerk. The First Amended Recovery Plan was adopted by Ordinance No. 7904 by the Council for the City of New Castle on November 17, 2009.

c. The Coordinator subsequently prepared a Second Amended Recovery Plan and on November 29, 2010 filed it with the City Clerk. The Second Amended Recovery Plan was adopted by Ordinance No. 7944 by the Council for the City of New Castle on December 16, 2010.

d. The Coordinator subsequently prepared a Third Amended Recovery Plan and on November 21, 2012, filed it with the City Clerk. The Third Amended Recovery Plan was adopted by Ordinance No. 8026 by the Council for the City of New Castle on November 28, 2012.

e. The Coordinator subsequently prepared a Fourth Amended Recovery Plan and on December 9, 2014, filed it with the City Clerk. The Fourth Amended Recovery Plan was adopted by Ordinance No. 8116 by the Council for the City of New Castle on December 15, 2014.

f. The Coordinator subsequently prepared a Fifth Amended Recovery Plan and on September 10, 2015, filed it with the City Clerk. The Fifth Amended Recovery Plan was adopted by Ordinance No. 8156 by the Council for the City of New Castle on October 22, 2015.

g. The Coordinator subsequently prepared a Sixth Amended Recovery Plan and on August 29, 2016, filed it with the City Clerk. The Sixth Amended Recovery Plan was adopted by Ordinance No. 8197 by the Council for the City of New Castle on September 22, 2016.

h. The Coordinator subsequently prepared a Seventh Amended Recovery Plan and on March 15, 2017, filed it with the City Clerk. The Seventh Amended Recovery Plan was adopted by Ordinance No. 8219 by the Council for the City of New Castle on April 13, 2017.

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i. The Coordinator subsequently prepared a Eighth Amended Recovery Plan and on September 14, 2018, filed it with the City Clerk. The Eighth Amended Recovery Plan was adopted by Ordinance No. 8275 by the Council for the City of New Castle on October 11, 2018.

j. The Coordinator subsequently prepared an Exit Plan and on June 24, 2019, filed it with the City Clerk.

k. The Council of the City of New Castle has determined that it is in the City's best interest to adopt the Revised Exit Plan for the City of New Castle as prepared and submitted by the Coordinator on July 19, 2019.

l. The Council of the City of New Castle hereby adopts the Revised Exit Plan for the City of New Castle as prepared and submitted by the Coordinator on July 19, 2019.

m. The Council of the City of New Castle hereby approves the implementation of the Revised Exit Plan for the City of New Castle as prepared and submitted by the Coordinator on July 19, 2019.

n. The City Clerk and the Solicitor are hereby authorized and instructed to prepare for adoption any necessary related ordinances, resolutions, agreements and other documents and revisions to ordinances, resolutions, agreements and other documents necessary to implement the Revised Exit Plan.

o. Council President and the Mayor and other appropriate City officials are authorized and instructed to execute any and all documents necessary to implement the Revised Exit Plan.

Section Four: Severability.

In the event that any provisions, section, sentence, clause or part of this Ordinance shall be held invalid, such invalidity shall not affect or impair any remaining provision, section, sentence, clause or part of this Ordinance, and the remaining provisions shall remain in full force and effect.

Section Five: Repealer.

All ordinances or parts of ordinances not in accord with this Ordinance are hereby repealed insofar as the conflict herewith.

This Ordinance shall become effective immediately upon approval by the Mayor.

That this Ordinance, when adopted, shall be incorporated therein and made a part thereof the Codified Ordinances of the City of New Castle, PA.

INTRODUCED this 8th day of August, 2019.

ADOPTED this 22nd day of August, 2019.

APPROVED this 23rd day of August, 2019.

Anthony Mastrangelo
Mayor

CERTIFIED this 23rd day of August, 2019.

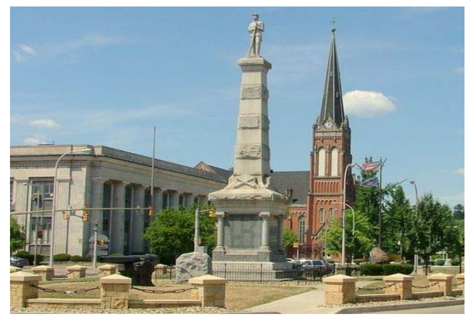
Stephanie A. Dean
City Clerk

Municipalities Financial Recovery Act

Exit Plan

City of New Castle
Lawrence County, Pennsylvania





Prepared on behalf of the

Commonwealth of Pennsylvania
Department of Community and Economic Development
Governor's Center for Local Government Services

As Revised and Filed with the City on July 19, 2019

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Executive Summary

On October 31, 2014, Governor Tom Corbett signed Act 199 into law, which limits the amount of time that a municipality designated as financially distressed can remain under Commonwealth oversight. For communities like the City of New Castle (the “City” or “New Castle”), the relevant provision is the following:

> *“Municipalities operating pursuant to a recovery plan on the effective date of this section shall be subject to a termination date five years from the effective date of the most recent recovery plan or amendment enacted in accordance with this act…”*

New Castle’s termination date is December 2019, five years from the effective date of the Recovery Plan amendment adopted by the City in December 2014.

Act 199 required that, no later than June 30, 2019, the Recovery Coordinator – Eckert Seamans Cherin & Mellott, LLC (“Eckert Seamans”) and Public Financial Management (“PFM”) – review New Castle’s government finances and recommend to the Secretary of the Pennsylvania Department of Community and Economic Development one of the following actions:

- New Castle’s distressed status be terminated and the City exit Act 47 oversight;
- A three-year exit plan be adopted;
- Conditions are such that the City should be disincorporated;[1] or
- New Castle be declared in a state of “fiscal emergency” with the possibility of receivership.

On April 1, 2019, the Coordinator filed a Financial Condition Report with the City and the Department of Community and Economic Development (“DCED”) recommending the City adopt a three-year exit plan.

The Coordinator projects that the City will continue to struggle with maintaining fiscal balance, and its challenge to balance recurring expenditures against recurring revenues will be heightened in the next three years as the City loses the additional taxing authority provided by Act 47. Beyond having to close the deficits created by the loss of the Act 47-authorized tax and an eroding tax base, the City will also have to find alternative funding for capital improvements so that it has adequate infrastructure to continue providing essential municipal services to its residents and businesses.

This thee-year Exit Plan provides a strategy to give New Castle a better chance of exiting Act 47 oversight by the end of 2022. While one of the City’s biggest challenges is its demographic weaknesses that is in part beyond the City’s control, the City can still make progress toward financial recovery by gaining the flexibility to set its resident earned income tax rate, controlling cost growth, and making its neighborhoods cleaner and more attractive. This Plan gives the City a guide for what it needs to do in the next three years as it prepares to exit oversight.

[1] This action is only applicable for municipalities that do not provide police service or fire service through its employees, according to Chapter 4 of the Municipalities Financial Recovery Act, and is not applicable to New Castle.

Progress since entering Act 47

New Castle's population has been declining for decades and the weakness in its economy precedes the City's designation in 2007 as a financially distressed municipality. New Castle has long had higher poverty rates, lower median household incomes, and lower median home values than the nation, the rest of Pennsylvania, and the rest of Lawrence County (the "County").

	2000 Census	2013 ACS	2017 ACS
% of individuals below poverty level			
New Castle	20.8%	25.8%	27.2%
Lawrence County	12.1%	14.4%	14.0%
Pennsylvania	11.0%	13.3%	13.1%
United States	12.4%	15.4%	14.6%
Median household income			
New Castle	$25,598	$29,559	$31,044
Lawrence County	$33,152	$43,546	$47,188
Pennsylvania	$40,106	$52,548	$56,951
United States	$41,994	$53,046	$57,652
Median home value			
New Castle	$42,300	$57,800	$62,000
Lawrence County	$72,200	$96,700	$102,300
Pennsylvania	$97,000	$164,700	$170,500
United States	$119,600	$176,700	$193,500

The gap between New Castle and these comparison points has grown over time. In 2000, New Castle's poverty rate was 71.9 percent higher than the County's as a whole and 89.0 percent higher than all of Pennsylvania. The most recent census data shows New Castle's poverty rate is now 94.3 percent higher than the County's and more than twice Pennsylvania's rate.

In addition to these economic weaknesses, the City had a very poor financial record before it entered Commonwealth oversight. Before a single employee reported for work in 2007, the City already faced a multi-million dollar deficit. The City was behind on its annual obligations to its employee pension plans and accumulated $4.0 million in debt related to its misuse of Tax Revenue Anticipation Notes (TRANs).

Other large liabilities also existed. The City had a long-running lawsuit involving eminent domain actions taken by the Redevelopment Authority in the 1970s and a swap agreement that generated another multi-million dollar liability. On top of those liabilities, the City was in danger of running out of cash in late 2007, putting its ability to make payroll and pay its vendors at risk.

In January 2007, the Secretary of DCED designated New Castle as "distressed" according to four of the eleven criteria in Act 47. The Department appointed Eckert Seamans and PFM as the City's Recovery Coordinator and the firms worked with the City's elected and appointed officials on the original Recovery Plan.

Since entering oversight in 2007, the City has made significant progress in bringing its finances into balance. At a basic level, the City has gone from having at least three consecutive years of annual deficits[2] to being able to balance its budget on an annual basis. It has controlled its salary spending by providing moderate wage increases and reducing headcount. It has also restructured the fire department and now uses part-time firefighters to meet the minimum staffing requirements. On the benefits side, employees have changed to high deductible health plans, which has assisted in controlling cost growth. The City also established a more affordable defined contribution pension plan for its non-uniformed employees hired after 2017[3].

[2] This is one of the four criteria in Act 47 that New Castle met for being designated financially distressed.

[3] See initiative WF10 on p. 82 of the 2015 Amended Recovery Plan.

On the revenue side, the City increased its current year real estate tax collection rate by contracting delinquent tax collections to a third-party collector in 2016 and, through the New Castle Sanitation Authority, implemented a stormwater fee in 2018 that provides a designated funding source for maintaining the stormwater system. Even though increasing real estate taxes can be a difficult decision because it results in larger burden for home and business owners and makes it even harder for New Castle to attract and retain its residents and businesses, the City increased its real estate tax rate three times in the last four years. This year, the City adopted its budget levying a 14.226-mill real estate tax -- 21.3 percent higher than the tax rate than in 2015.

Demographic challenges persist

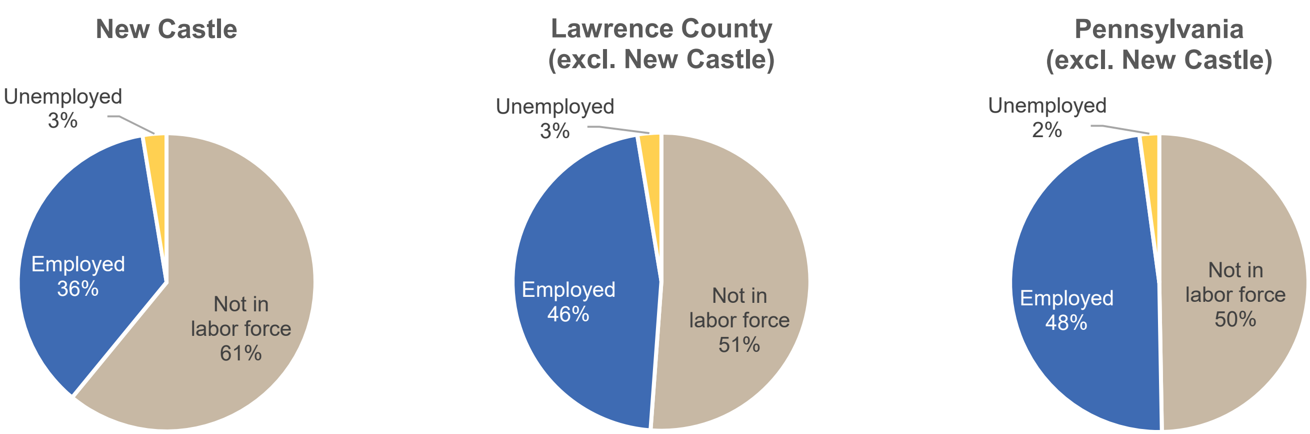
Even though City ended its streak of annual operating deficits, the demographic challenges that preceded New Castle's designation as a financially distressed municipality persist. As shown in the table below, over the last decade, both New Castle's population and assessed value for taxable property have declined. Growth in resident earnings also lags behind the County as a whole.

New Castle Population, Assessed Values, and Median Household Income

New Castle	23,836	23,083	22,434	-0.9%
New Castle	$503.0 million	$500.9 million	$491.5 million	-0.3%
New Castle	$30,690	$29,559	$31,044	0.2%
Lawrence County	$42,570	$43,546	$47,188	1.5%

New Castle's demographic weakness is reflected in the relatively low percentage of population in the labor force. According to Federal data, as of January 2019, more than 60 percent of New Castle residents were not in the labor force, compared to approximately 50 percent in the rest of Lawrence County and in Pennsylvania. The lower employment ratio translates to fewer people paying the earned income taxes that fund City's services.

Percentage of the Population in Labor Force[4]



[4] The percentage of population in labor force is calculated by dividing the number of people in the labor force (using the Local Area Unemployment Statistics data from the Bureau of Labor Statistics) by the population (using the five-year estimates provided by the

The City's weak economy and declining population is evident in the City's tax revenues. From 2013 to 2018, total tax revenues across the City's three primary funds[5] had very minimal growth despite real estate tax rate increases in 2016, 2017, and 2018. Absent the real estate tax increases, the City's total tax revenues would have dropped every year over the last six years with taxable assessed values decreasing by 2.3 percent from $500.9 million in 2013 to $489.2 million in 2018.

Tax Revenues across the General, Sinking, and Pension (Three Primary) Funds, 2013 - 2018

	2013	2014	2015	2016	2017	2018	2013-18
Real Estate Taxes	5,973,356	5,704,190	5,955,032	6,491,399	6,366,008	6,742,229	2.5%
EIT (on a cash basis)	7,218,634	6,963,216	6,950,759	6,904,936	6,854,527	7,039,947	-0.5%
Business Gross Receipts Tax	671,781	659,766	570,342	646,173	516,686	539,376	-4.3%
Local Services Tax	438,767	424,159	411,831	407,184	445,674	428,467	-0.5%
Deed transfer tax	132,329	115,072	119,226	123,882	116,043	133,641	0.2%
Other taxes	229,411	233,763	181,677	203,526	225,154	214,455	-1.3%
Total tax revenues	**$14,664,277**	**$14,100,166**	**$14,188,868**	**$14,777,100**	**$14,524,093**	**$15,098,115**	**0.6%**

Unless New Castle as a community begins to catch up with the rest of the County and the state economically, it will be very difficult for the City to achieve true financial recovery.

Loss of Act 47 taxing authority

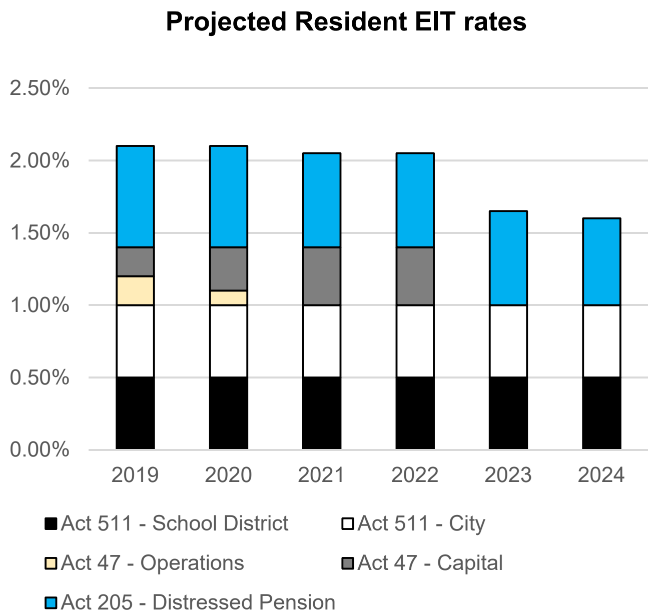
The requirement to leave oversight at the end of the Exit Plan period means that the City will lose its Act 47 taxing authority by the end of 2022. The City currently levies a 0.4 percent Act 47 earned income tax (EIT) on residents and a 0.3 percent Act 47 EIT on commuters. According to the 2019 budget, the City will rely on $985,000 in Act 47 EIT to fund operations and another $818,000 in Act 47 EIT to fund capital projects this year. While the City has made some progress to reduce its dependence on the Act 47 EIT to fund basic municipal services, much more needs to be done before the end of 2022.

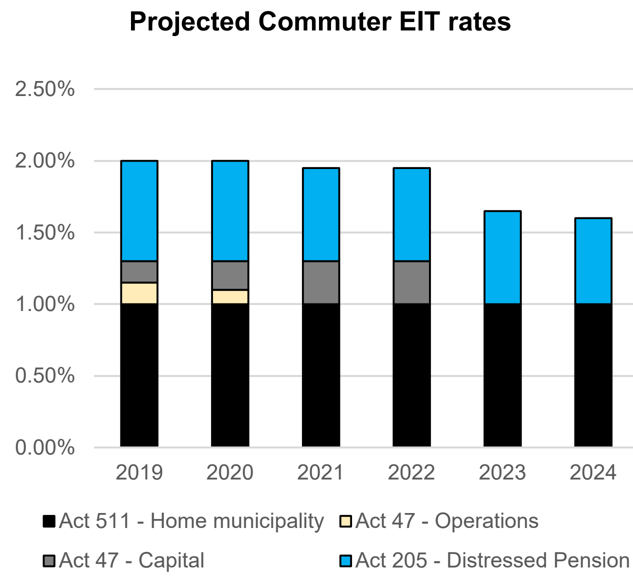
To help prepare for this eventuality while still providing the funding City government needs to maintain its infrastructure, the Exit Plan gradually shifts the operations portion of the Act 47 EIT toward capital uses. The receipts from the capital portion of the Act 47 EIT cannot be used to support operations, retire existing debt, or cover the City's pension costs, but they do fund capital improvement projects such as vehicle replacement, building maintenance, and road paving.

As shown in the charts below, beginning in 2023, the entire Act 47 levy, which will generate approximately $2.0 million, is eliminated in the baseline projection.

American Community Survey). The percent unemployed as shown in the pie charts is different from the unemployment rate, which is the number unemployed divided by the labor force.

[5] The three primary funds are the General Fund which the City uses to fund most daily operations, the Sinking Fund which the City uses to repay debt and the Pension Fund which the City uses to make required contributions to the employees' pension plans.





Need to meet service demand

With the weak economy and the impending loss of Act 47 EIT, one could conclude that New Castle City government needs to get smaller – that spending and services need to be cut to the level of revenues available to support them.

Controlling the growth in City government spending has been a core concept in the Recovery Plans and remains a necessity in the Exit Plan. The City reduced its full-time staffing in the fire department because of initiatives in the Recovery Plans. The City also reduced its clerical staffing from 12 employees in 2007 to 10 employees in 2019 after shifting responsibility for functions like earned income tax collection to other entities. The workforce allocations in this Exit Plan continue to limit the amount that the City can spend to compensate each of its employee groups with assumed wage increases of no more than two percent and apply caps on the City's contribution to the cost of employee health insurance. Prohibitions against pension or retiree benefit enhancements and new forms of cash compensation for employees continue.

That said, it is not feasible to fix the City's financial problems just by cutting services. New Castle is the largest community in Lawrence County, accounting for 25 percent of its population. Viewed in terms of the demand for services that local governments provide, New Castle is even larger relative to the other Lawrence County communities.

2017 Service Demand Measures

2017 Service Demand Measures	New Castle	Rest of County (26 Municipalities)	Share of Total
Population	22,434	65,797	25.4%
Housing units	11,728	29,437	28.5%
Housing units built before 1970	10,300	17,436	37.1%
Vacant housing units	1,826	2,597	41.3%
Renter occupied housing units	4,312	5,211	45.3%
Multi-family housing units	2,704	3,074	46.8%
Part I offenses (Violent crimes)	826	646	56.1%
Part II offenses (Property crimes)	1,373	1,273	51.9%
Narcotics related offenses	380	133	74.1%
911 calls related to structure fires	88	113	43.8%
911 calls related to EMS	3,514	3,871	47.6%

Sources: 2013-17 American Community Survey; 2017 Pennsylvania Uniform Crime Report data; New Castle City Fire Department; Lawrence County Department of Public Safety

- **Code enforcement:** New Castle has a little more than a quarter of the housing units in the County, but a higher concentration of the types of properties that require more vigilant code enforcement because they are older or vacant. The City also has a higher concentration of rentals and multi-family housing units than the rest of the County.

- **Police:** New Castle had 56.1 percent of the total Part I (Violent) crimes reported in Lawrence County in 2017; 51.9 percent of the total Part II (Property) crimes reported in the County; and 74.1 percent of the narcotics related offenses in the County. New Castle's policing needs are very different from the rest of the County.

- **Fire**: New Castle had 43.8 percent of the structure fire calls in 2017 and 47.6 percent of emergency medical service (EMS) calls reported in Lawrence County.

- **Public works:** The calculation that the Pennsylvania Department of Transportation uses to allocate municipal liquid fuel aid shows New Castle with 95.9 miles of road to maintain in 2017, which was by far the largest amount in Lawrence County. The next closest municipalities were North Beaver (66.2) and Neshannock (66.0).

Cost control and, in targeted cases, spending cuts have been and still are necessary for the City. But there is a limit to how much spending the City can cut and still provide the types of services that are critical to attracting and retaining residents.

Due primarily to these three major challenges – a weak economy, the loss of the Act 47 taxing authority, and the need to meet residents' service demands – the baseline projection currently shows growing deficits over the next five years, as described in more detail below.

Baseline projection

One of the factors that determines whether the City is ready to exit Act 47 is whether "the reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures…for the first five years after the termination of distressed status."[6] To determine if the City satisfies this factor, the Coordinator developed a five-year projection that runs from 2020 through 2024 even though the deadline

[6] Act 47 Section 255.1

to exit Act 47 is 2022. The baseline projection was provided in the Financial Condition Report that was filed on April 1, 2019.

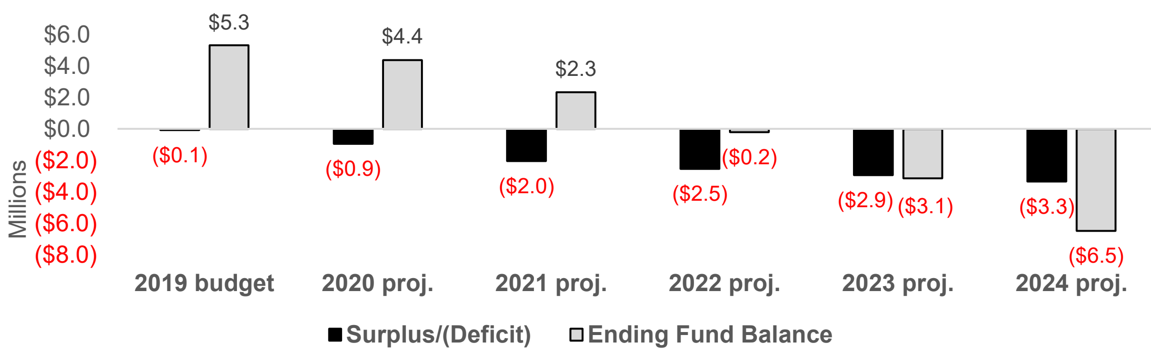
As in the Recovery Plans, the Exit Plan's baseline projection used the most recently adopted budget as the starting point, accounted for known future changes (such as scheduled debt payments) and then applied growth rates calculated using a combination of historical performance, socioeconomic trends, and other factors. On the revenue side, the growth rates are calculated based on the Coordinator's analysis of historical revenue performance and trends in the underlying tax base. Since a large part of the City's locally generated revenue comes from the real estate and earned income taxes, the Coordinator paid particular attention to changes in the total assessed value of taxable real estate and resident and commuter earnings.

The Coordinator also updated the baseline projection based on information collected after the Coordinator released the Financial Condition Report. In April 2019, the City refinanced two of its general obligation debt issuances (2011 GO Bond Series B and 2012 GO Note) which resulted in approximately $200,000 in one-time savings. Since the 2019 budget was already adopted, the City proposed to set aside the savings in the debt service reserve fund, which will in turn reduce the revenues needed to fund the debt service payments in 2020.

Since the release of the Financial Condition Report, the City also provided preliminary year-end financial data for 2018. Based on preliminary results, the City finished 2018 with approximately $360,000 in surplus across the three primary funds, so the Coordinator adjusted the projected ending fund balance to account for that result. The Coordinator also adjusted the projections for a number of revenues, including the real estate tax, business gross receipts tax, golf course earnings, and refuse collection fee. In addition, the City saw an increase in the recycling fee, so the Coordinator adjusted the baseline projection to reflect the recent fee increase.

Accounting for these adjustments, the Coordinator now projects deficits growing from $0.9 million in 2020 to $3.3 million in 2024 in the baseline scenario, resulting in the City running out of fund balance by the end of 2022. The following charts show the baseline projection for the City's three primary funds.

Five-Year Baseline Projection for the Three Primary Funds, 2019 – 2024



	2019 budget	2020 proj.	2021 proj.	2022 proj.	2023 proj.	2024 proj.
Revenues	19,543,254	19,708,198	19,467,806	19,570,239	18,320,338	17,652,263
Expenditures	19,611,533	20,647,080	21,510,876	22,110,824	21,254,972	20,985,508
Surplus/(Deficit)	**($68,278)**	**($938,881)**	**($2,043,070)**	**($2,540,585)**	**($2,934,634)**	**($3,333,245)**
Fund Balance	**$5,318,720**[7]	**$4,379,839**	**$2,336,769**	**($203,816)**	**($3,138,450)**	**($6,471,695)**

[7] The 2019 ending fund balance is based on the 2017 year-end audited unassigned fund balance ($5.0 million) plus the aforementioned $360,000 positive result in the preliminary 2018 year-end figures minus the small deficit in the 2019 budget.

With the weak economy, the impending loss of Act 47 taxing authority, and the needed level of service, New Castle must take a more aggressive approach to give itself a chance to exit oversight at the end of 2022.

Plan to close the gap

Section 256 of Act 47 provides four elements that the Exit Plan shall address, as may be necessary, for the termination of New Castle's distressed status after three years. Those elements include:

1. The sale, lease, conveyance, assignment or other use or disposition of the assets of the distressed municipality;

2. Functional consolidation of or privatization of existing municipal services;

3. The execution, approval, modification, rejection, renegotiation or termination of contracts or agreements of the distressed municipality; and

4. Changes in the form of municipal government or the configuration of elected or appointed municipal officials and employees as permitted by law.

The City's most immediate need is to replace its Act 47 EIT revenues with an alternate revenue source. As stated in each of the Recovery Plans, a Home Rule charter would provide the City with more flexibility to set its own resident EIT rates. There is unfortunately no mechanism in Pennsylvania law that allows New Castle to keep the Act 47 *commuter* tax after oversight ends, but a Home Rule Charter would potentially allow the City to keep the resident portion of the tax (currently worth $0.6 million allocated for the operations and another $0.5 million for capital).

While the Coordinator understands the difficulties in pursuing this initiative, the only other option is to replace the lost Act 47 EIT revenues with a 35 percent real estate tax rate increase over the next three years. Even if the City uses real estate tax increases to replace the lost Act 47 EIT, the revenue generated from the real estate tax will likely decline over time based on the consistent decline in the property tax base over the last decade. Given these limited options, the Exit Plan requires that the City immediately begin the process of reorganizing City government under a Home Rule charter.

Unless the City adopts a Home Rule charter and gains the flexibility to set its resident EIT rate, the Coordinator anticipates that the following real estate tax rate increases shall be necessary during the term of the Exit Plan.

	2019 (Current)	2020	2021	2022
Real estate tax	14.226	16.226	18.226	19.226
YOY % increase	N/A	14.1%	12.3%	5.5%

Please see initiatives RV02 and RV03 in the revenue chapter for more information.

The Exit Plan includes two other elements listed in section 256 of Act 47 to help bring balance to the City's finances: privatization of municipal services and termination of agreements.

To reverse the declining demographic and revenue trends, the City needs to focus on economic development strategies that can grow the tax base. If New Castle wants to attract residents or retain those who have increasing earning power, it needs to have safe, clean, and attractive neighborhoods. Quality neighborhoods will also encourage property owners to invest more in their properties, which in turn increases assessed values and tax revenues.

The Exit Plan therefore requires the City to privatize its residential solid waste and recycling system to improve neighborhood cleanliness. New Castle's cleanliness and "curb appeal" are important to the City's recovery because they have a direct impact on the City's tax base. Having significant illegal dumping issues is not only unfair to those residents who faithfully purchase the blue bags to dispose trash, it also makes New Castle a less attractive place for those considering moving into the City.

Please see initiative ED01 in the economic development chapter for more information.

The Exit Plan also requires that the City resume the past practice of proactively inspecting rental units by contracting out that work to a third-party service provider. The condition of the rental properties that house a large portion of New Castle's residents is important to the City's financial performance because of the impact on property values and New Castle's ability to attract and retain residents and businesses. The condition of those properties also has a significant impact on the safety and quality of the life of its residents. The City must therefore hold landlords accountable for the condition of their properties and ensure that properties are in conditions that are safe for its residents. Using a private entity to perform proactive rental inspections would allow the City to focus its existing staff resources on external property inspections, as the City intended when it eliminated this program earlier this year.

Please see initiative ED02 in the economic development chapter for more information.

With the impending loss of the Act 47 EIT and the need to maintain fiscal balance, the Exit Plan requires spending cuts in areas that are not core municipal government services. Public transit is an important service that benefits all Lawrence County residents, including the City residents, but *funding* public transit is typically a responsibility of County governments in Pennsylvania, not individual municipalities. So the Exit Plan discontinues the City's contribution to the New Castle Area Transit Authority, which will otherwise grow above $200,000, beginning in 2021.[8]

Please see initiative AD01 in the administration chapter for more information.

The Plan also requires a new capital improvement fee for members of the Sylvan Heights golf course and users of the parking system to ensure that the City's very limited capital dollars are spent on core infrastructure used by a large portion of the population (like roads and bridges), not amenities used by a smaller portion of the population. The requirement to recover the full cost of operations also continue.

Please see initiatives CD03 and CD04 in the capital and debt management chapter for more information.

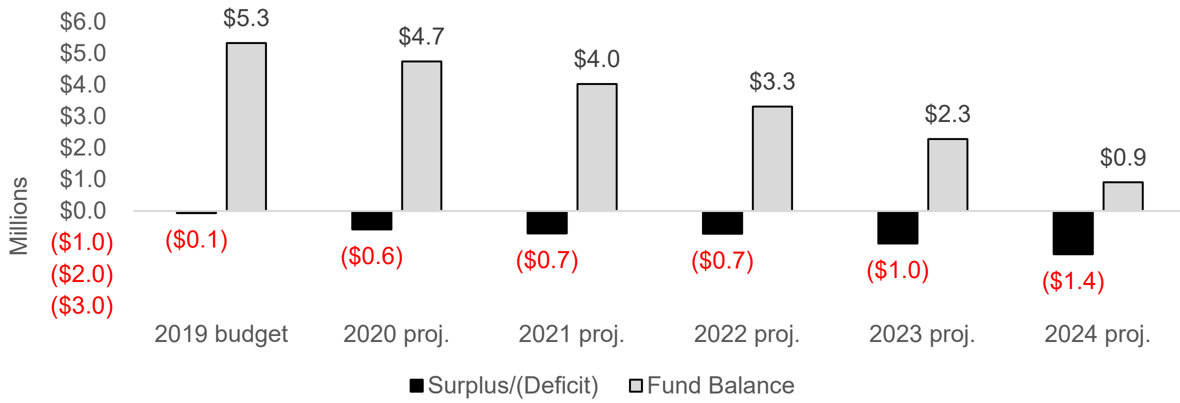
Some of these concepts have been discussed under the Recovery Plans, but this Exit Plan requires the City to implement these recommendations because it is the Coordinator's view that these changes are necessary to ensure the termination of distressed status after three years. If the City does not take action, its tax base will continue to decline, its deficits will continue to increase, and the City will have to make even deeper expenditure cuts and larger tax increases, regardless of its Act 47 status.

Keeping the long-term goal in sight

Once all the quantified Plan provisions are applied to the baseline, the projected revenues and expenditures in the City's three major funds are shown below.

[8] The City has already agreed to make its matching contribution for 2020, which is part of the Transit Authority's application for federal and state funds.

Plan Projection (Includes the General, Sinking, and Pension Funds), 2019 – 2024



	2019 budget	2020 proj.	2021 proj.	2022 proj.	2023 proj.	2024 proj.
Revenues	19,543,254	19,669,101	20,190,215	20,757,383	19,567,406	18,930,537
Expenditures	19,611,533	20,251,846	20,900,967	21,476,228	20,594,739	20,298,278
Surplus/(Deficit)	**($68,278)**	**($582,745)**	**($710,751)**	**($718,844)**	**($1,027,333)**	**($1,367,740)**
Fund Balance	**$5,318,720**	**$4,735,975**	**$4,025,224**	**$3,306,379**	**$2,279,047**	**$911,306**

Through the Exit Plan, the Coordinator seeks to put New Castle in the best position possible to exit Act 47 oversight. To help the City reach this position over the next three years, the Exit Plan sets four overarching goals.

1. Maintain an appropriate level of financial reserves

Even with projected annual tax increases from 2020 to 2022, the Coordinator still projects negative results for each of the projected years, but they are more manageable than the multi-million dollar deficits in the baseline. The City had $5.0 million in unassigned fund balance at the end of 2017, plus $2.6 million in a separate Rainy Day fund, and it will have to draw on those reserves to fund its operating expenses. This is not an ideal response to the City's structural deficit, but it will help mitigate the level of tax increases or service cuts that would otherwise be necessary.

The Plan projects that the City will have to use $4.4 million in unassigned fund balance over the next five years to help close the remaining budget gap, which brings the City's unassigned fund balance level to $0.9 million in 2024. Including the $2.5 million in the Rainy Day Reserve as required by initiative AD04, the City will have a total fund balance of $3.4 million at the end of the 2024, equivalent to approximately 17 percent of the City's operating expenditures, the recommended minimum level of reserves for municipal governments by the Government Finance Officers Association ("GFOA").

2. Replace the Act 47 EIT revenues

The requirement to leave oversight at the end of the Exit Plan period translates to the loss of Act 47 taxing authority by the end of 2022. While the City has made some progress to phase out the Act 47 EIT, much more needs to be done in order to completely eliminate the reliance on this taxing authority to deliver basic municipal services. Because there is currently no mechanism in Pennsylvania law that allows New Castle to keep the Act 47 commuter tax after oversight ends, the Exit Plan requires the City immediately begin the process of converting to a Home Rule charter form of government in order to gain the flexibility to set its own resident EIT rate.

Adopting a Home Rule charter is not only important because it alleviates the large real estate tax increases required by this Plan, it is also important for the City's long-term financial sustainability. In 2025, the City's debt is scheduled to drop from $3.0 million to $1.3 million, largely because one of the pension bonds (Series A of 2011) would be paid off by the end of 2024. The City uses a distressed pension tax on residents and commuters to fund much of that pension bond debt repayment, and that revenue can only be used for pension-related expenditures. If the adoption of a Home Rule charter provides the City with control over the resident EIT rate, then the City will be able to shift the resident portion of the distressed pension tax into its General Fund and boost revenues by $641,000 without increasing taxes. At the same time the City will pay off another piece of its debt funded by the real estate tax and that money can also be shifted to operations. That shift of revenue from debt repayment to operations will give New Castle a chance to close its deficit and exit Act 47 oversight, but only if the City follows through on the Home Rule requirement in this Plan.

3. Reduce the operating deficits projected in the baseline scenario

In the Financial Condition Report, the Coordinator determined that the City was not in a position to exit oversight primarily because the baseline projection shows annual deficits for the next five years. The Exit Plan initiatives are meant to reduce the operating deficits while maintaining the minimum level of reserves recommended by GFOA. Because the goal is for the City to exit Act 47 oversight and show that it can balance its budget without tax increases year after year, the City must also focus on strategies that attract and retain residents and businesses and reverse the declining revenue trends. The Exit Plan therefore provides strategies that may have a less direct impact on City's bottom line, but will facilitate tax base growth. There is no path for the City to achieve true financial recovery if New Castle continues to fall further behind the rest of the County economically, whether or not the City is under Act 47 oversight.

4. Provide funding to improve the City's existing infrastructure

The City must invest in its core infrastructure to support essential services and facilitate economic development not just for the next three years but also beyond 2022. The Exit Plan therefore requires that the City dedicate an amount of Act 47 capital EIT each year for the next three years to a capital reserve so that it has the resources for capital improvements until its debt schedule drops in 2025.

Conclusion and next steps

Even though the City ended its streak of annual operating deficits, the demographic challenges that preceded New Castle's designation as a financially distressed municipality persist. The City's population trend has continued to decline over the last decade and its demographic trends continue to fall behind the rest of Lawrence County and Pennsylvania. In addition to the demographic challenges, New Castle will face losing its additional taxing authority provided by Act 47 because of the deadline to leave oversight at the end of 2022.

Given these challenges, one could argue that New Castle City government needs to get smaller – that spending and services need to be cut to the level of revenues available to support them. But there is a limit to how much spending the City can cut and still provide the types of services that are critical to attracting and retaining residents.

This Exit Plan therefore contains measures to tackle each of these challenges. To replace the lost Act 47 EIT revenues, the Exit Plan requires the City to immediately begin the process of adopting a Home Rule charter to gain the flexibility to set its resident EIT rate. To stabilize and grow New Castle's tax base, it requires that the City improve its neighborhood quality by privatizing trash collections and rental inspections. To continue establishing cost control measures, it limits the amount the City can spend to compensate each of its employee groups and prohibits pension or retiree benefit enhancements and new forms of cash compensation. The Plan also requires that the City discontinue its transit contribution beginning in 2021 given that public transit funding is a responsibility of County governments in Pennsylvania, not individual municipalities. Finally, the Exit Plan requires that the City enact capital improvement fees for the Sylvain Heights Golf Course and the parking system to fund capital improvements.

Some of these concepts have been discussed under the Recovery Plans, but this Exit Plan requires the City to implement these recommendations because it is the Coordinator's view that these changes are necessary for the termination of distressed status after three years.

If the Coordinator finds that the City is not ready to leave oversight at the end of 2022, the law indicates that the next stop for New Castle is to be declared in a state of "fiscal emergency" with the possibility of receivership, although that is a new concept for Pennsylvania local governments. Harrisburg is the only City to go through the receivership process defined in Act 47 and that city's circumstances differ from New Castle's. That said, it is clear that there is no path for financial sustainability if the City continues to fall further behind the County economically, whether or not the City is under Act 47 oversight.

Even though some of New Castle's economic challenges may be beyond the City's control and the battle to overcome those challenges will undoubtedly continue even after oversight ends, City government should still be a constructive partner in the larger efforts to overcome those challenges. This Plan therefore sets forth what the City must do in the next three years so that it can continue making progress toward financial recovery and have a better chance of exiting oversight by the end of 2022.[9]

[9] The Coordinator reserves the right to itself only to amend, in its sole discretion, the Exit Plan provided that it follows the same filing, notice and public meeting procedures as specified in section 255 of Act 47. Any such amendment will also comply with sections 256(b) and (c) of Act 47 relating to the contents of and the process of adopting exit plans.

Five-Year Baseline Projections

Act 47 required the Coordinator to provide a baseline projection as part of the Financial Condition Report submitted earlier this year. One of the factors that determines whether the City is ready to exit Act 47 is whether "the reasonably projected revenues of the municipality are sufficient to fund ongoing necessary expenditures…for the first five years after the termination of distressed status."[10] To determine if the City satisfies this factor, the Coordinator developed a five-year projection that runs from 2020 through 2024 even though the City has to leave oversight by the end of 2022. The baseline projection was provided in the Financial Condition Report.

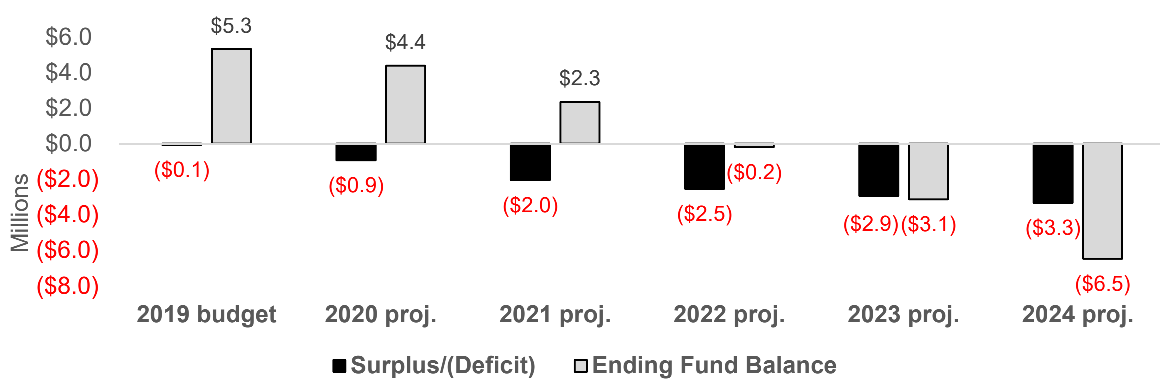
Since the Coordinator submitted the Financial Condition Report, the City refunded its debt and provided its unaudited year-end 2018 financial results. We reviewed those results and updated the baseline projection accordingly. This chapter provides a detailed explanation of that updated baseline projection.

Similar to the Recovery Plan process, the baseline projection uses the most recently adopted budget as the starting point, accounts for known future changes (such as wage increases in existing collective bargaining agreements and scheduled debt payments), and then applies growth rates calculated using a combination of historical performance, socioeconomic trends, and other factors.

For many of the City's revenues and expenditures, the baseline uses the amounts in the most recently adopted 2019 budget and applies growth rates to project future results. On the revenue side, the baseline growth rates are calculated based on the Coordinator's analysis of historical revenue performance and trends in the underlying tax base. Since a large part of the City's locally generated revenue comes from the real estate and earned income taxes, the Coordinator paid particular attention to changes in the total assessed value of taxable real estate and resident and commuter earnings.

The five-year projection starts with the City's marginally balanced 2019 budget. Beginning in 2020, however, the baseline forecast projects a deficit of $0.9 million that will grow to $3.3 million in 2024, resulting in the City running out of fund balance by the end of 2022. Please note that the projections includes the City's three primary funds, which consist of the General, Sinking, and Pension Funds.

Five-Year Baseline Projection of the City's Three Primary Funds, 2019 – 2024



[10] Act 47 Section 255.1

Five-Year Baseline Projection of the City's Three Primary Funds, 2019 – 2024

	2019 budget	2020 proj.	2021 proj.	2022 proj.	2023 proj.	2024 proj.
Revenues	19,543,254	19,708,198	19,467,806	19,570,239	18,320,338	17,652,263
Expenditures	19,611,533	20,647,080	21,510,876	22,110,824	21,254,972	20,985,508
Surplus/(Deficit)	**($68,278)**	**($938,881)**	**($2,043,070)**	**($2,540,585)**	**($2,934,634)**	**($3,333,245)**
Fund Balance	**$5,318,720**[11]	**$4,379,839**	**$2,336,769**	**($203,816)**	**($3,138,450)**	**($6,471,695)**

The remaining sections of this chapter detail the operating revenue and expenditure assumptions underlying this projection as well as the major budget drivers.

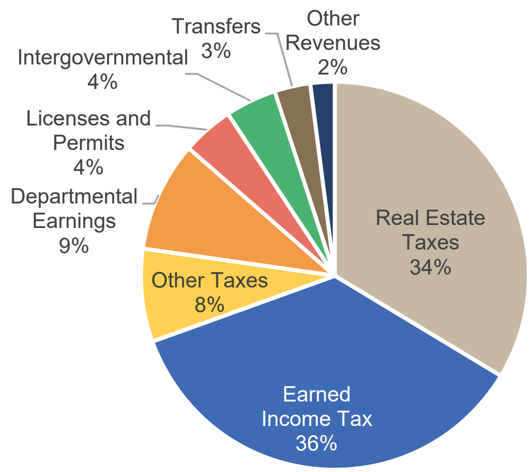
Major Revenue Assumptions

Like many Pennsylvania local governments, New Castle's General Fund budget is characterized by substantial income from the real estate and earned income taxes. Seventy (70) percent of its revenues come from these two sources.

In aggregate, the City's operating revenues grew at an annual compound rate of 0.6 percent from 2013 to 2018, excluding the one-time transfers from the Marcellus Shale gas proceeds for capital projects.

The pie chart to the right shows the major categories of revenues in the adopted 2019 budget and the table below shows the City's operating revenues in the three primary (General, Sinking, and Pension) funds from 2013 to 2018.

2019 Revenue Budget ($19.5 Million)



Revenues across the Three Primary Funds, 2013-2018

	2013 audit	2014 audit	2015 audit	2016 audit	2017 audit	2018 prelim	CAGR
Real Estate Taxes	5,973,356	5,704,190	5,955,032	6,491,399	6,366,008	6,742,229	2.5%
Earned Income Tax	7,690,515	7,393,619	7,514,866	6,330,745	7,030,349	6,925,271	-2.1%
Other Taxes	1,472,288	1,432,760	1,283,077	1,380,764	1,303,556	1,315,940	-2.2%
Departmental Earnings	633,829	779,720	587,616	484,602	944,560	1,058,383	10.8%
Licenses and Permits	1,702,969	1,881,314	1,673,489	1,798,732	1,808,298	1,918,103	2.4%
Intergovernmental	811,666	760,092	1,185,430	805,071	841,872	847,846	0.9%
Transfer for capital	0	408,417	1,209,455	954,854	236,019	0	N/A
Other transfers	431,730	481,717	392,686	233,312	373,136	508,672	3.3%
Other Revenues	405,493	339,792	345,777	343,494	376,579	382,569	-1.2%
Total Revenues	**$19,121,845**	**$19,181,621**	**$20,147,427**	**$18,822,974**	**$19,280,378**	**19,699,012**	**0.6%**
Revenues excl. capital	**$19,121,845**	**$18,773,204**	**$18,937,972**	**$17,868,120**	**$19,044,359**	**19,699,012**	**0.6%**

[11] The 2019 ending fund balance is based on the 2017 year-end audited unassigned fund balance ($5.0 million). The 2018 preliminary results show $359,000 in positive operating result. The Coordinator therefore applied 2018 preliminary results and the projected deficit in the 2019 budget to the $5.0 million ending fund balance in 2017 and projects $5.3 million in ending fund balance in 2019.

Real estate tax

The City's real estate tax represents more than one-third of the City's total revenues. For 2019, the City projects approximately $6.6 million will come from this source, including delinquent payments. The City levied a 14.226 mill real estate tax in 2019 that is directed to the General, Debt Service, and Library Funds.

	2019 Tax Rate	Est. Real Estate Tax Revenues
General Fund	11.52	$4,860,577
Debt Service Fund	2.53	$1,080,181
Library Fund	0.177	$74,847
Current Year Revenues	**14.226**	**$6,015,605**
Prior Year Revenues	**N/A**	**$560,000**
Total Revenues	**N/A**	**$6,575,605**

A number of events happened since 2015 that changed how the City projects this revenue. Prior to 2016, the County Tax Claim Bureau collected delinquent taxes on behalf of New Castle and all other Lawrence County municipalities. Based on the Coordinator's recommendation in the 2015 Amended Recovery Plan,[12] the City contracted its delinquent real estate tax collection to a third-party collector in 2016. While the intended outcome of that effort was to improve delinquent collections, the practical impact of implementing the initiative was that the collection rate for the City's current year taxes improved significantly. The City saw an increase in its current year collections from 84 percent in 2015 to 86 percent in 2016 and another increase to 87 percent in 2017, despite tax increases in both of those years. 2018 preliminary results show that the City's current year collection rate may even be as high as 89 percent.

Total Current Year Real Estate Tax Revenue

	2011	2012	2013	2014	2015	2016	2017	2018 Prelim
General Fund	3,904,121	4,702,864	4,692,088	4,551,609	3,715,909	4,491,990	5,011,141	5,173,151
Sinking Fund	708,232	173,422	265,367	181,044	1,048,394	847,826	815,369	85,596
Library Fund	71,800	71,945	72,055	73,098	72,640	75,923	69,788	942,399
Total	**4,684,153**	**4,948,230**	**5,029,510**	**4,805,751**	**4,836,944**	**5,415,740**	**5,896,298**	**6,201,146**
Tax Rate (Mills)	**11.726**	**11.726**	**11.726**	**11.726**	**11.726**	**12.726**	**13.726**	**14.226**
Collection Rate	**80.1%**	**84.6%**	**85.6%**	**82.5%**	**83.7%**	**86.2%**	**87.4%**	**89.1%**

The improved collection rate was counter to the City's historical trends. In 2009, the last tax increase prior to the one in 2016, the City's collection rate dropped from 78 percent to 74 percent. The Coordinator therefore used the same 3:1 ratio (i.e. every three percent increase in the tax rate increase will result in a one percent drop in collections) assumption in the 2015 Amended Recovery Plan and projected that the City's collections rate would drop to 74 percent in 2017 based on the assumed tax rate increase.

Due in part to the City using a third-party delinquent tax collector, the City's current year tax collection rate increased in the last three years, contrary to the trend in 2009 and the subsequent assumption used in the 2015 Amended Recovery Plan. As a result, the City implemented lower tax rate increases than assumed in the Amended Plan in 2015.

Real estate tax rates, 2015 - 2019

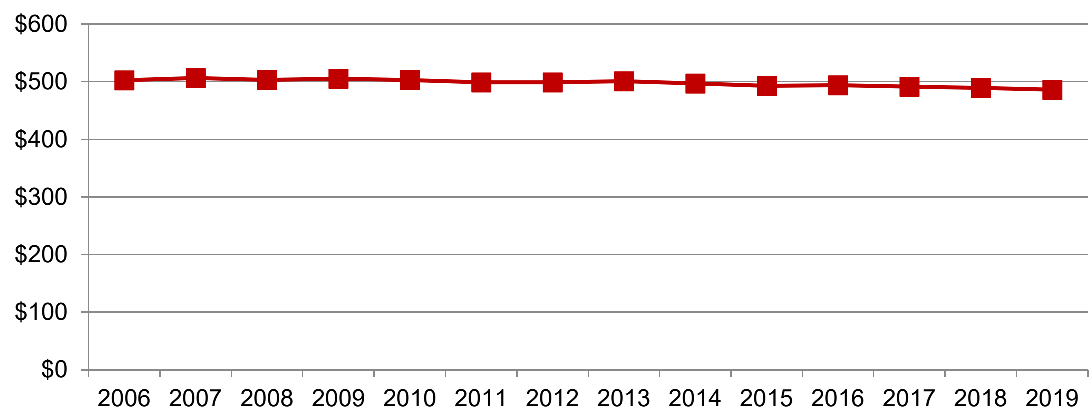
	2015	2016	2017	2018	2019
2015 Plan projection	11.726	12.726	15.726	18.726	20.726
Actual real estate tax rate	11.726	12.726	13.726	14.226	14.226

[12] See initiative RV04 on p. 169 of the 2015 Amended Recovery Plan.

Some of the increase in current year tax revenues, however, was offset by lower delinquent collections. The City's delinquent collections in 2017 dropped by over 50 percent in part because the increased current collection rate in 2016 resulted in lower delinquencies.

In addition to changes to tax rates and the way the City collects its taxes, there were changes to the City's tax base as well. For each of the years from 2013 to 2019, the City saw a decline in its taxable assessed values except in 2016. Compared to 2013, the taxable assessed value in 2019 was 3.0 percent (or $14.9 million) lower. Compared to 2006, the City's 2019 taxable assessed value was 3.3 percent (or $16.5 million) lower.

Taxable Assessed Values, 2006 – 2019 (in millions)



As a result of all of these changes, the City's total real estate revenues increased by 12.9 percent from 2013 through 2018 even though the tax rate increased by over 20 percent. The following table details the City's current and prior year tax revenues during the six-year period.

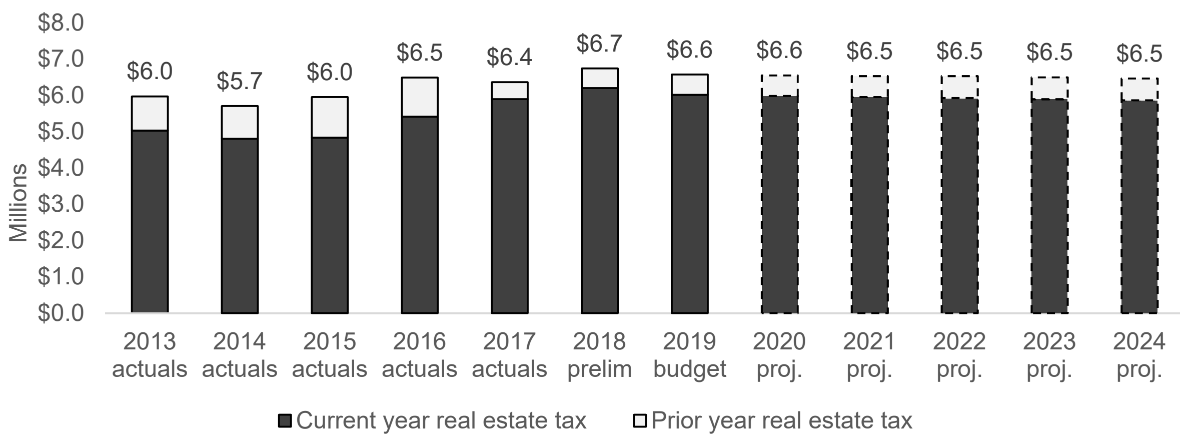
Real estate tax revenues, 2013 - 2017

	2013	2014	2015	2016	2017	2018 prelim	2013-18
Taxable assessed values	$500.9	$497.0	$493.0	$493.8	$491.5	$489.2	-2.3%
Tax rate	11.726	11.726	11.726	12.726	13.726	14.226	21.3%
Collection rate	85.6%	82.5%	83.7%	86.2%	87.4%	89.1%	4.1%
Current year revenues	**5,029,510**	**4,805,751**	**4,836,944**	**5,415,740**	**5,896,298**	**6,201,146**	23.3%
Prior year revenues	**943,846**	**898,439**	**1,118,089**	**1,075,659**	**469,710**	**541,083**	-42.7%
Total revenues	**$5,973,356**	**$5,704,190**	**$5,955,032**	**$6,491,399**	**$6,366,008**	**$6,742,229**	**12.9%**

Moving forward, the baseline projection assumes that the real estate tax rate will remain at the current level (14.226 mills) and the taxable assessed value will drop by 0.5 percent annually, consistent with the recent years' trend of declining tax base. Based on these underlying assumptions, current year real estate tax revenue is projected to drop from $6.0 million in 2019 to $5.9 million in 2024. The baseline projection also carries forward the 87 percent collection rate assumed in the 2019 budget, as the increased collection rate as shown in 2018 results are preliminary.

The City collected $541,000 in delinquent tax revenues in 2018 and the 2019 budget projects $560,000 in revenues, which is a reasonable estimate given the recent downward trend. We project the City will continue to collect approximately 20 percent of the prior three years' delinquent taxes, consistent with the 2019 budget assumption.

Historical and Projected Real Estate Tax (All Funds)



	2013 Actuals	2014 Actuals	2015 Actuals	2016 Actuals	2017 Budget	2018 Budget	2019 Budget
General Fund	11.18	11.18	8.969	10.58	11.58	11.52	11.52
Debt Service	0.369	0.369	2.58	1.97	1.97	2.53	2.53
Library	0.177	0.177	0.177	0.18	0.18	0.18	0.18
Total Mileage	**11.726**	**11.726**	**11.726**	**12.726**	**13.726**	**14.226**	**14.226**

Earned income tax

The **earned income tax** is the City's single largest revenue source, representing 36 percent of the City's total operating budget.

The City's adopted 2019 budget anticipates $7.0 million in EIT revenue, including prior year receipts. That revenue flows into the General Fund where it supports daily operations ($3.2 million), the Sinking Fund where it is used to pay pension bond debt service ($1.8 million) and the Pension Fund that the City uses to make its annual contribution to the employee pension plans ($2.0 million).

The City uses three different Pennsylvania laws to levy the EIT:

Authorizing law	Funding purpose	2019 EIT Rate
Act 511 of 1965	Fund daily operations in the General Fund	1.0% Resident (Split with School District) 1.0% Non-resident**
Act 47 of 1987	Fund daily operations in the General Fund	0.2% Resident 0.15% Non-Resident
Act 47 of 1987	Fund capital improvement projects	0.2% Resident 0.15% Non-Resident
Act 205 of 1984	Fund City contribution to employee pension plans (including a portion of the pension bond debt)	0.7% Resident 0.7% Non-Resident
	Total	**2.1% Resident** **2.0% Non-resident**

*** Associated revenue often remitted to the non-resident's home municipality*

At the time the Coordinator wrote the 2015 Amended Recovery Plan, DCED advised the Coordinator that the Amended Recovery Plan could not presume that the City would subsequently use the three-year exit plan option. Since the objective was for New Castle to successfully exit Act 47 oversight, the Coordinator assumed, at the time, that the Act 47 portion of the resident and commuter EIT tax would need to be eliminated by 2019.

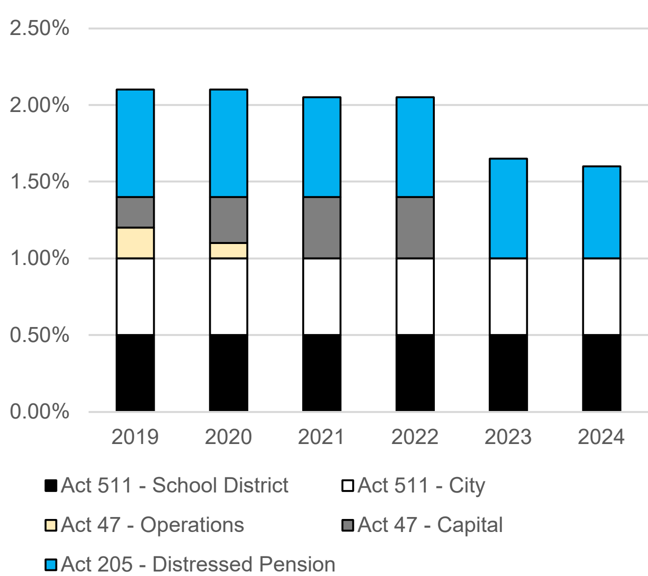
In 2018, DCED advised the Coordinator that the City can keep its Act 47 EIT as long as the City remains under Act 47 oversight. Accordingly, if this three-year Exit Plan is adopted in 2019, the City will be able to keep its additional taxing authority in Act 47 through 2022, the end of the Exit Plan period.

The Coordinator developed a Plan Amendment in 2018 that allows the City to keep half of the Act 47 EIT for operations, with the other half directed to capital improvements. The City currently levies a 0.4 percent Act 47 EIT on residents and a 0.3 percent Act 47 EIT on commuters.

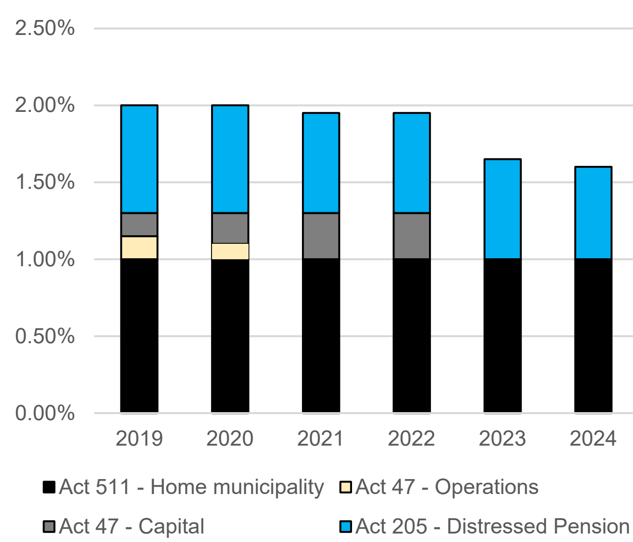
The deadline to exit Act 47 translates to the loss of the Act 47 taxing authority on residents and commuters by the end of 2022. To help prepare for this eventuality while still providing the necessary capital funding the City needs to maintain its infrastructure, the baseline projection assumes that the City will gradually shift the operations portion of the Act 47 EIT toward capital uses. The receipts from the capital portion of the Act 47 EIT cannot be used to support operations, retire existing debt or cover the City's pension costs, but can provide funding for capital improvement projects such as vehicle replacement, building maintenance, and road paving. Beginning in 2023, the entire Act 47 levy is eliminated in the baseline projection.

The baseline assumes that the City will continue to use the taxing authority provided by Act 205 to fund a portion of its pension-related expenditures. The Act 205 pension tax rates shown in the charts below are only estimates based on the information available at this time. The City will have to calculate the actual distressed pension tax rate each year to incorporate subsequent changes to the relevant factors (e.g. MMO contributions, pensionable payroll, EIT revenue growth).

Projected Resident EIT rates

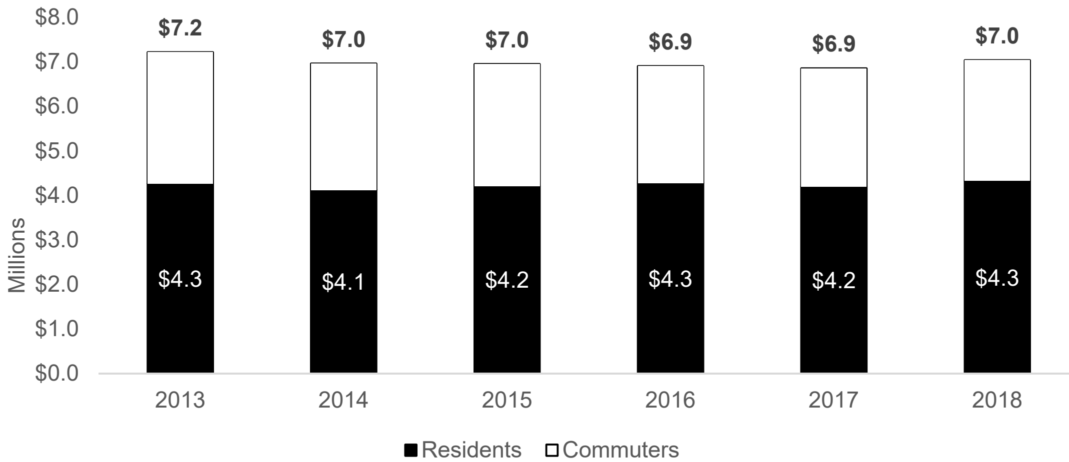


Projected Commuter EIT rates



Looking at the historical EIT trends, revenues from residents and commuters dropped by 3.5 percent from 2013 to 2014 across all payers. Total EIT revenues have been basically flat since 2014, though there was a modest uptick in total revenues in 2018 according to the most recent cash-based results.

Total EIT Revenues, 2012 – 2018 (on a cash basis)



Tax base growth has been a little more positive than tax revenue growth. We calculate the amount of revenue each 1.0 percent generates on a cash basis to have a clearer picture of how resident and commuter earnings are changing, once we account for any changes in the tax rate. As noted earlier, the 2015 Amended Recovery Plan anticipated that the City would have to eliminate the Act 47 EIT by 2019 so there was a small tax rate decrease in 2016.[13] The amount of revenue generate per 1.0 percent of EIT increased by 1.9 percent per year for residents and 1.3 percent for commuters from 2015 to 2018.

Revenues per 1.0% in EIT (on a cash basis)

	2013	2014	2015	2016	2017	2018	2013-15 CAGR	2015-18 CAGR
Resident revenues	2,583,915	2,499,679	2,552,147	2,673,090	2,624,817	2,703,110	-0.6%	1.9%
Commuters revenues	2,814,452	2,703,567	2,609,253	2,627,993	2,654,821	2,714,970	-3.7%	1.3%
Total	**$5,398,366**	**$5,203,246**	**$5,161,400**	**$5,301,082**	**$5,279,637**	**$5,418,081**	**-2.2%**	**1.6%**

In addition to reviewing the historical receipts, the Coordinator reviewed economic trend data as a guide for projecting how the resident and commuter tax base will grow. The US Census Bureau's American Community Survey (ACS) tracks New Castle resident's earnings in different ways. As the table below shows, this external data shows growth for most earnings measures, though the pace of that growth varies by indicator. Mean earnings for residents who worked full-time and year-round rose by 3.9 percent per year, but median earnings for residents who are 16 years and over dropped by 0.7 percent annually.

[13] Total EIT for residents dropped from 2.15% in 2015 to 2.10% in 2016 and total EIT for commuters dropped from 2.05% to 2.0% in 2016.

City of New Castle, 2013 - 2017[14]

New Castle	2013	2014	2015	2016	2017	CAGR
Median earnings for people 16 years and over	$25,646	$26,044	$25,143	$25,172	$24,955	-0.7%
Mean earnings for full-time, year-round workers	$39,097	$41,670	$41,781	$42,007	$45,582	3.9%
Per capita income	$17,945	$18,463	$19,206	$19,286	$20,636	3.6%
Median household income	$29,559	$29,762	$30,422	$31,557	$31,044	1.2%

Source: US Census Bureau, American Community Survey, five-year estimates

Another variable in the earned income tax base is whether the number of employed residents has increased. Over the period from 2013 to 2017, the number of employed residents decreased by 1.2 percent on an average annual basis according to the US Bureau of Labor Statistics' Local Area Unemployment Statistics ("LAUS").

For commuters, there is Federal data available for Lawrence County residents, but the data covers all County residents while the only residents relevant to New Castle's commuter tax are those who live outside New Castle but work in the City. The Federal data also does not incorporate people from outside Lawrence County who work in New Castle and pay the commuter EIT. With these limitations noted, the table below shows some of the relevant available data points.

Lawrence County, 2013 – 2017

Lawrence County	2013	2014	2015	2016	2017	CAGR
Median earnings for people 16 years and over	27,305	$28,092	$28,669	$29,677	$30,026	2.4%
Mean earnings for full-time, year-round workers	46,595	$47,922	$49,805	$51,642	$54,381	3.9%
Per capita income	22,906	$23,519	$24,450	$25,614	$26,918	4.1%
Median household income	43,546	$43,991	$44,571	$45,764	$47,188	2.0%

Source: US Census Bureau, American Community Survey, five-year estimates

While there was some growth in earnings, the number of employed County residents declined during the same period, dropping by 1.1 percent on an annual average basis, according to the Bureau of Labor Statistics.

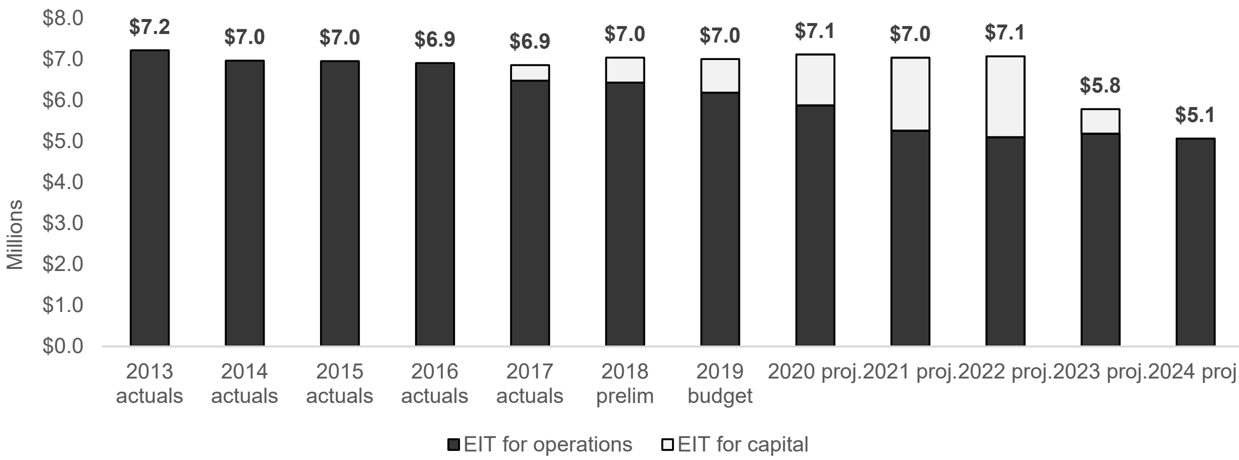
Because residents' earnings reported by Federal data vary depending on various factors and County residents' earnings data has significant limitations, the Coordinator projected the earned income tax growth based primarily on the City's historical revenue trends. The baseline projection estimates 2.0 percent growth in the resident tax base and a 1.0 percent growth in the commuter tax base based on revenue receipts in the last three years.

The following table shows total historical and projected EIT revenues and the amount designated for capital projects as the City gradually shifts its operations Act 47 EIT toward capital uses. In 2023, the City will lose its additional taxing authority provided by Act 47, but there will still be a small amount (approximately

[14] At the time of analysis, the most recent ACS data available was through 2017.

$600,000) of prior year revenues available for capital improvement projects from the tax levied in the prior year.

Historical and Projected EIT Revenues (All Funds)[15]



	2019 budget	2020 proj.	2021 proj.	2022 proj.	2023 proj.	2024 proj.
EIT for operations	6,185,552	5,874,837	5,258,785	5,099,338	5,183,880	5,066,005
EIT for capital	817,745	1,242,477	1,779,533	1,972,052	596,571	0
Total	**$7,003,297**	**$7,117,314**	**$7,038,318**	**$7,071,391**	**$5,780,451**	**$5,066,005**

Other taxes

The City projects collecting $1.5 million (or 7.8 percent of the 2019 budget) from other taxes, the largest of which are the local services tax ($430,000) and the business gross receipts tax ($721,000), which includes both the mercantile and business privilege taxes. This category also includes $115,000 in deed transfer tax, which varies depending on the number of residential and commercial property sales.

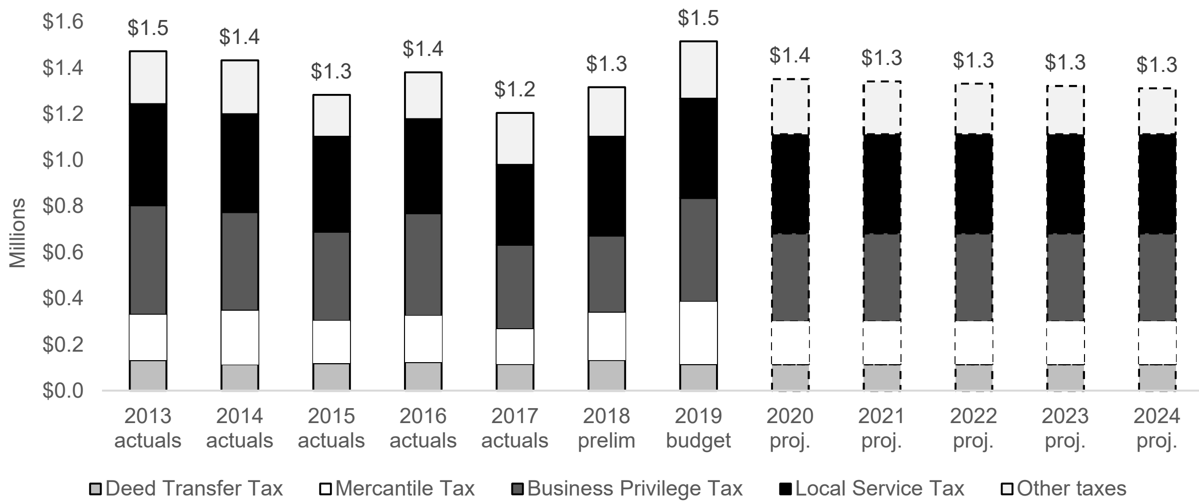
There are other, smaller amounts of tax revenues in the 2019 budget, including payment in lieu of taxes, interest and penalties related to the real estate tax, and delinquent EIT revenue that was due to the City before collection responsibilities shifted to Berkheimer in 2012.[16] These revenues totaled $249,000 in the 2019 budget.

From 2013 to 2018, the other tax revenue category dropped from $1.5 million to $1.3 million, driven primarily by a decline in business gross receipts tax. Based on the actual receipts, the Coordinator adjusted the projection in 2020 for the business gross receipts to the approximate three-year averages from 2016 to 2018. Instead of the $721,000 in anticipated tax revenues in the 2019 budget, the baseline projects $567,000 for 2020 and maintains the revenue flat throughout the projection period. The Coordinator also reduced the projections for delinquent EIT revenues that was due to the City before collection responsibilities shifted to Berkheimer in 2012. The baseline projection assumes that this revenue will drop from $60,000 in 2019 to $10,000 in 2024 as these revenues are related to older accounts and should gradually decline. All other revenues in this category are projected to be flat for the next five years.

[15] Historical EIT revenues are on a cash basis.

[16] Berkheimer handles delinquent EIT revenue collection for taxes levied in 2011 and later. Sharp handles the older accounts and the City records the revenue as “Collections- Delinquent Tax Receipts,” which is tracked in the “other taxes” category.

Other taxes, 2013 - 2024

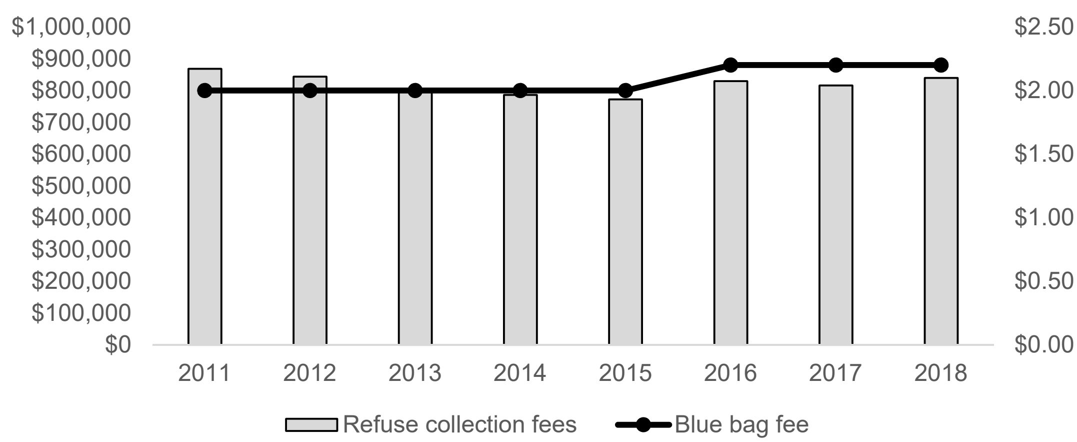


<u>Departmental earnings</u>

Departmental earnings are largely service charges paid by an individual or organization that directly benefits from the service. This category totaled $1.8 million in the 2019 budget and accounts for 9.2 percent of the City's total revenues across the General, Sinking, and Pension funds. Almost half of the departmental earnings come from the City's refuse collection or "blue bag" fees.

The City's refuse collection revenue has been declining since 2011, dropping from $868,000 to $772,000 in 2015. In 2016, the City increased the blue bag fees by 10 percent from $2.00 to $2.20 to recover the cost of the refuse collection program. Revenues as a result increased, but the increase was lower than the fee increase due to the continuous decline in bag sales.

Blue Bag Fee and Refuse Collection Revenues, 2011 - 2018



	2011	2012	2013	2014	2015	2016	2017	2018
Blue bag fee	$2.00	$2.00	$2.00	$2.00	$2.00	$2.20	$2.20	$2.2
Refuse collection fees	$868,394	$844,031	$803,542	$786,435	$772,362	$829,612	$816,359	$839,583
% change	N/A	-2.8%	-4.8%	-2.1%	-1.8%	7.4%	-1.6%	2.8%

The City budgeted $797,000 in blue bag fees in 2019, even though the City has not collected less than $800,000 since the fee increase in 2016. The Coordinator therefore adjusted the projected refuse collection fee to $829,000 – the three-year average from 2016 to 2018 -- in 2020 and maintained it flat for the next five years.

This category also includes employee contributions to health insurance. This revenue fluctuated in recent years in part because of the provision in the 2015 Amended Recovery Plan that capped growth in the City's share of the total premium costs at five percent per year. The baseline projection assumes that the five percent cap continues to apply throughout the projection period, which is discussed more fully in the next section that describes the underlying expenditure assumptions.

Golf course revenues have been growing at an annual rate of 2.4 percent from 2013 to 2018, but the recent years' growth came after years of revenue decline. The baseline projection therefore projects golf course earnings to remain flat at $182,000, same as the 2019 budget projections.

Code enforcement fees dropped from $205,000 in 2010 to $152,000 in 2013 and have been fluctuating from year to year since then, averaging $177,000 from 2013 to 2018. The City budgeted $184,000 in code enforcement fees in 2019, and the baseline projection assumes it will remain at the 2019 level for the projected years absent fee increases. While the City recently increased the rental registration fees, it also eliminated the fees associated with the rental inspection program, so there is no net revenue impact to the baseline.

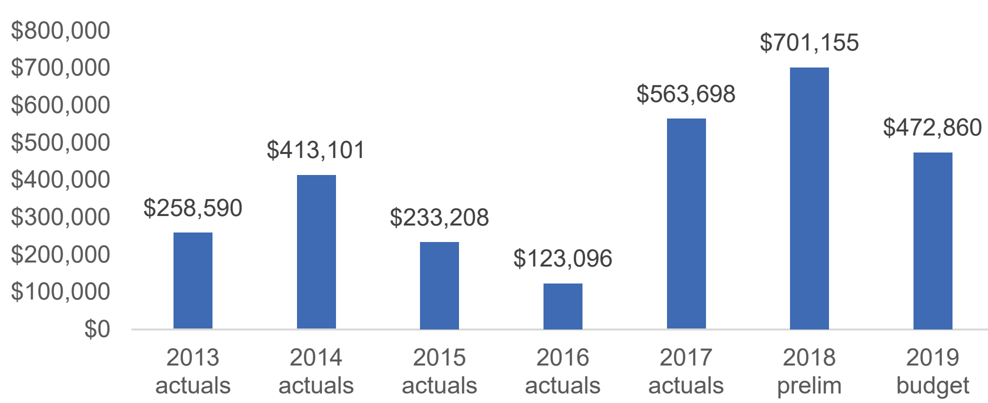
The remaining departmental earnings, which include the water bill fee and security services for Taylor Township and the School District, are all projected to grow at the projected inflationary growth rate of 2.2 percent.[17]

Licenses and permits

The City budgeted $839,000 in licenses and permits in 2019, which consist primarily of the building permits and cable access television (CATV) permit revenues. From 2013 to 2017, the City's CATV permit revenues grew from $307,000 to $319,000, or an annual average growth of 1.0 percent. The baseline projection therefore continues the historical trends and grows this revenue by 1.0 percent as well.

Building permit revenues have fluctuated depending on the number and scale of construction projects in the City. The City had more than $700,000 in revenues in 2018 because of one-time construction and renovation projects. The following chart shows the City's building permit revenues from 2013 to 2019.

Buildings Permit Revenues, 2013 - 2019



[17] Q2 2019 Survey of Professional Forecasters published by the Federal Reserve Bank of Philadelphia projects 2.20 percent for the long-term average inflationary growth from 2019 to 2028.

Based on the historical trends and the sporadic nature of this revenue, the Coordinator adjusted 2020 projections to the five-year average revenues from 2013 to 2017 ($318,000) to exclude the one-time increase in 2018. Beginning in 2021, the baseline grows this revenue by 2.0 percent each year, close to the Federal Reserve Bank's projections for the national gross domestic product (GDP).[18]

Intergovernmental revenues

The largest intergovernmental revenue the City collects is the Commonwealth pension aid, which is recorded in the City's Pension Fund. The amount of aid that New Castle receives is a byproduct of its employee headcount and the amount of revenue that the Commonwealth collects from taxes on out-of-state insurance policies. The Commonwealth aid unit value grew by 3.6 percent on an annual average basis from 2007 to 2017 (10-year average) and by 3.4 percent from 2002 to 2017 (15-year average), so the baseline forecast projects a 3.5 percent growth, assuming headcount remains the same throughout the projection period.

The City also collects a small amount of grants and gifts in the General Fund from the Federal, Commonwealth, and County governments. The City budgeted $94,000 in 2019 for grants and gifts, the largest grant of which is a $36,000 grant from the Federal Drug Enforcement Administration. The baseline projection maintains these grants and gifts at the same level as the 2019 budget.

Transfers

This category consists of interfund transfers from special funds to the General Fund. As of 2019, the City has three recurring transfers from other funds:

- **Transfer from liquid fuel**: This allocation from the Commonwealth helps cover street-related expenditures like road paving, road salting, and street lighting. The City budgeted $335,000 in transfers from liquid fuels and the baseline projection assumes that the transfers will remain at the same level.

- **Transfer from CDBG**: The City uses a portion of its Federal Community Development Block Grant (CDBG) funding to cover its administrative and code enforcement expenditures. The City also uses a part of its CDBG funding for building demolition. The City budgeted $150,000 in transfer from CDBG in its 2019 budget, and the baseline projection carries that amount forward.

- **Transfer from Parking:** The City also transfers $100,000 from its Parking Fund annually. These are revenues the City receives from the parking meters, surface lots, and the North Mercer Street garage. The baseline projection assumes that the $100,000 transfer will follow historical trends and remain flat in the projection period.

The City historically also budgeted a transfer from the Marcellus Shale Gas account that was used to fund capital projects. The Marcellus Shale Gas account held proceeds the City received in 2012 from Hilcorp Energy I, Limited Partnership for leasing its rights to the natural gas on City-owned-properties. That one-time payment was depleted by the end of 2017, so those transfers were not budgeted in 2018 or 2019 and are not included in the baseline projection.

Other revenues

This category includes a number of miscellaneous revenues in the General Fund, including fines and forfeits, school district tax collection fees, and reimbursements from the Commonwealth for pension

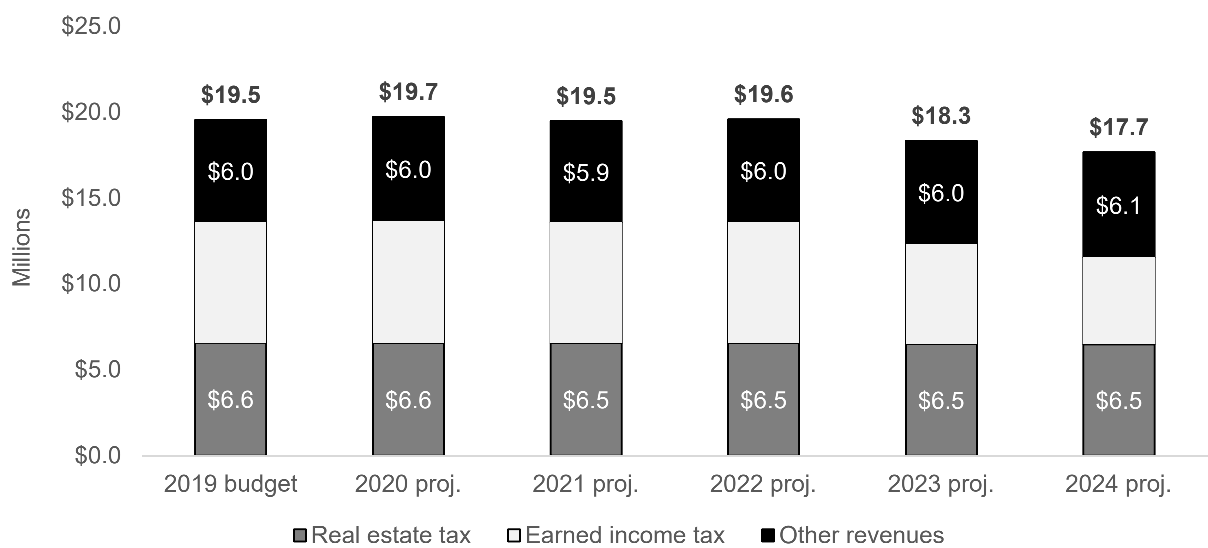
[18] Q2 2019 Survey of Professional Forecasters published by the Federal Reserve Bank of Philadelphia projects 2.0 percent growth for 2020 and 1.9 percent for 2021, and 2.3 percent for 2022, which averages 2.1 percent.

administration and snow removal. In aggregate, these revenues totaled $397,000 in the 2019 budget and are projected to grow at 0.8 percent annually from $397,000 in 2019 to $412,000 in 2024.

Summary of revenues

Aggregating all the revenue categories, the baseline projection shows the City's total operating revenues dropping by 2.0 percent on annual average basis from $19.5 million in 2019 to $17.7 million in 2024. As shown in the chart below, the decline is driven primarily by the elimination of the Act 47 EIT.

Baseline Projection of the Three Primary Funds (Revenues), 2019 – 2024



	2019 budget	2020 proj.	2021 proj.	2022 proj.	2023 proj.	2024 proj.	CAGR
Real Estate Taxes	6,575,605	6,552,380	6,532,327	6,532,339	6,499,677	6,467,178	-0.3%
Earned Income Tax	7,003,297	7,117,314	7,038,318	7,071,391	5,780,451	5,066,005	-6.3%
Other Taxes	1,515,144	1,351,565	1,341,565	1,331,565	1,321,565	1,311,565	-2.8%
Licenses and Permits	838,953	691,501	702,149	712,979	723,993	735,195	-2.6%
Departmental Earnings	1,793,064	1,942,752	1,977,590	2,015,285	2,056,107	2,100,836	3.2%
Intergovernmental	835,499	861,455	888,319	916,124	944,902	974,687	3.1%
Other transfers	585,000	585,000	585,000	585,000	585,000	585,000	0.0%
Other Revenues	396,692	606,231	402,537	405,557	408,643	411,796	0.8%
Total Revenues	**$19,543,254**	**$19,708,198**	**$19,467,806**	**$19,570,239**	**$18,320,338**	**$17,652,263**	**-2.0%**

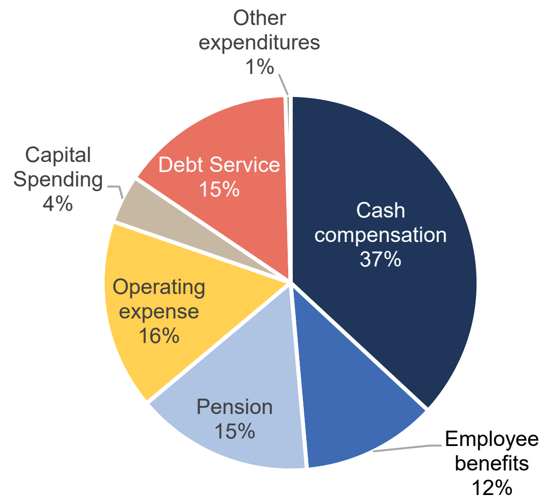
Major expenditure assumptions

Similar to many Pennsylvania local governments, the majority of New Castle's spending is on its employees. In the City's 2019 budget, almost two-thirds of its budget is allocated to employees' cash compensation, health benefits, and the City's contribution to the employee pension plan. Almost half of the remaining spending goes toward debt service payments, which totaled $3.0 million in the 2019 budget.

In aggregate, the City's operating expenditures remained flat at $18.4 million from 2013 to 2017, excluding capital spending which was driven in part by one-time transfers from the Marcellus Shale gas proceeds. The growth in pension contributions was offset by lower debt service and employee benefit costs.

The pie chart to the right shows the major categories of expenditures in the adopted 2019 budget, and the table below shows the City's operating expenditures, including the three primary (General, Sinking, and Pension) funds, from 2013 to 2018.

2019 Expenditure Budget ($19.5 million)



Expenditures across the Three Primary Funds, 2013-2018

	2013 audit	2014 audit	2015 audit	2016 audit	2017 audit	2018 prelim	CAGR
Cash compensation	6,921,323	7,154,914	7,219,669	6,973,744	6,933,886	6,980,208	0.2%
Employee benefits	2,607,049	2,830,402	2,820,295	2,219,244	2,268,156	2,133,822	-3.9%
Pension	1,986,457	2,354,001	3,005,567	2,998,155	3,013,273	3,051,171	9.0%
Operating expenses	3,199,542	3,051,577	3,151,535	3,067,135	3,125,305	3,616,635	2.5%
Capital Spending	371,253	408,417	1,619,151	954,854	461,269	609,423	10.4%
Debt Service	3,575,065	2,636,227	2,354,784	2,296,840	2,956,133	2,878,029	-4.2%
Other expenditures	90,219	82,696	79,002	86,223	97,796	91,542	0.3%
Total	**$18,750,908**	**$18,518,234**	**$20,250,003**	**$18,596,195**	**$18,855,818**	**$19,360,829**	**0.6%**
Expenditures excl. capital	**$18,379,655**	**$18,109,817**	**$18,630,852**	**$17,641,341**	**$18,394,549**	**$18,751,406**	**0.4%**

Cash compensation

This category includes employees' base salaries, longevity, holiday pay, incentive payments, clothing allowance, shift differential, and overtime. Since adopting the 2015 Amended Recovery Plan, the City has negotiated new collective bargaining agreements with its four bargaining units – the Fraternal Order of Police ("FOP"), International Association of Firefighters ("IAFF"), Laborers, Local No. 964 – Public Works, and Laborers, Local No. 964 – Clerical. All of the bargaining agreements complied with the Amended Recovery Plan provision, and are all set to expire at the end of 2019.

Employee Group Contract Term and Headcount

Group	Covered positions include	2019 budgeted positions	Contract term
FOP, Lodge 21	All full-time police officers except the Chief	36	1/1/16 - 12/31/19
Laborers, Local No. 964 - Public Works	Laborers, equipment operators, refuse collectors, tradesmen	23	1/1/17-12/31/19
IAFF, Local No. 180	All full-time fire fighters except the Chief	20	1/1/17-12/31/19
Laborers, Local No. 964 - Clerical	Most clerical and administrative support positions including treasury and records clerks and financial and legal assistants	10	1/1/17-12/31/19
Non-represented[19]	Department directors, elected officials, code officers, part-time employees including police and fire	19 full-time 37 part-time	N/A
Total		**108 full-time 37 part-time**	

From 2015 to 2019, employee cash compensation remained flat even though employees received either annual wage increases of 2.0 percent or one-time bonuses in each of those years. Part of the reason cash compensation growth was lower than the annual wage increases is because the City eliminated several positions to control expenditure growth. Between 2015 and 2019, the City eliminated the economic development direction position and one firefighter position. Since the establishment of the stormwater fee, the sewer vactor operator position was moved to the Sanitation Authority.

The second reason for the flat cash compensation trend was because the City reduced overtime spending in the Fire Department. During the most recent round of labor negotiations, the City and IAFF agreed that while the minimum manning level of on-duty firefighters continues to remain at five, part-time firefighters shall be counted toward that minimum manning level. Part-time firefighters previously were not counted toward the five-person minimum. In part due to this new provision, Fire Department overtime dropped from $242,000 in 2015 to $147,000 in 2018, representing a 39.2 percent decrease. The City also saw savings from turnover in recent years, particularly in the Clerical and Public Works union.

As a result of these efforts, the City was able to maintain its total cash compensation at $7.2 million according to the 2019 budget, the same amount the City spent in 2015.

Total Cash Compensation, 2015 - 2019

	2015 actuals	2016 actuals	2017 actuals	2018 prelim	2019 budget
Salaries and Longevity	6,169,718	6,004,667	6,009,004	6,047,292	6,363,012
Other Cash Compensation	506,754	450,529	478,998	469,964	437,963
Overtime	543,197	518,548	445,884	462,952	441,084
Total Cash Compensation	**$7,219,669**	**$6,973,744**	**$6,933,886**	**$6,980,208**	**$7,242,059**

Looking forward, the baseline projection assumes headcount to stay at the 2019 budgeted level over the five-year period. All employees, apart from elected officials, are projected to receive annual across-the-board wage increases of 2.0 percent after the bargaining agreements expire at the end of 2019. The

[19] Teamsters, Local 26 is now grouped with non-represented employees.

projection also assumes that police officers and firefighters who are not already at the maximum step will continue to receive step increases.

Employee benefits

This category includes the City's benefits payments, which consist of health and life insurance, Social Security, Medicare, unemployment compensation, and workers' compensation. Health insurance spending for both the City's active employees and retirees represents over 70 percent of the spending in this category. From 2015 to 2018, the City's health insurance expenditures net of the employees' contribution dropped from $2.2 million to $1.7 million.[20]

Health Insurance Cost, 2015 - 2019

	2015 actuals	2016 actuals	2017 actuals	2018 actuals	2019 budget
Gross health insurance (active employees)	$2,066,078	$1,654,393	$1,584,825	$1,518,244	$1,520,297
Gross health insurance (retirees)	$338,772	$212,775	$301,232	$308,145	$351,832
Employee contributions (revenues)	$202,776	$52,885	$153,826	$145,020	$113,685
City net cost	**$2,202,074**	**$1,814,282**	**$1,732,231**	**$1,681,368**	**$1,758,444**

The decrease in health benefit costs was, in part, because all bargaining units were subject to the maximum City healthcare contribution (or "cap").[21] As described in the Amended Recovery Plan, the Coordinator calculated the maximum City contribution based on the premiums of the United Health plan provided through TEC Benefits in 2015. Because the premiums for this health plan were much lower than the Highmark Plan that fire and police employees were previously using, the Coordinator lowered the "cap" to reflect the premiums at the time.

Maximum City Monthly Contributions, 2015 - 2017

	2015	2016	2017
Single	$524	$551	$480
P/C	$1,187	$1,246	$957
H/W	$1,334	$1,401	$1,011
Family	$1,418	$1,489	$1,251

In addition, the City now has fewer employees and employees have switched to lower cost health plans since the 2015 Plan which has resulted in lower employee contributions as well as lower premium costs for the City. The following table shows monthly premiums of family plans by bargaining unit from 2014 to 2018.[22]

[20] Part of the reason health insurance growth was lower than projected was because the City now has fewer employees and has more employees who elect not to use City health insurance coverage and opt to receive an annual payment of $2,500 "in lieu of" coverage. This year, there are 23 employees who opted to receive "in-lieu" payments, compared to only 12 employees in 2015.

[21] See initiative WF02 on p. 67 of the 2015 Amended Recovery Plan.

[22] Renewals for police, fire, and non-represented employees are in September; renewals for the clerical and laborer bargaining units are in August.

Premium for Family Plans (inclusive of health plan changes), 2014 - 2018

	2014	2015	2016	2017	2018
Police	$1,849	$764	$1,179	$1,339	$1,411
Fire	$1,849	$764	$1,271	$1,339	$1,411
Non-union	$1,849	$764	$1,179	$1,339	$1,411
Clerical	$1,824	$1,827	$1,090*	$1,356*	$1,166*
Public Works	$1,824	$1,827	$1,297*	$1,415*	$1,290*

**These are average premiums for family plans because the premiums are employee-based and vary among employees*

The baseline projects gross health premiums to grow at 7.0 percent annually based on the national health trend survey published by Segal Consulting.[23] The baseline also assumes the current cap on the City's growth in premium costs remains at five percent a year.

<u>Pension</u>

The City has three employee pension plans that are funded through a combination of City contributions, employee contributions and plan asset investment earnings. Part of the City's contribution is funded by Commonwealth pension aid, which is reflected in the City's budget as a revenue. These contributions fund a level of benefits defined by the pension plan provisions, irrespective of the investment performance, pension plan funding levels, or other factors used to calculate the City's annual required contribution to the pension plans.

The City's annual contribution, also known as the Minimum Municipal Obligation ("MMO"), is calculated by an independent actuary. Every other year the actuary calculates the MMO based on several factors including the pension plan's provisions, the City's payroll, employee contributions, recent investment performance, and actuarial assumptions involving factors like life expectancy. The MMO has three components:

- The **normal cost** is the amount that the City has to contribute to cover the value of benefits provided to employees in the current year. It is based in part on the size of the City's current payroll.
- The **amortization component** is the amount the City has to contribute to cover the unfunded liability from prior years' service. This is the largest component of the MMO.
- The **administrative expense** is the anticipated cost of running the pension plan.

The MMO calculation also takes into account the employee contributions to the pension plans. Employees contribute a percentage of their earnings as determined through negotiation and law.[24]

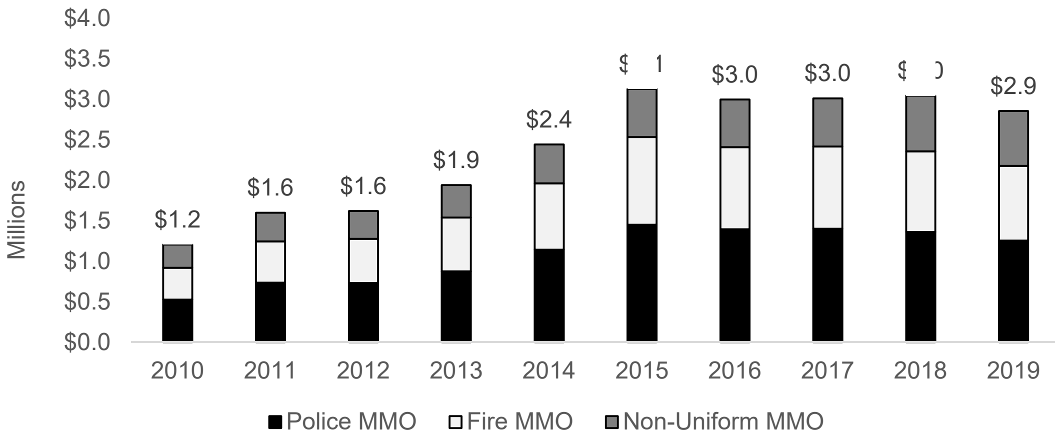
After increasing by an annual rate of 21.0 percent from 2010 to 2015, the City's MMO costs have stabilized since 2016, and, according to the most recent actuarial valuation, the funding ratio for the Police and Fire Department plans have increased to 62.3 and 66.9 percent respectively. The funding ratio of all three

[23] The 2019 Segal Health Trend Survey projects that high-deductible health plan (HDHP) costs will grow at 7.2 percent and PPO and POS plan costs will grow at 7.1 percent to 7.3 percent depending on accessibility.

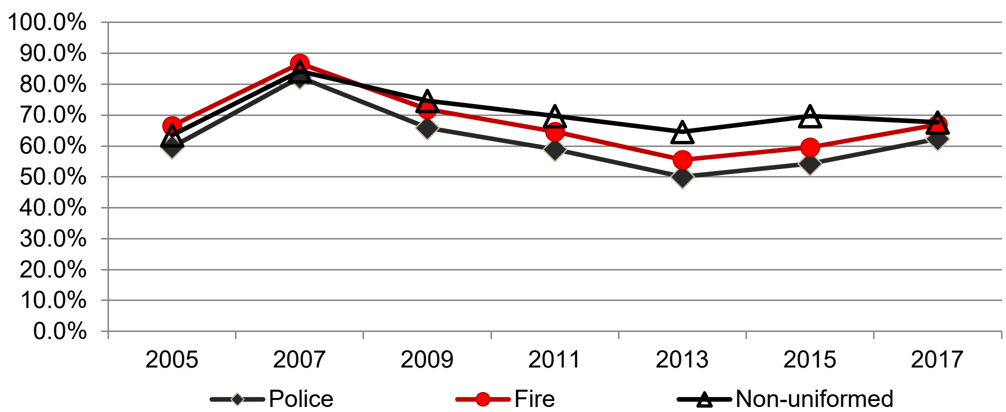
[24] The earnings upon which the employee contributions are based vary by bargaining unit and hiring date. For example, police officers hired before 2013 contribute 4.5 percent of their base salary, longevity and holiday pay. Those hired after 2012 contribute 5.0 percent of their base salary and longevity.

pension plans in aggregate was 65.2 percent as of January 1, 2017, which is considered moderately distressed based on the levels of distress set forth in Act 205.[25]

Actual and Budgeted Minimum Municipal Obligations, 2010 -2019



Funding Ratio, 2005 - 2017



Moving forward, the City's actuary projects that the City's MMO will remain relatively flat at $2.9 million based on data and results from the January 1, 2017 valuation. The actuary's MMO projections as shown in the chart below are included in the baseline projection and do not assume any future experience gains or losses.

Minimum Municipal Obligation projection, 2019 – 2024

	2019	2020	2021	2022	2023	2024
Police	1,254,170	1,285,000	1,301,000	1,318,000	1,335,000	1,353,000
Fire	923,287	942,000	951,000	953,000	962,000	791,000
Other	678,496	671,000	678,000	611,000	637,000	644,000
Total Projected MMO	**$2,855,953**	**$2,898,000**	**$2,930,000**	**$2,882,000**	**$2,934,000**	**$2,788,000**

[25] Act 205 established that funded status of 70 to 89 percent is considered minimally distressed; funded status of 50 to 69 percent is considered moderately distressed; and funded status of less than 50 percent is considered severely distressed.

Operating expense

The largest spending in this category is contracted services, which includes the City's contracts for building inspections, refuse bag packaging, and engineering services. It also includes tipping fees for waste disposal, contracted vehicle repairs, and the City's annual contribution to the New Castle Area Transit Authority.

Operating Spending, 2013 - 2018

	2013 actuals	2014 actuals	2015 actuals	2016 actuals	2017 actuals	2018 prelim	CAGR
Contracted services	1,561,779	1,343,537	1,493,423	1,528,305	1,506,275	1,876,041	3.7%
Utilities	1,018,018	1,014,228	946,556	888,089	919,682	949,515	-1.4%
Materials and supplies	619,745	693,813	711,556	650,742	699,348	791,079	5.0%
Total operating expense	**$3,199,542**	**$3,051,577**	**$3,151,535**	**$3,067,135**	**$3,125,305**	**$3,616,635**	**2.5%**

From 2013 to 2017, the City's annual operating spending essentially remained the same at approximately $3.1 million, despite inflationary growth of 5.2 percent through that period.[26] In 2018, operating expenses increased from $3.1 million to $3.6 million, or a growth of 15.7 percent. The increase was due to a number of one-time events. The City's spending on contracted engineering services doubled in 2018 because of the one-time expenses related to the stormwater program. The City also spent more on vehicle repairs because there were several vehicles that were at the end of their life cycles.

Absent these one-time expenses, the City anticipates spending $3.2 million (or 16.4 percent) of the 2019 budget on operating expenses. With a couple of noteworthy exceptions, the baseline projection assumes that most operating expenses will increase according to the inflationary growth of 2.2 percent projected by the Survey of Professional Forecasters. Based on the long-term projections by the US Energy Information Administration, the baseline forecast projects vehicle gasoline costs to grow at 3.6 percent and electricity to grow at 2.5 percent annually. Landfill tipping fees are projected to grow by 5.0 percent, matching the rate of historical spending from 2011 to 2017. The City's recycling fee increased from $68.50 per ton to $150 per ton in the first half of this year, but those costs will reduce to $55 per ton beginning in July 2019 once the City enters into an agreement with an alternate landfill.

Capital spending

Since entering Commonwealth oversight in 2007, the City has rarely issued new debt to fund capital improvements and has generally done so only if there are other debt-related transactions occurring simultaneously. For example, when the City refunded its pension obligation bonds in early 2015, it did a second, much smaller issuance of $355,000 to help purchase a new fire truck.

Since the City cannot afford to issue large amounts of new debt, it has relied on a "pay-as-you-go" approach to funding capital projects, largely from the following sources:

- **Marcellus Shale funds:** In 2012, the Mayor signed an agreement to lease the rights to the natural gas on City-owned properties to Hilcorp Energy I, Limited Partnership. In return, the City received a one-time payment of $1.8 million, which the City used for capital improvement projects from 2014 to 2016; and

- **One-time EIT windfall:** In 2014 the City closed an old account established years before New Castle entered Act 47, when the Treasurer's Office collected earned income tax from residents and non-residents who worked in the City. Closing that account resulted in a $980,000 transfer into the

[26] CPI-All Urban Customers, Bureau of Labor Statistics.

General Fund, which the City used for capital projects after the Marcellus Shale gas proceeds were exhausted.

The City also receives liquid fuels revenue for street-related projects, such as paving, and has used grants and donations to supplement its capital budget. Since 2017, the City has relied on a portion of the Act 47 EIT for capital projects according to the provisions in the 2016 and 2018 Plan Amendments.

As stated in the Revenue section of this chapter, the baseline projection assumes that the City would gradually shift the operations portion of the Act 47 EIT toward capital uses. This shift should provide some funding for the City's capital improvement projects, including vehicle replacements, building maintenance, and road paving. The baseline forecast projects that the Act 47 capital EIT levy will provide revenues growing from $818,000 in 2019 to $2.0 million in 2022. Beginning in 2023, the City will lose its additional taxing authority provided by Act 47, but there will still be a small amount (approximately $600,000) of prior year revenues available for capital improvement projects from the Act 47 levy in the prior year.

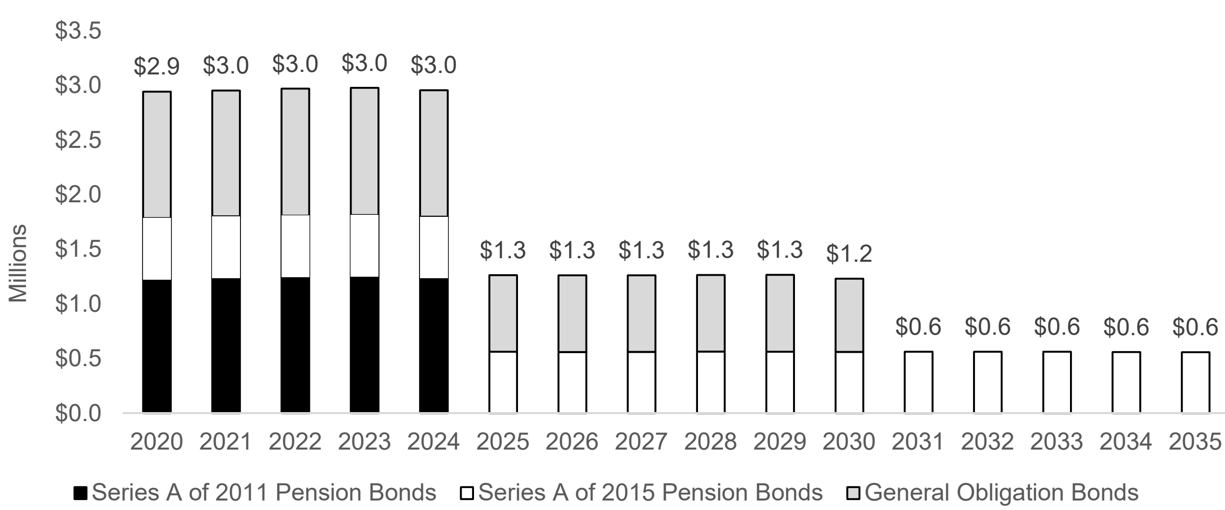
Act 47 Capital EIT

Resident Act 47 Capital EIT	0.20%	0.30%	0.40%	0.40%	0.0%	0.0%
Commuter Act 47 Capital EIT	0.15%	0.20%	0.30%	0.30%	0.0%	0.0%
Capital EIT Revenues	**$817,745**	**$1,242,477**	**$1,779,533**	**$1,972,052**	**$596,571**	**$0**

Debt service

After the Coordinator released the Financial Condition Report, the City refunded its debt in May 2019, so the baseline projection follows the City's updated debt schedule and does not assume any new borrowing for the next five years. According to the updated debt schedule, the City's debt service will remain at approximately $3.0 million annually for the next five years. The City generated one-time savings of approximately $200,000 from the debt refunding in 2019, which will be used toward paying its debt obligations in 2020.

Updated Debt Schedule, 2020 - 2035



Debt Service Payments, 2020 - 2025

	2020	2021	2022	2023	2024	2025
GO Bonds	1,157,227	1,149,901	1,162,022	1,163,008	1,157,161	699,655
Series A of 2011 Pension Bonds	1,221,273	1,235,360	1,245,031	1,250,643	1,237,075	0
Series A of 2015 Pension Bonds	563,497	565,830	561,825	562,030	560,928	563,805
Total Debt Service	**2,941,996**	**2,951,091**	**2,968,878**	**2,975,681**	**2,955,164**	**1,263,460**

According to the existing debt schedule, debt service payments will remain at approximately $3.0 million through 2024. In 2025, the City's debt is scheduled to drop from $3.0 million to $1.3 million, largely because one of the pension bonds (Series A of 2011) will be paid off by the end of 2024. Because that pension bond is currently funded by the distressed pension EIT revenues, and the City cannot use those revenues for purposes unrelated to pensions, the practical result is that the City will lose the $1.2 million in distressed pension EIT revenues after the pension bonds are paid off. However, the adoption of the Home Rule charter (see initiative RV02) and gaining the flexibility to set its resident EIT rate will allow the City to shift the money generated by the resident portion of the distressed pension tax to the General Fund.

Other expenditures

This category includes the contribution to the library and few other miscellaneous expenditure line items. As mentioned earlier in the Revenue section of this chapter, the City levies a 0.177 mill Library Fund real estate tax. The City collects the revenue and passes it through to the New Castle Public Library. The annual contribution to the Library is recorded in this category, and is projected to drop by 0.5 percent annually based on the projected decline in taxable assessed value. The current levy of 0.177 mill is projected to remain flat throughout the projection period.

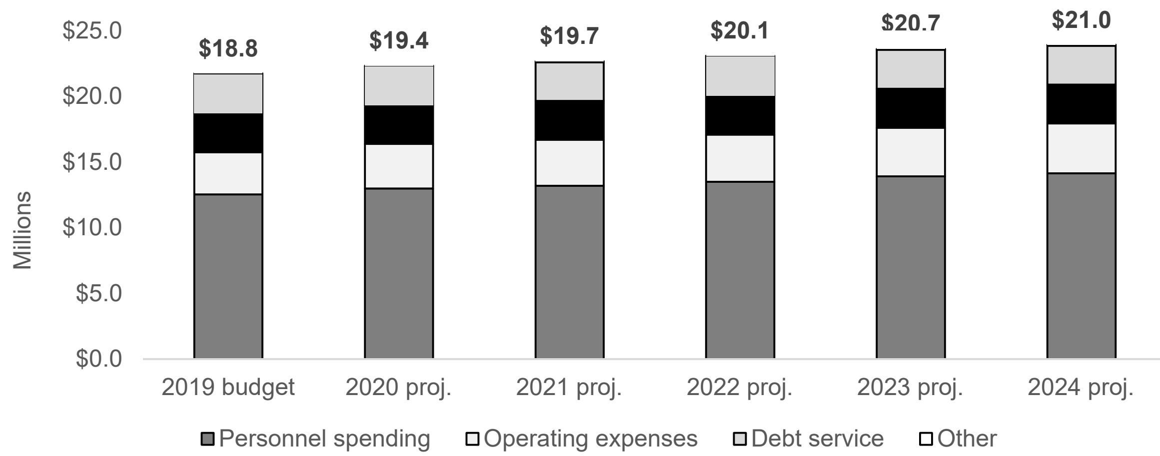
Library Contribution

	2019 budget	2020 Proj.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Library levy	0.177 mills	0.177 mills	0.177 mills	0.177 mills	0.177 mills	0.177 mills
Library contribution	$74,847	$74,473	$74,100	$73,730	$73,361	$72,994

Summary of expenditures

Aggregating all expenditure categories, the baseline projection shows the City's total operating expenditures (excluding capital spending) growing by 2.2 percent annually from $18.8 million in 2019 to $21.0 million in 2024.

Baseline Projection of the Three Primary Funds (Operating Expenditures), 2019 – 2024



	2019 budget	2020 proj.	2021 proj.	2022 proj.	2023 proj.	2024 proj.	CAGR
Cash compensation	7,242,059	7,429,749	7,617,117	7,791,867	7,971,258	8,144,683	2.4%
Employee benefits	2,292,404	2,517,281	2,641,643	2,773,520	2,913,098	3,061,293	6.0%
Pension	2,995,783	3,032,147	2,937,292	2,928,643	3,021,839	2,934,263	-0.4%
Operating expense	3,217,856	3,400,480	3,497,087	3,596,891	3,699,783	3,806,243	3.4%
Capital Spending	817,745	1,242,477	1,779,533	1,972,052	596,571	0	-100.0%
Debt service	2,962,337	2,941,801	2,955,256	2,965,093	2,969,846	2,956,624	0.0%
Other expenditures	83,347	83,144	82,948	82,758	82,577	82,402	-0.2%
Total	**$19,611,533**	**$20,647,080**	**$21,510,876**	**$22,110,824**	**$21,254,972**	**$20,985,508**	**1.4%**
Expenditures excl. capital	**$18,793,788**	**$19,404,603**	**$19,731,343**	**$20,138,772**	**$20,658,401**	**$20,985,508**	**2.2%**

Administration

Section 256 of Act 47 provides four elements that the Exit Plan shall contain, as necessary or appropriate, to ensure the termination of New Castle's distressed status after three years. Those elements include:

1. The sale, lease, conveyance, assignment or other use or disposition of the assets of the distressed municipality;

2. Functional consolidation of or privatization of existing municipal services;

3. The execution, approval, modification, rejection, renegotiation or termination of contracts or agreements of the distressed municipality; and

4. Changes in the form of municipal government or the configuration of elected or appointed municipal officials and employees as permitted by law.

The baseline forecast projects that, absent corrective action, the City's deficit will grow from $0.9 million in 2020 to $3.3 million in 2024 and the City will run out of fund balance by 2022. To close part of the projected deficits and help the City bolster its chance of exiting oversight by the end of 2022, this chapter covers two of the four components of the Exit Plan strategy provided under Act 47 – the termination of agreements and the sale of assets.[27] To ensure that the City can continue to meet its cash flow needs, this chapter also discusses the City's need to maintain adequate reserves throughout the Exit Plan period.

AD01.	**Work with the County to End City Contribution to New Castle Area Transit Authority**	
	Target outcome:	Cost reduction to facilitate exit from Act 47 oversight
	Financial Impact:	$211,000
	Responsible party:	Mayor, Business Administrator, City Council

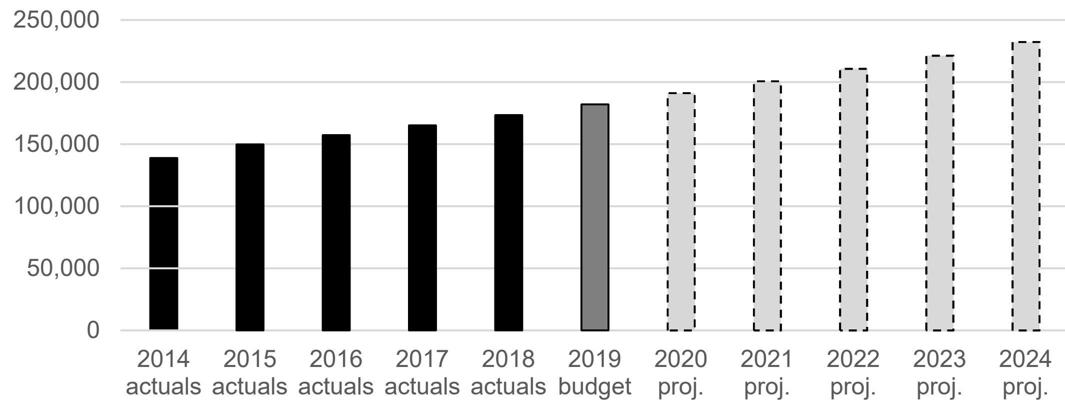
As noted above, the Exit Plan shall contain provisions for the "execution, approval, modification, rejection, renegotiation or termination of contracts or agreements of the distressed municipality" as may be necessary or appropriate to ensure termination of distressed status after three years. The Exit Plan therefore uses this provision to require the City to work with the County to end its annual contribution to the New Castle Area Transit Authority (NCATA).

NCATA was incorporated on September 1, 1965 as a mass transportation project financed by the Federal Housing and Home Finance Agency, the City of New Castle, Shenango Township, Union Township, Neshannock Township and the Commonwealth of Pennsylvania. Today, the NCATA has a fleet of 30 buses operating on 19 fixed routes serving people throughout Lawrence County and transporting them to destinations as far as Pittsburgh.

The City makes an annual contribution that NCATA uses for the local match requirements necessary to receive Federal and state funding. The City's annual contribution increases by five percent a year, so it has grown from $103,000 when New Castle entered Act 47 oversight in 2007 (0.2 mills worth of real estate tax) to $182,000 in 2019 and will continue to grow to $232,000 by 2024 (0.6 mills worth of real estate tax).

[27] Two other components of the Exit Plan are discussed in subsequent chapters. The Revenue chapter addresses the fourth element (change in the form government) and the Economic Development chapter addresses the second element (functional consolidation or privatization of existing municipal services).

City of New Castle Contribution to Transit Authority, 2014 - 2024



The public transit provided by NCATA benefits all Lawrence County residents, and as such, *funding* public transit is typically the responsibility of County governments in Pennsylvania, not individual municipalities. As shown in the table below, several western Pennsylvania cities have public transit with little or no contribution from the City, with the exception of Altoona. Butler City split the required local match with Butler Township and that contribution was a fraction of New Castle's. Johnstown's contribution was a small portion of the required local match, and Beaver County made the full local match contribution.

	Population	Transit System	County	2017 General Fund Transit Contribution	FY2017 Required Local Match	City Contribution as a % of Local Match
Altoona	44,749	Altoona Metro Transit	Blair	$131,681	$150,002	87.8%
New Castle	22,434	NCATA	Lawrence	$165,088	$210,945	78.3%
Johnstown	19,967	CamTran	Cambria	$46,244	$769,002	6.0%
Sharon	13,505	Shenango Valley Shuttle Service	Mercer	$0[28]	$58,841	0.0%
Butler	13,292	Butler Transit Authority	Butler	$23,731	$47,544	49.9%
Aliquippa	9,173	Beaver County Transit Authority	Beaver	$0	$551,617	0.0%
Beaver Falls	8,641	Beaver County Transit Authority	Beaver	$0	$551,617	0.0%

Source: Annual Financial Reports, DCED Municipal Statistics; City's annual budget; FY2017 Annual Performance Report, PA Department of Transportation

Please note that Altoona and Johnstown reported transit contributions in their respective annual General Fund budgets but did not report those spending as contributions to the transit system in their required annual financial reports to DCED. The Coordinator therefore used information provided in the cities' annual budgets in this revised Exit Plan.

Given the deadline to exit Act 47 oversight, the elimination of the Act 47 commuter tax, and the limited opportunities to reduce expenditures, the City will work with the County during the Exit Plan period to end the City's contribution to NCATA. The City has already committed to a contribution for 2020, so the following table shows the fiscal impact the City may be able to achieve if it successfully negotiates with the County to end the contribution beginning in 2021. Because the City may lose the reimbursements that it currently receives for City services provided to NCATA, which is projected to be $100,000 in the 2019 budget, the fiscal impact accounts for the loss of the reimbursements and shows the net fiscal impact.

Projected Fiscal Impact

	2020	2021	2022
City's transit contribution	0	201,000	211,000
Reimbursements from Transit Authority	0	(100,000)	(100,000)
Total Net Fiscal Impact	**0**	**$101,000**	**$111,000**

[28] The City of Sharon contributed approximately $13,000 to its transit system from the CDBG Fund, not from the General Fund.

AD02.	Direct proceeds from potential asset sales, leases, or similar arrangements to Exit Plan priorities	
	Target outcome:	Debt reduction, infrastructure improvement and financial stability
	Financial Impact:	N/A
	Responsible party:	Mayor, Business Administrator, City Council

Under Section 256 of Act 47, one of the elements that the Exit Plan shall contain as may be necessary to ensure termination of distressed status after three years is the "sale, lease, conveyance, and assignment or other use or disposition of the assets of the distressed municipality."

New Castle has three major assets:

- Sylvan Heights Golf Course;
- The parking system, which consists of one five-level parking garage on North Mercer Street, seven surface lots, and approximately 275 parking meters; and
- The stormwater system, which includes stormwater pipes and inlets.

The Coordinator does not require the sale of these assets in the Exit Plan because of the size, nature, and/or legal restrictions associated with these assets. That said, the City may be able to enter into a lease for some or all of these assets, which could generate new revenue beyond the levels incorporated in the baseline projection. The revenue generating potential for such an arrangement will depend on the market for these types of assets, their condition, and other factors. The City should investigate the feasibility and profitability of such an arrangement during the Exit Plan period and then promptly thereafter pursue such an arrangement if deemed by the Coordinator advantageous for the City. If the City benefits from the sale, lease, or privatization of some or all of these assets, the use of those proceeds shall be subject to the parameters listed in the next initiative (AD03).

The City also shall no longer use General Fund revenue to improve, operate, or maintain the golf course or parking system that is only used by a portion of the population. To ensure that the City recovers its full cost in the operation of the golf course and parking system, the Exit Plan requires a capital improvement fee to offset the cost of maintaining the infrastructure (this incorporates the same concept already used in setting the service charges for its stormwater system). The Exit Plan also requires that the City recovers its full cost of operating and maintaining the golf course and parking system from their respective operations and not use monies from the General Fund therefor. Please refer to initiatives CD03 and CD04 in the Capital and Debt Management chapter for additional information.

AD03.	Direct any asset sale proceeds and one-time windfalls to Exit Plan priorities	
	Target outcome:	Facilitate exit from Act 47 oversight; invest in core infrastructure; reduce long-term liabilities
	Financial Impact:	N/A
	Responsible party:	Mayor, Business Administrator, City Council

During the period covered by this Exit Plan, the City may benefit from financial windfalls, which are unexpected, significant, short-term revenue increases above projected levels or spending reductions below projected levels. With the Coordinator's guidance, the City shall use asset sale proceeds and financial windfalls of at least $100,000[29] for one of the following priorities, if not needed to address an unexpected short-term decrease in revenues or increase in expenditures within the same year:

- Replenish the General Fund reserves back to the target level described in AD04, if they have fallen below that level;
- Fund capital projects identified through the City's capital improvement program and budgeting process, including priorities such as road paving;
- Make a contribution to the employee pension plans above the scheduled MMO payments; or
- Make an additional debt service payment beyond the amount of principal and interest due in a particular year.

Using one-time proceeds in this manner will ensure the City matches a non-recurring cost with a non-recurring benefit. It will also keep the City focused on the goal of successfully exiting Commonwealth oversight and maintaining long-term financial stability. Having an adequate level of reserves will strengthen the City's case to exit oversight at the end of 2022. Reducing the existing debt burden and pension liability will enable the City to spend more of its current year revenues on operations without raising taxes. Funding capital projects will help New Castle maintain and build its tax base so revenues remain in balance with expenditures over the long term.

AD04.	**Maintain the Rainy Day reserve**	
	Target outcome:	Facilitate exit from Act 47 oversight; Provide contingency for future emergencies; maintain credit rating
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Council

As mentioned in the Financial Condition Report, one of the City's successes since entering Act 47 oversight has been its ability to establish and maintain General Fund reserves. The reserves provide a buffer against unexpected revenue shortfalls or unbudgeted expenditures.

Since adopting the 2015 Amended Recovery Plan, the City has incrementally replenished its Rainy Day reserve (officially called Act 47/Mayor/Council Reserves). As of the end of 2017, the City had a Rainy Day reserve of $2.6 million, fulfilling the 2015 Plan requirement.[30] In addition to the Rainy Day reserve, the City also had $5.0 million in unassigned fund balance, equivalent to 25.7 percent of the City's operating revenues.

City of New Castle Rainy Day Reserve and Unassigned Fund Balance

	2017 Audit	2017 Reserves as a % of Revenues
Rainy Day Reserve	$2,559,493	13.1%
Unassigned Fund Balance	$5,028,354	25.7%

[29] This is a non-recurring increase in revenues that is at least $100,000 above the levels projected in the Exit Plan or a non-recurring decrease in expenditures that is at least $100,000 below the levels projected in the Exit Plan.

[30] See initiative AD01 on p. 16 of the 2015 Amended Recovery Plan

One of the reasons the Coordinator recommended the City maintain its Rainy Day reserves is because of the City's history of financial distress and its lack of capital funding. In both 2015 and 2017, the City used money from the Rainy Day to fund emergency needs that were not included in the limited capital budget.

The appropriate level of reserves varies according to several factors, including the size and financial condition of the government. Smaller governments with histories of financial distress, like New Castle, should keep more in reserve than larger governments or those with a long-running history of financial stability. Recognizing this variability, the GFOA provides a starting point for setting the appropriate level of reserves:

> "*GFOA recommends, at a minimum, that general purpose governments, regardless of size maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."*

New Castle's reserves are currently higher than the 16.7 percent (or two months) of operating expenditures as recommended by GFOA. The City's had $5.0 million in unassigned fund balance at the end of 2017, equivalent to almost 26 percent of its operating expenditures. The Exit Plan anticipates the City will use $2.0 million in unassigned fund balance over the next three years to fund its annual operations. This approach is not a sustainable long-term solution to correct the City's financial problems, but it does mitigate the need for even higher tax increases or further expenditure reductions than are already included in the Exit Plan.

The City's best chance to close its financial deficit in the long-term is the adoption of the Home Rule charter and the use of the powers granted thereunder to keep the resident earned income tax at the level in place in 2024. In 2025, the City's debt payments will drop by $1.2 million when the debt on the 2011 pension bonds is fully repaid. Home Rule would allow the City to shift part of the money currently used to repay that pension debt into the General Fund, giving the General Fund a $641,000 boost without any tax increase.[31] The General Fund reserves provide a bridge until the City can get this debt relief.

In the meantime, the City still needs to maintain some reserves and the Rainy Day fund becomes even more critical as the City spends down the separate unassigned fund balance. While the unassigned fund balance is important to the City's annual cash flow needs, the Rainy Day reserve ensures the City has some resources to fund any emergency needs. The City shall maintain its "Rainy Day reserve" at $2.5 million and replenish the reserve if funds are used for emergency repairs.

The $2.5 million in Rainy Day reserve, in tandem with the $0.9 million projected for the unassigned General Fund balance at the end of 2024, will put the City approximately at the GFOA's 16.7 percent target at the end of 2024,[32] just before the City's debt payments drop in 2025.

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[31] The distressed pension tax that the City uses to repay this pension debt is levied on residents and commuters. The commuter portion will be eliminated when the debt is repaid, holding other factors equal.

[32] The projected operating expenditures in 2024 are $20.3 million so $3.4 million would be equivalent to 16.8 percent.

Revenues

The City's tax revenues, which represent more than three quarters of total revenues across the three primary funds,[33] had very minimal growth from 2013 to 2018 despite real estate tax increases in 2016, 2017, and 2018. Absent those tax increases, the City's total tax revenues would have dropped every year over the last six years because the real estate tax base (taxable assessed values) fell by 2.3 percent from $500.9 million in 2013 to $489.2 million in 2018.

Tax Revenues from 2013 - 2018

	2013	2014	2015	2016	2017	2018	2013-18
Real Estate Taxes	5,973,356	5,704,190	5,955,032	6,491,399	6,366,008	6,742,229	2.5%
EIT (on a cash basis)[34]	7,218,634	6,963,216	6,950,759	6,904,936	6,854,527	7,039,947	-0.5%
Business Gross Receipts Tax	671,781	659,766	570,342	646,173	516,686	539,376	-4.3%
Local Services Tax	438,767	424,159	411,831	407,184	445,674	428,467	-0.5%
Deed transfer tax	132,329	115,072	119,226	123,882	116,043	133,641	0.2%
Other taxes	229,411	233,763	181,677	203,526	225,154	214,455	-1.3%
Total tax revenues	**$14,664,277**	**$14,100,166**	**$14,188,868**	**$14,777,100**	**$14,524,093**	**$15,098,115**	**0.6%**

The City's largest source of revenue is the earned income tax and those receipts have been flat since 2013. Total revenues dropped from 2013 to 2017 because of a small rate reduction in 2016.[35] However, even after accounting for that rate reduction by calculating the amount of revenue each 1.0 percent generates on a cash basis, the tax base growth was still very minimal.

Revenues per 1.0% in EIT (on a cash basis)

	2013	2014	2015	2016	2017	2018	2013-18 CAGR
Resident revenues	2,583,915	2,499,679	2,552,147	2,673,090	2,624,817	2,703,110	0.9%
Commuters revenues	2,814,452	2,703,567	2,609,253	2,627,993	2,654,821	2,714,970	-0.7%
Total	**$5,398,366**	**$5,203,246**	**$5,161,400**	**$5,301,082**	**$5,279,637**	**$5,418,081**	**0.1%**

As described in the Baseline Projection chapter, the City's total revenues are projected to drop from $19.5 million in 2019 to $17.7 million in 2024 primarily because of the phasing out of the Act 47 EIT. While controlling expenditure growth is essential to maintaining fiscal balance, the City must also find ways to grow its revenues to fund ongoing operations.

[33] The three primary funds are the General Fund, Sinking Fund and Pension Funds.

[34] Because EIT reported on an accrual basis fluctuates from year to year based on the timing of the receipts, the Coordinator used EIT reported on a cash basis in this table to more accurately reflect the historical trends.

[35] Total EIT for residents dropped from 2.15% in 2015 to 2.10% and total EIT for commuters dropped from 2.05% to 2.0% in 2016.

Baseline Projection of the Three Primary Funds (Revenues), 2019 – 2024

	2019 budget	2020 proj.	2021 proj.	2022 proj.	2023 proj.	2024 proj.	CAGR
Real Estate Taxes	6,575,605	6,552,380	6,532,327	6,532,339	6,499,677	6,467,178	-0.3%
Earned Income Tax	7,003,297	7,117,314	7,038,318	7,071,391	5,780,451	5,066,005	-6.3%
Other Taxes	1,515,144	1,351,565	1,341,565	1,331,565	1,321,565	1,311,565	-2.8%
Licenses and Permits	838,953	691,501	702,149	712,979	723,993	735,195	-2.6%
Departmental Earnings	1,793,064	1,942,752	1,977,590	2,015,285	2,056,107	2,100,836	3.2%
Intergovernmental	835,499	861,455	888,319	916,124	944,902	974,687	3.1%
Other transfers	585,000	585,000	585,000	585,000	585,000	585,000	0.0%
Other Revenues	396,692	606,231	402,537	405,557	408,643	411,796	0.8%
Total Revenues	**$19,543,254**	**$19,708,198**	**$19,467,806**	**$19,570,239**	**$18,320,338**	**$17,652,263**	**-2.0%**

This Chapter describes one of the components of an Exit Plan according to Act 47 – changes in the form of municipal government – and requires the City to reorganize itself under the Home Rule charter during the Exit Plan period. Initiative RV02 describes this requirement, which, at this time, is New Castle's best chance to balance its budget in the near term and may be its best chance to close its deficit in the long term. If the Home Rule process fails, the City will have to offset the lost Act 47 EIT revenues with significant real estate tax increases (Initiative RV03 describes this alternative). In either scenario, the first initiative extends the City's use of the Act 47 taxing powers through the end of this Exit Plan.

RV01.	**Petition the Lawrence County Court of Common Pleas each year to use the additional taxing authority provided by Act 47**	
	Target outcome:	Ensure sustainable revenues to fund expenditures
	Financial Impact:	$5.8 million
	Responsible party:	Business Administrator, City Solicitor, City Council

The City will lose its Act 47 EIT on residents and commuters at the end of 2022 because the deadline to exit Act 47 oversight means the City will lose the additional taxing authority related to that statute. To help prepare for this eventuality while still providing the necessary capital funding that the City needs to maintain its infrastructure, the City shall continue to gradually shift the operations portion of the Act 47 EIT toward capital uses as shown below. The receipts from the capital portion of the Act 47 EIT shall not be used to support operations, retire existing debt, or cover the City's pension costs, but shall only provide funding for capital improvement projects such as vehicle replacement, building maintenance, and road paving.

The City shall continue to use the taxing authority provided by Act 205 to fund a portion of its pension-related expenditures. The Act 205 pension tax rates shown in the table below are only estimates based on the information available at this time. The City will have to calculate the actual distressed pension tax rate each year to incorporate subsequent changes to the relevant factors (e.g. MMO contributions, pensionable payroll, EIT revenue growth). If the distressed pension tax generates more revenue than the City needs for its annual pension costs in any year, then the City will use that revenue as an additional contribution to the employee pension plans, over and above the MMO. By law, the City cannot use the additional distressed pension tax revenue to reduce the portion of its pension contribution that has to come from sources other than the pension tax or for purposes unrelated to pensions.

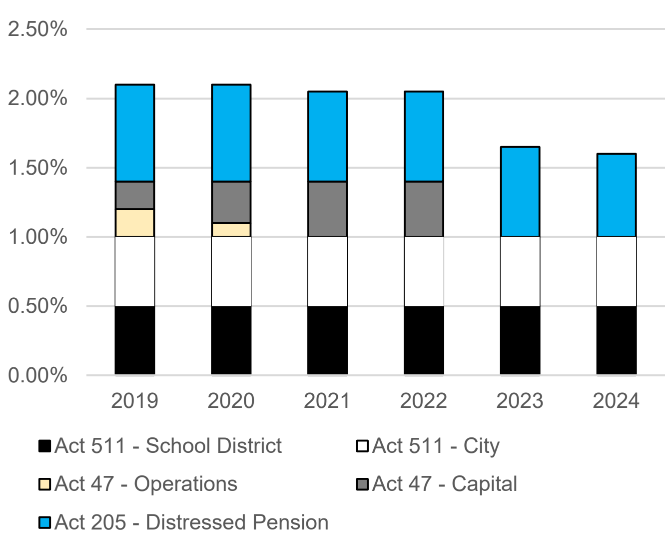
Resident EIT Rate

[redacted]						
Act 511 - School District	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Act 511 - City	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Act 47 - Operations	0.20%	0.10%	0.00%	0.00%	0.00%	0.00%
Act 47 – Capital (Paving)	0.20%	0.30%	0.40%	0.40%	0.00%	0.00%
Act 205 - Distressed Pension	0.70%	0.70%	0.65%	0.65%	0.65%	0.60%
[redacted]						

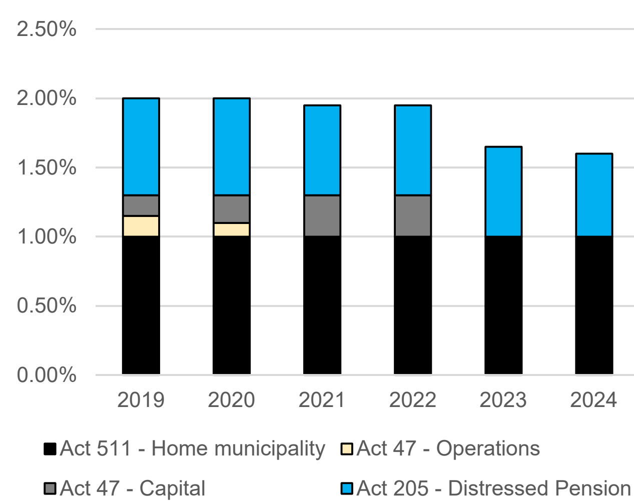
Non-Resident (or Commuter) EIT Rate

[redacted]						
Act 511 - Home municipality	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Act 47 – Operations	0.15%	0.10%	0.00%	0.00%	0.00%	0.00%
Act 47 – Capital (Paving)	0.15%	0.20%	0.30%	0.30%	0.00%	0.00%
Act 205 - Distressed Pension	0.70%	0.70%	0.65%	0.65%	0.65%	0.60%
[redacted]						

Projected Resident EIT rates[36]



Projected Commuter EIT rates



Pursuant to Act 47, the City shall petition the Lawrence County Court of Common Pleas each year to use the additional taxing authority in Act 47 to increase the rate of earned income taxation upon residents by the Act 47 amounts listed in the Resident EIT rate table shown above (e.g. 0.40 percent in 2020, 2021, and 2022). This Act 47 authorized EIT will be in addition to any distressed pension tax levied on residents under Act 205.

[36] The projected resident and commuter EIT rates do not include assume any changes related to Home Rule as described in the next initiative.

The City shall also petition the Lawrence County Court of Common Pleas each year to use the additional taxing authority in Act 47 to increase the rate of earned income taxation upon non-residents by the Act 47 amounts listed in the Non-Resident EIT rate table shown above (e.g. 0.30 percent in 2020, 2021, and 2022). This Act 47 authorized EIT will be in addition to any distressed pension EIT levied on non-residents under Act 205.

The additional revenue resulting from these petitions shall not be subject to sharing with any other governmental entity, including the New Castle School District.

RV02.	**Reorganize City government under a Home Rule Charter**	
	Target outcome:	Gain flexibility to close projected deficits; Facilitate exit from Act 47 oversight
	Financial Impact:	See below
	Responsible party:	Mayor, City Solicitor, City Council

Under Section 256 of Act 47, one of the elements to address in the Exit Plan is "changes in the form of municipal government or the configuration of elected or appointed municipal officials and employees as permitted by law." This initiative uses this provision to require that New Castle immediately begin the process to reorganize under a Home Rule charter.

As stated in each of the Recovery Plans, a Home Rule charter will give the City more flexibility to set its own resident EIT rates. Depending on how the Home Rule charter is written, the City could gain the flexibility to set its resident EIT rate at whatever level the elected officials choose. The City would have more local control over the two major taxes that residents pay – real estate and earned income – and become less reliant on the real estate tax.[37] A Home Rule charter will not, however, give the City additional taxing authority over non-residents.

This flexibility is worth at least $1.1 million in the short-term and potentially more in the future. The Home Rule charter will potentially allow the City to keep the portion of its resident earned income tax that is currently tied to New Castle's Act 47 status. That 0.4 percent Act 47 resident EIT generates $0.6 million for operations and another $0.5 million for capital improvements. Home Rule will give the City flexibility to exchange at least a portion of the real estate taxes projected in RV03 for higher resident EIT rates if that is considered a better alternative. If nothing else, the tax base for resident EIT has modest growth while the tax base for the real estate tax has modest erosion. So $1 worth of resident EIT will likely be worth more than $1 worth of real estate tax in the future.

Looking further out, the Home Rule charter will provide the City with what may be its best chance to close its deficit and successfully exit Act 47 oversight. In 2025, the City's debt payments will drop by $1.2 million when the debt on the 2011 pension bonds is fully repaid. Home Rule will allow the City to shift some of the money currently used to repay that pension debt into the General Fund, giving the General Fund a boost without any tax increase. Without Home Rule, the debt and the associated revenue will both drop out of the budget and the City's deficit will remain.

[37] The City's real estate tax is also subject to a tax levy limit by Pennsylvania law, but the City is under that limit.

Home Rule Charter Scenarios

The Coordinator developed two scenarios to show how adopting a Home Rule charter and gaining the flexibility to set its own resident EIT rate would help alleviate large real estate tax increases every year.

	2019	2020	2021	2022	2023	2024
Without Home Rule						
Real estate tax rate	14.226	16.226	18.226	19.226	19.226	19.226
EIT (residents)	2.10%	2.10%	2.05%	2.05%	1.65%	1.60%
EIT (commuters)	2.00%	2.00%	1.95%	1.95%	1.65%	1.60%
Home Rule Charter Scenario – maintain real estate tax rate at 14.226 mills						
Real estate tax rate	14.226	14.226	14.226	14.226	14.226	14.226
EIT (residents)	2.10%	2.10%	2.70%	2.70%	2.70%	2.70%
EIT (commuters)	2.00%	2.00%	1.95%	1.95%	1.65%	1.60%
Home Rule Charter Scenario – maintain resident EIT at 2.1%						
Real estate tax rate	14.226	15.726	17.226	17.726	17.726	17.726
EIT (residents)	2.10%	2.10%	2.10%	2.10%	2.10%	2.10%
EIT (commuters)	2.00%	2.00%	1.95%	1.95%	1.65%	1.60%

All three of the above scenarios assume the City continues to use the additional taxing powers in Act 47 as long as it can (initiative RV01). They also assume the City continues to use the distressed pension tax on residents and commuters, even after adopting a Home Rule charter. Currently, three other Pennsylvania cities organized under a Home Rule charter – Easton, Allentown, and Altoona – use the taxing authority under Act 205 to levy a distressed pension tax on its non-residents. Easton began levying a distressed pension tax in 2013 and Allentown began levying a distressed pension tax in 2011. Altoona began levying a distressed pension tax in 1997 and became a Home Rule municipality in 2015.

The first scenario (without Home Rule) anticipates 2-mill real estate tax increases in 2020 and 2021. In contrast, the City could increase the resident earned income tax from 2.1 percent to 2.7 percent in 2021 if that was considered a better alternative than increasing the real estate tax. Alternatively, the City could do a mix of real estate and resident EIT increases and achieve the same goal. The third scenario above assumes the City extends the resident EIT at the current rate, even after Act 47 oversight ends.

Under all three of the scenarios, the City would finish 2024 with approximately $0.9 million in unassigned fund balance, which, in tandem with the $2.5 million in the Rainy Day reserve, is equivalent to approximately 17 percent of operating expenditures.[38] The City will also have the same amount in capital funding ($5.6 million) over the five-year period from 2020 through 2024 under all three scenarios.[39]

However, in the Home Rule scenarios, the City could make the aforementioned EIT exchange in 2025 when the 2011 pension bonds are repaid, add $641,000 to its General Fund without increasing the resident EIT tax rate, and close some of the financial deficit. Without Home Rule, the City would have to reduce the resident EIT rate even more than shown below in the first scenario and the full financial deficit would remain.

Because the Home Rule process will likely take at least a year to complete, the scenarios assume that the City will not be able to increase its residents' EIT rate under Home Rule until 2021.

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[38] Please see initiative AD04 for more information.

[39] See initiative CP01 for more information. The Act 47 Capital EIT will provide $5.0 million from 2020 through 2022. Beyond 2022, the Act 47 EIT will be eliminated, but there will still be a small amount ($600,000) in prior year revenues in 2023.

	Without Home Rule (No Flexibility to set resident EIT rate)	Home Rule Charter Scenario (Maintain real estate tax rate)	Home Rule Charter Scenario (Maintain resident EIT at 2.1%)
Real estate tax rate	Increase from 14.226 mills in 2019 to 19.226 mills in 2022 (35% increase)	Maintained at 14.226 mills	Increase from 14.226 mills in 2019 to 17.726 mills in 2022 (25% increase)
Residents' EIT	Drop from 2.1% in 2019 to 1.65% in 2023	Increase from 2.1% in 2019 to 2.7% in 2023	Maintained at 2.1%
Commuters' EIT	Drop from 2.0% in 2019 to 1.65% in 2023	Drop from 2.0% in 2019 to 1.65% in 2023	Drop from 2.0% in 2019 to 1.65% in 2023

In addition to having the option to set its resident EIT rate, there are other potential benefits in reorganizing the City under a Home Rule charter. Depending on how the Home Rule charter is written, the City would have the option to eliminate row officer positions otherwise required under the Third Class City Code, like the Treasurer. Adopting a Home Rule charter may also give the City additional flexibility in the selection and hiring of part-time police officers if the civil service requirement for part-time officers is eliminated.

Another benefit of adopting a Home Rule charter is that it gives the City the ability to keep its residents' EIT rate at its current level even when there are changes in the State law. The City is currently authorized by Pennsylvania law to use the distressed pension tax on residents and non-residents, but there is no guarantee it will always will have that authority. If the General Assembly changes Act 205, the City could lose its ability to levy this tax. The impact of such changes would be significant if the City remains strictly subject to the Third Class City Code,[40] as the City would lose its ability to not only to levy the Act 205 distressed pension tax on its non-residents, but on residents as well.

<u>How the process works</u>

Writing a Home Rule charter begins with forming a Government Study Commission that is authorized by Council ordinance and approved by the electors, or a petition of the electors. Members of the Commission are nominated and elected by the vote of the electors. The Commission is charged with analyzing the current form of government and comparing the current form to an alternative form permitted under the Pennsylvania Home Rule and Optional Plans Law. The Commission then releases a report stating its findings. If the Commission recommends a Home Rule charter, the recommendation is subject to referendum. If a majority of the electors votes in favor of adopting the recommendation, the form of government changes according to the schedule provided by the law.

Pennsylvania law sets deadlines for completing certain stages in this process. If the Government Study Commission is formed, it must release its report and recommendations within nine months of the election establishing the Commission. If the Commission elects to prepare a Home Rule charter and submit it for citizen consideration, it must release the proposed charter within eighteen months of its election.

<u>Next steps</u>

The City shall seek to reorganize City government under the Home Rule charter and immediately begin the process by adopting an ordinance to put the question on the earliest possible ballot. According to the provisions in the Home Rule Charter and Optional Plans Law (Act 62 of 1972), the question the City needs to put on the ballot is:

> *"Shall a government study commission of (seven, nine or eleven) members be elected to study the existing form of government of the municipality, to consider the advisability of the adoption of a home rule charter; and if advisable, to draft and to recommend a home rule charter?"*

[40] New Castle's current form of government follows the provisions of Pennsylvania Optional Third Class City Charter Law, which is subject to the constraints of the Third Class City code.

In addition to requiring that this question be placed on the ballot, the City ordinance shall designate the number of members to be elected to the Government Study Commission (seven, nine or eleven).

Once enacted, the City shall file a certified copy of the ordinance with the Lawrence County Board of Elections. The deadline for filing an ordinance to appear on the next election ballot is thirteen weeks before the date of the election. **The City shall therefore enact and file an ordinance with the Lawrence County Board of Elections no later than August 6, 2019 and place the question on the November 2019 election ballot.**

According to the Home Rule Charter and Optional Plans Law, voters will also be asked to elect the designated number of members for the commission at the same election. Even voters opposing having a Government Study Commission will be asked to vote for members of the Commission.

The deadline for candidate nomination papers to be filed is ten weeks before the date of the election, so candidates interested in serving on the government study commission must file their nomination papers with the Lawrence County Board of Elections by August 27, 2019.

Date	Action
By August 6, 2019	Council ordinance adopted and filed with the Lawrence County Board of Elections
August 6, 2019 through August 27, 2019	Nomination papers may be circulated and signed within a time period between the thirteenth and the tenth Tuesday before the election. The deadline to file nomination papers to the Lawrence County Board of Elections is ten weeks before the election, which is August 27, 2019
November 5, 2019	General election *Note: voters will be asked 1) whether they agree to having a Government Study Commission and 2) to elect the members of the Commission*

If the majority of electors vote in favor of forming a government study commission, the Coordinator will provide guidance and technical assistance to the study commissioners as necessary.

As detailed throughout this Plan, the City's options are very limited given the deadline to exit oversight in the next three years. If the Home Rule process fails, the City will have to offset the lost Act 47 EIT revenues with significant real estate tax increases, which are described in more detail in the next initiative (RV03).

RV03.	**Real estate tax increases**	
	Target outcome:	Maintain balanced financial results for exiting Act 47 oversight
	Financial Impact:	$4.7 million
	Responsible party:	Business Administrator, City Solicitor, City Council

If the City fails to adopt a Home Rule chapter and gain the flexibility to set its resident EIT rate as described in initiative RV02, the City will have to significantly increase its real estate tax to help cover the projected deficits.

While the Coordinator acknowledges that real estate tax increases are undesirable for many reasons, it is currently the only locally controlled revenue source that generates enough money to help cover projected deficits. The Coordinator estimates that the following real estate tax increase pattern will be necessary to provide enough revenue to ensure that the City's reserves stay at a level that, when combined with the $2.5 million Rainy Day reserve as required in initiative AD04, would be at or above the 16.7 percent threshold.

Real Estate Tax Increases

	2019 (Current)	2020	2021	2022
Real estate tax	14.226	16.226	18.226	19.226
YOY % increase	N/A	14.1%	12.3%	5.5%

Based on recent years' collection rates, the Coordinator assumes that the collection rate will remain at 87 percent, the current collection rate assumed in the baseline projection. In the last three years, even when the City increased its tax rate, the collection rate remained relatively stable at the same rate, in part because of the change in how delinquent real estate taxes were collected. The Coordinator assumes that the collection rate will continue to remain stable even as the City increases its tax rates over the next three years. Applying the collection rate assumption to the baseline projection, the following table shows the increases in total revenues, inclusive of both current and prior year revenues.

Projected Fiscal Impact

2019	2020	2021	2022
0	842,000	1,703,000	2,168,000

The Coordinator acknowledges that several factors could push these tax receipts higher or lower including the following:

- Changes in the total assessed value of taxable property compared to the baseline projection;
- Current year collection rates; and
- Prior year collection rates.

If the City is able to identify additional recurring, sustainable revenue above the levels projected in the Exit Plan, inclusive of other Plan initiatives, then the City shall present those alternatives to the Coordinator for discussion and possible incorporation in future operating budgets with an offsetting reduction in the real estate tax increase. Similarly, the City may choose to reduce its expenditures below the levels projected in the Exit Plan. If the City is able to identify additional recurring, sustainable expenditure savings below the levels projected in the Exit Plan, inclusive of other Plan initiatives, then the City shall present those alternatives to the Coordinator for discussion and possible incorporation in future operating budgets with an offsetting reduction in the real estate tax increase.

Economic Development

For New Castle to achieve true financial recovery, its tax base must grow so the revenues that fund the City also increase without tax rate increases. As the Revenue Chapter notes, the City's total tax revenues were flat from 2013 to 2018 despite real estate tax increases over that period.

Because the City's main sources of revenue are the real estate and earned income taxes, the most important elements of economic development from the City's perspective are those that help increase the number of employed residents, increase the earning power of current residents, and increase the assessed value of taxable property in the City. As shown in the table below, over the last decade, both the City's population and assessed property value have declined and its growth in resident earnings lags behind the County as a whole.

New Castle Population, Assessed Values, and Median Household Income

	2010	2013	2017	CAGR
Population				
New Castle	23,836	23,083	22,434	-0.9%
Taxable Assessed Values				
New Castle	$503.0 million	$500.9 million	$491.5 million	-0.3%
Median household income				
New Castle	$30,690	$29,559	$31,044	0.2%
Lawrence County	$42,570	$43,546	$47,188	1.5%

Source: American Community Survey, five-year estimates; Annual Financial Reports

Economic development is not merely a strategy for balancing the City's budget, but is important for improving residents' quality of life and neighborhood attractiveness. The benefits of clean, vibrant, and attractive neighborhoods extend beyond City government's financial performance to the everyday lives of residents. The absence of an effective strategy to deal with vacant, blighted or dilapidated properties also has a broad negative impact.

The Recovery Plans have emphasized the importance of business attraction and development. To that end, the City established a Community Development Corporation (CDC) in 2018. In 2016, the City completed an Inventory and Marketing Plan of Vacant and Underutilized Properties and it has continuously looked for opportunities to return the largely vacant Shenango China site to productive use.

While New Castle needs to achieve success in these types of ventures, this chapter emphasizes the need to improve New Castle's residential neighborhoods. To attract residents or retain those who have increasing earning power, New Castle needs to have safe, clean, and attractive neighborhoods. Quality neighborhoods will also encourage property owners to invest more in their properties, which in turn increases assessed values and tax revenues. The City does not have the resources or capacity to drive economic and community development on its own and the battle to overcome the City's economic challenges will continue even after oversight ends. But the City can still be a constructive partner in the larger efforts to overcome those challenges by moving forward with the handful of tangible actions as described in more detail below.

ED01.	Privatize the City’s trash and recycling collection	
	Target outcome:	Improve operations to facilitate tax base growth Improve neighborhood attractiveness
	Financial Impact:	See below
	Responsible party:	Business Administrator, City Solicitor, City Council

The 2015 Amended Recovery Plan highlighted the City’s need to maintain cost recovery in its refuse collection program, and recommended that the City adjust its fees to eliminate the projected deficits. Pursuant to the Coordinator’s recommendation, the City increased the blue bag fees that fund residential curbside trash collection in 2016 from $2.00 to $2.20 per bag. Revenues increased as a result of the fee increase, though not as much as anticipated because residents bought fewer blue bags when the City increased the fee.

Refuse Collection Fee, 2013 - 2018

	2013	2014	2015	2016	2017	2018	2015 -18
Refuse collection fee	$803,542	$786,435	$772,362	$829,612	$816,359	$839,583	**8.7%**
Blue bag fee	$2.00	$2.00	$2.00	$2.20	$2.20	$2.20	**10.0%**
Est. # of bags sold	401,771	393,218	386,181	377,096	371,072	381,629	**-1.2%**

While the declining number of occupied housing units may be one of the reasons for the reduced number of bags sold, it is also possible that residents are buying fewer bags because of the fee increase. The City has reported increased illegal dumping as residents dispose trash in public trash cans, hillsides, sidewalks, and commercial trash cans to avoid buying blue bags. The City also saw an increase in the amount of solid waste mixed into recycling materials and was penalized for having a high rate of recycling contamination. To recover the penalty charges, the City introduced a $0.50 monthly charge for residential property owners in 2016. The monthly charge increased to $0.70 in 2018.

Illegal dumping may also be a result of the limited services currently provided by the City. While residents receive weekly solid waste collection, recycling collection is only offered once a month and there is currently no alternative to dispose bulk trash apart from hiring a private hauler.

In addition to these problems, the City also faces rising expenditures. In 2019, the City’s recycling processing fee increased from $68.50 to $150 per ton, in part due to the national recycling market that affects municipalities around the country. The Coordinator has updated the baseline projection in this Exit Plan to incorporate the impact of this fee increase. The table below shows the projected deficits of the refuse collection program if the City maintains its blue bag fee at the current rate. Please note that the following costing analysis only includes the operational costs of curbside collection program and does not include the additional costs of cleaning up illegal dumping in the City. The City’s refuse collection program is projected to have growing deficits over the next five years.

Cost Recovery of the City's Refuse Collection Program

	2020 Projected	2021 Projected	2022 Projected	2023 Projected	2024 Projected
Revenues	**$890,077**	**$890,087**	**$890,097**	**$890,108**	**$890,118**
Direct expenses	783,895	806,858	824,468	850,558	876,268
Allocated expenses	27,322	27,839	27,218	28,051	28,599
Vehicle replacement	55,400	55,400	55,400	55,400	55,400
Overhead expenses	71,871	73,768	74,602	76,934	79,058
Expenses	**$938,488**	**$963,865**	**$981,688**	**$1,010,943**	**$1,039,326**
Balance / (Deficit)	**($48,411)**	**($73,779)**	**($91,591)**	**($120,835)**	**($149,208)**

Moving forward, the City must achieve two key objectives in the trash collection program.

The first is cost recovery. While regular fee increases are a way to recover a program's full cost, the unintended result may be to incentivize illegal dumping. The practical result of the fee increase in 2016 was that the City sold fewer bags, which translates to lower revenues and lower cost recovery, necessitating even more fee increases. New Castle needs a different model to recover the full costs as they grow.

The second objective is improving's New Castle's cleanliness and "curb appeal." One of the major drawbacks of the current blue bag system is that it gives residents an incentive not to use the City's collection service or to do so without paying for the bags that cover the cost of the service. Residents have a financial incentive to illegally dispose their solid waste in public trash cans, commercial dumpsters, counterfeit bags, and their own recycling bins. The City estimates that, under the current pay-as-you-throw system, as many as 30 percent of New Castle's residential households do not comply with City policy.

New Castle's cleanliness is important to City's financial recovery because it has a direct impact on the City's tax base. Having severe illegal dumping issues is not only unfair to residents who faithfully purchase the blue bags to dispose trash, it also makes New Castle less attractive to those considering moving to the City.

Under Section 256 of Act 47, one of the elements that an Exit Plan shall contain, as may be necessary to ensure termination of distressed status after three years, is "the functional consolidation of or privatization of existing municipal services." Because the City has not been able to achieve these two key objectives through its current trash collection program, the City shall immediately begin the process of privatizing trash collection.

Under this scenario, residents will pay the private contractor directly for trash and recycling collection. The City will not bill or collect fees on behalf of the private contractor. This differs from the City's request for bids in 2018 when the City anticipated collecting the trash collection fees through the Sanitation Authority and remitting the payments to the private contractor. The Sanitation Authority has declined to collect the fees, and City government does not have the capacity to do so.

The City shall also require that the private contractor provide bulk trash collection service to manage the current illegal dumping problems. Because the City does not currently offer bulk trash collection, residents either take the items to the dump themselves, hire private collection companies, hold onto the items, or dispose them illegally. The City reports that it regularly removes bulk trash without a fee to offset the costs because residents illegally leave large bulk items such as mattresses, old couches, or large appliances on the curb.

Finally, the City shall adopt an ordinance requiring that all residential households have a private trash collector that picks up both solid waste and recycling.

The City shall therefore immediately begin the process of privatizing trash collection with the goal of fully contracting out its trash and recycling collection program effective by April 1, 2020. The following table sets forth the timeline the City shall follow over the next year to ensure a smooth transition to privatizing its trash collection services.

Required Timeline for Trash Privatization

Date	Exit Plan Requirement
By August 31, 2019	The City shall issue a request for bids for trash and recycling collections.
By October 31, 2019	The City shall award the bid.
By December 31, 2019	The City shall enact an ordinance requiring that all single-family homes and all multifamily dwelling with four or less attached units shall enter into an agreement with the private hauler to provide trash and recycling collection services.
April 1, 2020	The City shall begin the implementation of the executed contact with the selected private contractor. The City shall also begin selling vehicles and equipment currently used exclusively for trash and recycling collections once the service is fully contracted out.
By December 31, 2020	All vehicles and equipment currently used exclusively for trash and recycling collections shall be sold or auctioned.

Financial impact

Once the City privatizes the trash collection program, the direct costs related to that program – landfill tipping fees, recycling fees, costs related to the purchasing of blue bags, vehicle repairs, and fuel – will be eliminated. The City will also eliminate the blue bag fee revenues that pay for the associated employees' compensation. The City's elected officials have prioritized retaining the five employees involved in this program and wish to transition them to other work. The real estate tax increases in initiative RV03 of the Revenue chapter and the employee compensation allocations in initiatives WF07 and WF08 of the Workforce Chapter account for these employees' continued employment. If the City reduces headcount over time through attrition, it could reduce the real tax rate increases necessary to cover those costs.

ED02.	**Use a private vendor to reinstitute proactive rental property inspections**	
	Target outcome:	Improve quality of life for residents; facilitate tax base growth
	Financial Impact:	See below
	Responsible party:	Mayor, Council, Code Enforcement Working Supervisor

The Code Enforcement Department underwent a number of operational changes in recent years.

In early 2017, the former Fire Chief began overseeing code enforcement operations, using both part-time firefighters and code officers to conduct inspections and issue violation notices and citations. A year later, the Fire Chief resigned which ended the Fire Department's involvement in code enforcement. The code enforcement duties then reverted back to the Mayor.

The City added a new working supervisor position in October 2018. The working supervisor acts as the director of the department and manages the Code Department, which includes two records clerk, four full-time code officers, and a part-time code officer. Since adding the working supervisor position, the

Department's operations have improved and it now reports quarterly performance data including workload and productivity indicators. The presence of the working supervisor in the office also provides opportunities for guidance on enforcement and management of the office staff, fulfilling one of the recommendations provided in the 2015 peer-to-peer evaluation of the City's code enforcement operations.

The City also recently amended the ordinance governing rental registration and inspections. Prior to March 2019, landlords in New Castle were required to register their rental properties once every two years based on a per-unit fee of $15.[41] At the time of registration, a landlord was required to have the property inspected at a rate of $30 per unit before any tenant moved in. During the inspection, the code officer would enter the rental unit, discuss any outstanding issues, and check doors, windows, electrical outlets, and smoke detectors. The typical rental inspection would take 20 to 30 minutes, plus additional time for scheduling and travel.

If the code officer found a violation, the City required the landlord to resolve the issue and then have the unit re-inspected within 7 to 30 days at an additional $15 re-inspection fee. After the rental unit passed its inspection, it would have to be recertified every two years.

In March 2019 the City eliminated the biannual inspections for rental properties and now only requires annual rental registrations, in part because of the lack of manpower in Code Enforcement. Currently, that Department has a working supervisor, two records clerks, four full-time code officers, and one part-time code officer. Another reason cited in eliminating the rental inspection program is that landlords frequently did not show up for their rental inspection, requiring the City to continuously reschedule those appointments.

With the elimination of the rental inspection program beginning in March 2019, the City no longer performs the initial rental inspections (when properties first become rental units) or the recertifications (routine inspection that was previously required every two years). Instead, the Department conducts rental inspections reactively whenever it receives complaints from tenants.

While the Coordinator understands the frustrations with landlords not showing up for the rental inspection and the added administration burden of rescheduling, there is an inherent value in performing pro-active rental inspections instead of reacting to tenants' complaints. New Castle's rental property conditions are important as a health and safety concern. The City must therefore hold landlords accountable for the condition of their properties and ensure that properties are safe for habitation.

Moving forward, the City shall reinstate the proactive rental unit inspection program, contracting with a third-party provider to manage this program and perform the inspections. The cost of the inspections will be offset through increased inspection fees and charges. The City shall also ensure that the rental inspection ordinance is in compliance with the applicable laws.

There are a number of municipalities in the same geographical region that use a private entity for this purpose. Doing so will allow New Castle to focus its existing staff resources on external property inspections, as the City intended when it eliminated this program.

The City shall issue a request for bids and contract out rental inspections and award the bid by December 31, 2019 unless a later date is approved by the Coordinator. Once the service is contracted out, the Code Department working supervisor will manage the contract with the third-party vendor, including collecting workload and compliance data on a regular basis.

[41] $15 if received on or before March 31st, $25 if received between April 1st and May 15th; $30 if received after May 15th.

ED03.	Require an occupancy permit when there is a change in property ownership	
	Target outcome:	Improve quality of life for residents; facilitate tax base growth; cost recovery
	Financial Impact:	TBD
	Responsible party:	Mayor, City Council, Code Enforcement Working Supervisor

According to New Castle Article 1743, no owner may sell his/her property unless a certificate is issued by the City disclosing whether there are any uncorrected code violations. These inspections, which cost sellers $100 for each residential property and $250 for each commercial or industrial property, are called “Act 121 inspections” or, less formally, “seller’s inspections.”

In 2018, the City conducted 657 Act 121 inspections and 514 (or 78 percent) had a violation. While it is possible that violations are more common for these properties because some may be intentionally sold in a condition that attracts investor owners, this is a negative indicator of the quality of housing in New Castle.

Act 121 Inspections and Violations

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Total 2018
Act 121 Inspections	165	163	187	142	**657**
Act 121 Violations	134	129	136	115	**514**
% of Inspections with Violations	**81.2%**	**79.1%**	**72.7%**	**81.0%**	**78.2%**

The most common violations were related to the properties’ exterior (doors, windows, sidewalks, or yards), although about 30 percent were related to safety and fire hazards, which were mostly violations as a result of missing or malfunctioning smoke alarms. There were also violations related to blocked escape openings.

Act 121 Violations

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Total 2018
Quality of Life (Exterior)	56	44	44	42	186
Quality of Life (Interior)	22	21	15	17	75
Safety / Fire Hazard	29	38	51	34	152
Heat/Lighting/Plumbing	25	23	22	13	83
Structure	1	3	1	9	14
Missing Permits / Rule Violations	1	0	3	0	4
Total Violations	**134**	**129**	**136**	**115**	**514**

The City’s ordinance only requires that the seller disclose all uncorrected violations. It does not require that all violations are corrected prior to the sale, so code officers generally do not return for reinspection. Once the property transaction is completed, code officers return to the site to inspect the exterior of the property and ensure that major violations noted in the Act 121 inspection are corrected by the new property owner. With the recent elimination of the rental inspection program, the Department noted that it would also crosswalk between the Act 121 inspection and rental registration databases and ensure that owners correct the violations found in an Act 121 inspection before the properties are rented out.

To ensure that properties are safe to live in and to improve the quality of the New Castle's housing stock, the City must be diligent about returning for a property inspection to ensure that violations are indeed corrected by the new owner, especially if the violation could affect the health and safety of residents.

One way to ensure that violations are corrected prior to occupancy is to require an occupancy permit whenever there is a change in ownership. The City currently requires an occupancy permit for new buildings or new additions, but does not require a new certificate whenever there is a transfer in ownership. Many other Pennsylvania municipalities, including the Cities of Butler, Beaver Falls, and Washington, require a new occupancy permit whenever there is a change in ownership as proof that all violations identified during the seller's inspections are corrected. Additionally, in the City of Wilkes-Barre, properties must be inspected by the City prior to closing and are given one of the three ratings: approved, not-approved, or conditional. If given a not-approved or conditional rating, either the buyer or the seller must correct any identified code violations prior to the transfer of the property.

The City shall therefore enact an ordinance requiring property owners to apply for a new occupancy permit whenever there is a change in property ownership. The ordinance shall be enacted by December 31, 2019.

ED04.	**Find a recurring funding source for the New Castle CDC**	
	Target outcome:	Facilitate tax base growth
	Financial Impact:	TBD
	Responsible party:	Business Administrator, City Council, CDC

The City established a Community Development Corporation (CDC) in 2018 and officially registered it as a nonprofit with 501(c)(3) status in April 2019. The CDC will work closely with the City Council and local community groups such as New Vision and the Blueprint Communities program to bring a focused community strategy for advancing economic development projects.

The City is planning on funding the CDC in 2019 using a one-time allocation from the Council contingency fund. Moving forward, the City must find a recurring funding source for the CDC so that it has the resources to engage in economic development efforts such as demolitions, housing rehabilitation, and other public infrastructure improvement projects.

The City shall not continuously fund economic development projects using General Fund resources given the financial challenges described throughout this Plan, but at the same time the City must continue to advance its economic development priorities to stabilize and grow its tax base. One way to secure recurring funding for the CDC without having to draw from the General Fund is to apply for the Neighborhood Partnership Program (NPP) administered by DCED, which is a tax credit program designed to encourage business investments.

In Aliquippa, city government partnered with BNY Mellon Wealth Management in order to secure multi-year funding for economic development projects. Through the Neighborhood Partnership Program, BNY Mellon Wealth Management contributes $500,000 annually for six years to the Aliquippa Economic Development Corporation to fund projects including housing acquisition and demolition, housing redevelopment, and job training programs. In return for the $500,000 annual contribution, BNY Mellon receives $400,000 in annual tax credits from the State.

To secure recurring funding for the CDC and ensure that the City can continue to advance its economic development priorities, New Castle shall seek to partner with a business entity and apply for the Neighborhood Partnership Program in 2020.

ED05.	Continue to implement the Comprehensive Blight Strategy Plan	
	Target outcome:	Advance economic development strategies
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor, City Council, CDC

In 2017, the City developed a Comprehensive Blight Strategy Plan through the PA Housing Alliance using DCED grant funds. The Blight Strategy Plan includes recommendations such as performing targeted demolitions, increasing focus on code enforcement, and repurposing blighted and vacant properties for productive use.

Since developing the Blight Strategy Plan, the City has made progress in implementing the recommended strategies. For example, the City now petitions the Court to disqualify a tax sale bidder if he/she has outstanding code violations to prevent owners of dilapidated properties from acquiring additional properties. With the establishment of the Lawrence County Land Bank in 2017, the City is actively partnering with the land bank to better coordinate efforts for property redevelopment or rehabilitation and is also working to identify new state grants to more aggressively address blight.

Moving forward, the City shall continue to implement the Comprehensive Blight Strategy Plan and work to advance the following initiatives through the City's Code Enforcement and Economic and Community Development Department:

- Adopt an ordinance that allows code officers to issue tickets for code violations on-site. The City requested $46,000 in Act 47 grants to upgrade its technology and anticipates purchasing new software to implement this recommendation later this year.

- More aggressively promote the vacant lot side yard disposition program, which allows property owners to purchase adjacent vacant lots where structures have been demolished, effectively creating bigger lots for property owners and removing vacant lots from the City's inventory.

- Begin using the scoring system to select properties for conservatorship, especially for properties in neighborhoods that are considered relatively stable.

ED06.	Update the comprehensive plan using the Act 47 grant	
	Target outcome:	Advance economic development strategies
	Financial Impact:	See below
	Responsible party:	Community Development Coordinator

The City developed a Comprehensive Plan in 2005 that lays out the City's long-term development policies and addresses housing, transportation and other aspects of urban planning to stabilize communities and attract businesses.

Even though the City has not updated its Comprehensive Plan since 2005, the City has completed several studies over the years that provide strategies the City could pursue to stabilize neighborhoods. In 2014, the City completed a New Castle Pedestrian Riverwalk Plan that provides recommendations to improve the pedestrian corridor in the downtown and accessibility to the riverfront. In 2016, the City completed an Inventory and Marketing Plan of Vacant and Underutilized Properties that identified market strengths and areas for market growth. City leaders also participated in a vision-setting process through the Blueprint Communities program.

To help the City prioritize its goals and allocate its limited resources more strategically, the City shall apply for $80,000 in Act 47 grants to update its Comprehensive Plan during the Exit Plan period. The updated Comprehensive Plan shall, at the minimum, include the following elements:

- Identify the City's community development goals, objectives, and priority outcomes;
- Provide ways the City can measure progress toward those identified outcomes; and
- Identify strategies and specific projects by neighborhood based on the neighborhood geography, property conditions, population, demographic attributes, and other factors, including identifying the areas where the City needs to focus its blight elimination efforts.

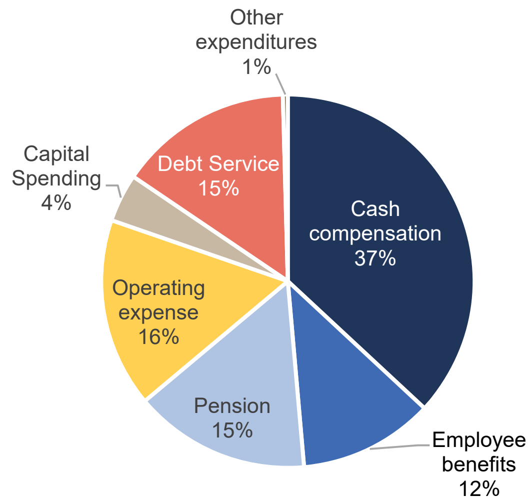
The Comprehensive Plan shall also contain other more traditional elements, such as land use, zoning, and code updates, so the City can use it as the basis for updating the City's related regulations. Once completed, the updated Comprehensive Plan shall become the City's guide in community development decision-making.

Workforce

Like many Pennsylvania local governments, the majority of New Castle's spending is on its employees. In the City's 2019 budget, almost two-thirds of its budget is allocated to employees' cash compensation, health benefits, and the City's contribution to the pension plan.

Because employee compensation accounts for such a large part of the City's budget, any strategy to achieve long-term financial stability and exit Commonwealth oversight must address these expenditures. This chapter sets forth the strategy for managing employee compensation so the City can sustain critical public services while balancing revenues against expenditures to provide New Castle with a chance to exit Commonwealth oversight at the end of 2022.

2019 Expenditure Budget ($19.5 million)



Employee Group Contract Term and Headcount

Group	Covered positions include	2019 budgeted positions	Contract term
FOP, Lodge 21 ("FOP")	All full-time police officers except the Chief	36	1/1/16 - 12/31/19
Laborers, Local No. 964 - Public Works	Laborers, equipment operators, refuse collectors, tradesmen	23	1/1/17-12/31/19
IAFF, Local No. 180 ("IAFF")	All full-time fire fighters except the Chief	20	1/1/17-12/31/19
Laborers, Local No. 964 - Clerical	Most clerical and administrative support positions including treasury and records clerks and financial and legal assistants	10	1/1/17-12/31/19
Non-represented[42]	Department directors, elected officials, code officers, part-time employees including police and fire	19 full-time 37 part-time	N/A
Total		**108 full-time** **37 part-time**	

This Exit Plan sets limits on projected expenditures for individual collective bargaining units that may not be exceeded by the City. The initiatives in this section set maximum annual allocations for employee compensation for each of the four bargaining units, plus the full-time non-represented employees.

[42] Teamsters, Local 26 is now grouped with non-represented employees.

The City and each union can negotiate a different pattern of compensation from the one proposed in this Plan, provided that the total employee compensation does not exceed the maximum annual allocation for that bargaining unit. If the City cannot reach a negotiated agreement with the FOP or IAFF, and the parties go to interest arbitration, the subsequent arbitration award may not exceed the Plan's maximum annual allocation for that bargaining unit unless the arbitration panel finds it to be arbitrary, capricious, or established in bad faith. The award also may not further jeopardize New Castle's financial stability and it cannot be inconsistent with the policy objectives described in Act 47 itself.[43]

To understand how the Coordinator set the maximum annual allocations, the City's broader financial picture must be considered. New Castle must eliminate the portion of the resident and non-resident earned income tax that is tied to its Act 47 status to comply with the statutory deadline for exiting Act 47.[44] As described throughout this Plan and the Financial Condition Report, that mandatory reduction will cost the City millions of dollars.

Although New Castle already has the highest real estate taxes in Lawrence County, its tax base is slowly shrinking, and the City needs additional tax revenue to compensate for the anticipated loss of EIT revenue.

Because most of New Castle's expenditures are for employee compensation, controlling the growth of expenditures means controlling the growth of employee compensation.

While the City needs to continue controlling its workforce cost growth to give itself a chance to exit Act 47 oversight at the end of 2022, the Coordinator's preference is that the City and its employees achieve that objective without wage freezes in the coming years.

The City's capacity to provide regular wage increases through 2022 is predicated in part on its ability to control the growth in spending on other forms of compensation, like health insurance and pension benefits. The Exit Plan therefore takes the cost-sharing structure established in the 2015 Amended Recovery Plan, including the five percent cap on growth in the City's share of those healthcare costs, and applies it to the workforce allocation from 2020 through 2022. For the City to afford regular wage increases and to give itself a chance to exit Act 47 oversight successfully at the end of 2022, it must keep its pension costs at least at the projected level. Therefore, this Plan continues to prohibit increases to the pension or retiree medical benefits for current, future or retired employees.

WF01.	**Ensure future collective bargaining agreements remain compliant with the Exit Plan**	
	Target outcome:	Improved management capacity and ensure financial stability
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor

Since entering oversight, the City has retained the support of professional external public employment labor counsel and has had success in negotiating bargaining agreements or receiving interest arbitration awards that complied with the Recovery Plan provisions. In view of those successes, the City Solicitor shall continue to secure the support of professional public employment labor counsel for the negotiations and any arbitration proceedings. The labor counsel shall work closely with the City Solicitor and, at the Solicitor's direction, the Business Administrator and other City employees.

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[43] Please see Act 47 of 1987, Section 252-b.

[44] Even if the Home Rule charter is adopted and the City gains the flexibility to set its resident EIT rate, it will still have to eliminate the portion of the non-resident EIT authorized by Act 47.

With the support of its labor counsel, the City shall make a good faith effort to achieve negotiated labor agreements consistent with this Exit Plan. No person or entity, including (without limitation) the City, a union representing City employees or any interest or grievance arbitrator appointed pursuant to Act 111 or Act 195 or otherwise, shall permit the continuation, amendment, or adoption of any labor agreement if the wages, benefits or other terms and conditions of the labor agreement are inconsistent with initiatives made herein.

Furthermore, no collective bargaining agreement, reached through negotiations or interest arbitration, shall extend past 2022.

WF02.	**Incorporate specific City contributions to employee health insurance into collective bargaining agreements**	
	Target outcome:	Maintain projected savings and provide continuing cost control
	Financial Impact:	See below
	Responsible party:	Business Administrator, City Solicitor

The City shall make the following maximum monthly contributions per eligible employee based on coverage level (single, employee/child, employee/spouse, family) for employee health care coverage for each active employee enrolled in City-provided health insurance with employees responsible for any difference between the "cap" and the total cost of the plan.

Maximum City Monthly Contributions[45]

	2020	2021	2022
Single	$555	$583	$612
P/C	$1,108	$1,163	$1,221
H/W	$1,171	$1,230	$1,292
Family	$1,449	$1,521	$1,597

The City's maximum contribution includes medical, prescription drug, vision and dental coverage. The City's maximum contribution applies to all forms of City contribution (e.g. premiums, deductibles, copayments). The City's maximum contribution also includes any taxes, surcharges, penalties, assessments, and other charges or costs which the City may be required to pay under federal or state laws, including the Patient Protection and Affordable Care Act of 2010 ("ACA"), or any other federal or state amendments, regulations, statutes or regulations.[46]

The 2020 maximum contributions are based on the maximum contribution in 2019 as governed by the 2015 Amended Recovery Plan, increased by 5.0 percent in accordance with the growth cap described above. The 2021 and 2022 contribution amounts are approximately 5 percent higher than the prior year.

[45] The 2015 Amended Recovery Plan establishes the City's maximum contributions for 2019. See page 68 of the 2015 Amended Recovery Plan.

[46] The Coordinator explicitly notes that these capped amounts include the ACA's "Cadillac Tax" and any employee who selects a plan that triggers the Cadillac Tax will be responsible for the full Cadillac Tax amount. The Coordinator's preference would be for the respective parties to restructure health care plans so that they do not trigger the "Cadillac Tax." See WF03.

WF03.	Restructure City health care plans so that they do not trigger the ACA's "Cadillac Tax"	
	Target outcome:	Cost control
	Financial Impact:	See below
	Responsible party:	Business Administrator, City Solicitor

The Affordable Care Act includes a 40 percent excise tax on the value of health insurance benefits exceeding a certain threshold, sometimes referred to as the "Cadillac tax." While Congress has discussed eliminating or amending the tax, as of this moment, the tax will go into effect January 1, 2022, and currently sets thresholds at $10,200 for individuals and $27,500 for family overage, indexed to inflation. The tax also applies to any health insurance coverage, including coverage for retired employees.

Currently, the annual premium costs for the City's health insurance plans fall below the ACA thresholds. But it is unknown how the total cost of the City's plans or the ACA threshold will change before the tax takes effect in 2022.

Due to these uncertainties, the Exit Plan does not assume any additional costs to the City associated with the Cadillac Tax. Given the baseline projected deficit and other factors described in the Exit Plan, the City will not have the financial capability to cover the additional cost of the excise tax without making further reductions to other forms of compensation for current employees. Therefore, the Exit Plan requires the respective parties to restructure health care plans that would trigger the Cadillac Tax so that they remain under the cap. If the employee group does not want to restructure a health care plan that triggers the Cadillac Tax, or a court or arbitrator does not permit the City to do so, the maximum amounts shown above shall still be applicable and those employees who have selected such a plan will be responsible for the full Cadillac Tax amount as noted in WF02.

WF04.	Fraternal Order of Police employee compensation allocation	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor

The Exit Plan allocates the following maximum amounts for employee compensation for active members of the FOP. This allocation does not include compensation for the Police Chief, part-time police officers, or other police department employees not represented by the FOP.

2020	2021	2022
$3,057,000	$3,160,000	$3,268,000

This allocation includes the maximum amounts the City shall pay active FOP members for any of the following:

- Salaries including step or tenure-based increases and any additional pay for overtime or court hearing compensation.

- Holiday pay, longevity and shift differential.
- Incentives related to sick leave usage, workers' compensation usage and tuition reimbursement.
- Health insurance coverage including medical, dental, vision, and prescription drug coverage; any reimbursements for prescription drug costs and payments in lieu of hospitalization coverage.
- Life insurance and other kinds of insurance coverage.
- Uniform or special assignment allowances and all other new or existing forms of cash compensation.

The allocation does not include the City's required contributions to the police pension plan or its expenditures for retired employee health insurance. Those elements of compensation are addressed in separate initiatives.

The City's 2019 budget allocates approximately $3.0 million for active FOP members' compensation. The Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases plus any applicable step increase each year through 2022.
- Employees who receive longevity pay would continue to do so at the current rate for the duration of this Exit Plan. The allocation assumes no longevity payments for employees who are not currently eligible for them, including new hires.
- Existing elements of cash compensation that are indexed to base salary, like the portion of holiday pay that all officers receive,[47] would grow with base salaries. Existing elements that are paid at fixed amounts established in the collective bargaining agreement, like uniform allowance and shift differential, would not change.
- The City would not enact any new forms of compensation.

The allocation is based on the headcount and mix of employees by rank (e.g. Lieutenant, Sergeant, Corporal) as listed in the 2019 budget.

Certain elements of compensation are based on factors that are very hard to predict, like the sick leave incentive that is based on the number of sick leave days an officer uses and whether the officer decides to convert any bonus into cash or additional vacation. For these elements, the allocation uses the 2019 budgeted amount, adjusted to account for future salary growth. If the City and FOP do not change the factors that determine these payments, the City shall be deemed in compliance with the Exit Plan, even if the actual amounts paid are higher than projected. If the City and FOP do make changes through negotiation or an arbitration award that impact these payments, the City and FOP shall project the cost or savings of those changes and count them against the allocation.

This same principle applies to overtime and court hearing compensation. While overtime spending is partially driven by factors beyond the bargaining parties' control, it is also partially a product of leave allocation, leave usage, and other factors that the City and FOP can control. If the City and FOP do not make any changes that would impact overtime or court hearing compensation expenditures, the City shall be deemed in compliance with the Exit Plan allocation, even if overtime and court hearing compensation are higher than projected because of other factors. If the City and FOP do make changes through negotiation or an arbitration award that impact overtime or court hearing compensation, the City and FOP shall project the cost or savings of those changes and count them against the allocation shown above.

[47] Officers hired before 2008 receive a $500 holiday bonus which is not indexed to salary.

The allocation includes an amount for health insurance coverage, including medical, dental, vision and prescription drug coverage, based on the calculation described in initiative WF02. If the City and FOP make any changes to health insurance coverage outside of that initiative through negotiation or an arbitration award, the City and FOP shall project the cost or savings of those changes and count them against the allocation.

Grants or external funding

The City may be able to secure grants or other sources of external funding to cover employee compensation costs for police officers. If the City secures such funding from a source other than those already included in the Exit Plan's baseline projections, the compensation costs that are supported by that external funding source will not count toward the Exit Plan's maximum annual allocations so long as the City is not required to maintain a specific staffing level after the expiration of the grant or external funding source.

This provision governs the City's recent discussions and arrangements with the New Castle Area School District and the City's existing agreement with Taylor Township, as well as any grant funding the City receives from the State or Federal government.

The City and FOP may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Exit Plan maximum annual allocations. Should the City and FOP negotiate such a different compensation package, they shall conduct a full cost analysis of any changes for each year through 2022 to determine and ensure that the resulting compensation does not exceed the maximum allocations. They shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum allocations, it shall be returned to the City and FOP for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's annual allocations or if the analysis is not provided in a timely manner.

WF05.	**International Association of Firefighters employee compensation allocation**	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor

The Exit Plan allocates the following maximum amounts for employee compensation for active members of the IAFF. This allocation does not include compensation for the Fire Chief, part-time firefighters, or other fire department employees not represented by the IAFF.

2020	2021	2022
$1,784,000	$1,849,000	$1,897,000

This allocation includes the maximum amounts the City shall pay active IAFF members for any of the following:

- Salaries including step or tenure-based increases and any additional pay for overtime.
- Holiday pay, longevity, and training wages.

- Incentives related to sick leave usage, heart and lung, and EMS certification.
- Health insurance coverage including medical, dental, vision, and prescription drug coverage; any reimbursements for prescription drug costs and payments in lieu of hospitalization coverage.
- Life insurance and other kinds of insurance coverage.
- Uniform or special assignment allowances and all other new or existing forms of cash compensation.

The allocation does not include the City's required contributions to the fire pension plan or its expenditures for retired employee health insurance. Those elements of compensation are addressed in separate initiatives.

The City's 2019 budget allocates approximately $1.7 million for active IAFF members' compensation. The Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases plus any applicable step increase each year through 2022.
- Employees who receive longevity pay would continue to do so at the current rate for the duration of this Exit Plan. The allocation assumes no longevity payments for employees who are not currently eligible for them, including new hires.
- Existing elements of cash compensation that are indexed to base salary, like the portion of holiday pay that all firefighters receive, would grow with base salaries. Existing elements that are paid at fixed amounts established in the collective bargaining agreement, like uniform allowance and heart and lung incentive, would not change.
- The City would not enact any new forms of compensation.

The allocation is based on the headcount and mix of employees by rank (e.g. Assistant Chief, Lieutenant) as listed in the 2019 budget.

Certain elements of compensation are based on factors that are very hard to predict, like the sick leave incentive that is based on the number of sick leave days firefighter uses and whether the firefighter decides to convert any bonus into cash or additional vacation. For these elements, the allocation uses the 2019 budgeted amount, adjusted to account for future salary growth. If the City and IAFF do not change the factors that determine these payments, the City shall be deemed in compliance with the Exit Plan, even if the actual amounts paid are higher than projected. If the City and IAFF do make changes through negotiation or an arbitration award that impact these payments, the City and IAFF shall project the cost or savings of those changes and count them against the allocation.

This same principle applies to overtime. While overtime spending is partially driven by factors beyond the bargaining parties' control, it is also partially a product of leave allocation, leave usage and other factors that the City and union can control. If the City and IAFF do not make any changes that would impact overtime expenditures, the City shall be deemed in compliance with the Exit Plan allocation, even if overtime is higher than projected because of other factors. If the City and IAFF do make changes through negotiation or an arbitration award that impact overtime, the City and union shall project the cost or savings of those changes and count them against the allocation shown above.

The allocation includes an amount for health insurance coverage, including medical, dental, vision and prescription drug coverage, based on the calculation described in initiative WF02. If the City and IAFF make any changes to health insurance coverage outside of that initiative through negotiation or an arbitration award, the City and IAFF shall project the cost or savings of those changes and count them against the allocation.

Grants or external funding

The City may be able to secure grants or other sources of external funding to cover employee compensation costs for firefighters. If the City secures such funding from a source other than those already included in the Exit Plan's baseline projections, the compensation costs that are supported by that external funding source will not count toward the Exit Plan's maximum annual allocations so long as the City is not required to maintain a specific staffing level after the expiration of the grant or external funding source.

The City and IAFF may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Exit Plan maximum annual allocations. Should the City and IAFF negotiate such a different compensation package, they shall conduct a full cost analysis of any changes for each year through 2022 to determine and ensure that the resulting compensation does not exceed the maximum allocations. They shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum allocations, it shall be returned to the City and IAFF for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's annual allocations or if the analysis is not provided in a timely manner.

WF06.	**Clerical bargaining unit employee compensation allocation**	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor

The Exit Plan allocates the following maximum amounts for compensating the clerical employees represented by the Laborer's District Council of Western Pennsylvania, Local No. 964.

2020	2021	2022
$507,000	$520,000	$533,000

This allocation includes the maximum amounts the City shall pay all active employees of this union for any of the following:

- Salaries, longevity and any additional pay for overtime.
- Incentives related to sick leave usage.
- Health insurance coverage including medical, dental, vision, and prescription drug coverage; and any payments in lieu of hospitalization coverage.
- Life insurance and other kinds of insurance coverage.
- All other new or existing forms of cash compensation.

The allocation does not include the City's required contributions to the employee pension plan on behalf of these employees, which is addressed in a separate initiative.

The City's 2019 budget allocates approximately $495,000 for compensating the employees in this bargaining unit. The Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases plus any applicable step increase each year through 2022.
- Employees who receive longevity pay would continue to do so at the current rate. The allocation assumes no longevity payments for employees who are not currently eligible for them, including new hires.
- Existing elements of cash compensation that are indexed to base salary, like the sick leave incentive, grow with base salaries. Existing elements that are paid at fixed amounts established in the collective bargaining agreement, like the payment employees can receive in lieu of health insurance, would not change.
- The City would not enact any new forms of compensation.

The allocation is based on the headcount and mix of employees by title in the 2019 budget.

Certain elements of compensation are based on factors that are very hard to predict, like the sick leave incentive. For these elements, the allocation uses the 2019 budgeted amount, adjusted to account for future salary growth. If the City and union do not change the factors that determine these payments, the City shall be deemed in compliance with the Exit Plan, even if the actual amounts paid are higher than projected. If the City and union make changes through negotiation or mediation that impact these payments, the City and union shall project the cost or savings of those changes and count them against the allocation. This same principle applies to overtime, though employees in this bargaining unit rarely receive overtime compensation. The 2019 budget does not have an overtime allocation for any employees in this bargaining unit.

The allocation includes an amount for health insurance, including medical, dental, vision, and prescription drug coverage, based on the calculation described in initiative WF02. If the City and union make any changes to health insurance coverage outside of that initiative through negotiation or mediation, the City and union shall project the cost or savings of those changes and count them against the allocation.

Grants or external funding

The City may be able to secure grants or other sources of external funding to cover compensation costs for employees in this bargaining unit. If the City secures such funding from a source other than those already included in the Exit Plan's baseline projections, the compensation costs that are supported by that external funding source will not count toward the Exit Plan's maximum annual allocations so long as the City is not required to maintain a specific staffing level after the expiration of the grant or external funding source.

The City and union may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Exit Plan maximum annual allocations. Should the City and union negotiate such a different compensation package, they shall conduct a full cost analysis of any changes for each year through 2019 to determine and ensure that the resulting compensation does not exceed the maximum allocations. They shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum allocations, it shall be returned to the City and union for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's annual allocations or if the analysis is not provided in a timely manner.

WF07.	**Public works and recreation bargaining unit employee compensation allocation**	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor

The Exit Plan allocates the following maximum amounts for compensating the public works and recreation employees represented by the Laborer's District Council of Western Pennsylvania, Local No. 964.

2020	2021	2022
$1,366,000	$1,402,000	$1,440,000

This allocation includes the maximum amounts the City shall pay all active employees of this union for any of the following:

- Salaries, longevity, holiday pay and any additional pay for overtime.
- Incentives related to sick leave or workers' compensation usage.
- Health insurance coverage including medical, dental, vision, and prescription drug coverage; and any payments in lieu of hospitalization coverage.
- Life insurance and other kinds of insurance coverage.
- All other new or existing forms of cash compensation.

The allocation does not include the City's required contributions to the employee pension plan on behalf of these employees, which is addressed in a separate initiative.

The City's 2019 budget allocates approximately $1.3 million for compensating the employees in this bargaining unit. The Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases plus any applicable step increase each year through 2022.
- Employees who receive longevity pay would continue to do so at the current rate. The allocation assumes no longevity payments for employees who are not currently eligible for them, including new hires.
- Existing elements of cash compensation that are indexed to base salary, like the sick leave incentive, grow with base salaries. Existing elements that are paid at fixed amounts established in the collective bargaining agreement, like the payment employees can receive in lieu of health insurance, would not change.
- The City would not enact any new forms of compensation.

The allocation is based on the headcount and mix of employees by title in the 2019 budget.

Certain elements of compensation are based on factors that are very hard to predict, like the sick leave incentive. For these elements, the allocation uses the 2019 budgeted amount, adjusted to account for future salary growth. If the City and union do not change the factors that determine these payments, the City shall be deemed in compliance with the Exit Plan, even if the actual amounts paid are higher than projected. If the City and union make changes through negotiation that impact these payments, the City and union shall project the cost or savings of those changes and count them against the allocation.

This same principle applies to overtime. While overtime spending is partially driven by factors beyond the bargaining parties' control, it is also partially a product of leave allocation, leave usage and other factors that the City and union can control. If the City and union do not make any changes that would impact overtime expenditures, the City shall be deemed in compliance with the Exit Plan allocation, even if overtime is higher than projected because of other factors. If the City and union make changes through negotiation that impact overtime, the City and union shall project the cost or savings of those changes and count them against the allocation shown above.

The allocation includes an amount for health insurance, including medical, dental, vision, and prescription drug coverage, based on the calculation described in initiative WF02. If the City and union make any changes to health insurance coverage outside of that initiative through negotiation, the City and union shall project the cost or savings of those changes and count them against the allocation.

Grants or external funding

The City may be able to secure grants or other sources of external funding to cover compensation costs for employees in this bargaining unit. If the City secures such funding from a source other than those already included in the Exit Plan's baseline projections, the compensation costs that are supported by that external funding source will not count toward the Exit Plan's maximum annual allocations so long as the City is not required to maintain a specific staffing level after the expiration of the grant or external funding source.

The City and union may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Exit Plan maximum annual allocations. Should the City and union negotiate such a different compensation package, they shall conduct a full cost analysis of any changes for each year through 2019 to determine and ensure that the resulting compensation does not exceed the maximum allocations. They shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum allocations, it shall be returned to the City and union for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's annual allocations or if the analysis is not provided in a timely manner.

WF08.	**Non-represented employee compensation allocation**	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor

The Exit Plan allocates the following maximum amounts for compensating the full-time employees who are not represented by a bargaining unit. The allocation covers the Police and Fire Chiefs, who are generally compensated according to the FOP and IAFF collective bargaining agreements. It also includes code enforcement employees.

2020	2021	2022
$1,302,000	$1,333,000	$1,365,000

This allocation includes the maximum amounts the City shall pay all active employees in this group for any of the following:

- Salaries and longevity.
- Incentives related to sick leave or workers' compensation usage.
- Health insurance coverage including medical, dental, vision, and prescription drug coverage; and any payments in lieu of hospitalization coverage.
- Life insurance and other kinds of insurance coverage.
- Uniform and all other new or existing forms of cash compensation.

The allocation does not include the City's required contributions to the employee pension plan on behalf of these employees, which is addressed in a separate initiative.

The City's 2019 budget allocates approximately $1.3 million for compensating these employees. The Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases through 2022.
- Employees who receive longevity pay would continue to do so at the current rate. The allocation assumes no longevity payments for employees who are not currently eligible for them, including new hires.
- Existing elements of cash compensation that are indexed to base salary, like the sick leave incentive, grow with base salaries. Existing elements that are paid at fixed amounts established in the collective bargaining agreement, like the payment employees can receive in lieu of health insurance, would not change.
- The City shall not enact any new forms of compensation.

Certain elements of compensation are based on factors that are very hard to predict, like the sick leave incentive. For these elements, the allocation uses the 2019 budgeted amount, adjusted to account for future salary growth. If the City does not change the factors that determine these payments, the City shall be deemed in compliance with the Exit Plan, even if the actual amounts paid are higher than projected. If the City does make changes that impact these payments, the City shall project the cost or savings of those changes and count them against the allocation.

The allocation includes an amount for health insurance, including medical, dental, vision, and prescription drug coverage, based on the calculation described in initiative WF02. Non-represented employees are subject to the terms of that initiative.

The stipend or wages paid to part-time elected officials shall not increase by more than two percent in any year through 2022.

The City pays an additional stipend to full-time employees who have assumed duties beyond their regular job description. For example, a firefighter is paid $3,500 a year to serve as the City's emergency medical services coordinator. The City shall not increase those stipends above the level currently in place through 2022.

WF09.	**Moratorium on pension and other post-employment benefit enhancements**	
	Target outcome:	Avoid further cost increases to achieve long-term financial stability
	Financial impact:	N/A
	Responsible party:	City Solicitor, Business Administrator, City Council

The City shall not take any actions to enhance pension or other post-employment benefits for current retirees, active employees or future hires. Any change that is proposed during negotiation or any arbitration that is intended to be cost neutral or to save money shall be evaluated by the City's actuary to verify that it achieves the intended level of savings. That review is important since the actuary's calculations will determine the liability to the City and the City's annual required contributions toward the cost of these benefits in later years.

The Coordinator will also review the proposal for the impact on the annual operating budget. Any proposed change that is determined by the actuary or the Coordinator not to be cost neutral or generate the intended level of savings shall be denied. This mandatory review includes any proposed Deferred Retirement Option Plan (DROP) or early retirement incentive program (ERIP).

This prohibition on benefit enhancements extends to retired employee health insurance. The City shall not provide retiree healthcare to employees represented by the FOP who are hired after December 31, 2007, which is a continuation of the original Recovery Plan provision. Similarly, the City also shall not provide retiree healthcare to employees represented by the IAFF who are hired after December 31, 2013.

Capital and Debt Management

New Castle has an inventory of vehicles, facilities and infrastructure that it uses to serve to its residents, businesses and visitors. While these items account for a much smaller share of the budget than employee compensation, they are vital to the daily operations of the police, fire, and public works departments. They range from buildings (City Hall, Police Station, Fire stations) to vehicles (fire trucks, police cruisers, code enforcement vehicles, public works equipment) to infrastructure (roads, bridges). Items that are worth more than $10,000 are considered "capital assets"[48] and the City designates a small portion of its annual budget to replace, rehabilitate or do major repairs on them.

In an ideal situation, City would use a mix of funding sources to pay for these "capital improvement projects." The City would use a portion of the revenue it collects each year to fund projects with a shorter useful life, like replacing police cruisers or paving roads, on a "pay-as-you-go" basis. The City would also issue debt to fund projects that are larger and have a longer useful life, like building a new fire station.

Like most other Act 47 communities, New Castle has had very limited funding to pay for these types of capital projects. The City cannot afford to issue new debt to fund large projects until more of its existing debt is retired, and pay-as-you-go capital funding comes from the same limited pool of resources that fund police, fire and other vital services.

The 2017 financial audit lists $15 million in capital assets[49] with $972,000 in depreciation, which is an estimate of the value that these assets lose each year as they age. The City's 2017 General Fund spending on capital improvements was $461,000, or just 47 percent of the amount that the City would need to invest in these assets just to maintain a constant level of value. Residents do not need to review accounting documents to understand City's lack of resources to invest in these areas. The condition of the City's roads and the widespread need for paving is a tangible sign of this limitation.

City government has started to make some progress against this backdrop of limited resources and multiple needs. In 2016, the City adopted a Recovery Plan Amendment enabling it to designate a portion of the revenue generated by the Act 47 earned income tax (EIT) to capital projects. This amendment was initiated because of concerns that poor road conditions are negatively impacting the quality of life for residents and commuters who travel to New Castle for work.

The Act 47 capital EIT paid by residents and commuters has given City some ability to do road paving, replace vehicles, and make other improvements. Grant funding has provided some supplemental funding for renovations at the police station and information technology projects. The level of activity is not ideal and it is far short of what City needs, but it is more than the City could afford when it first entered oversight.

2015 – 2019 Capital Budget Allocation[50]

	2015	2016	2017	2018	2019
Vehicles/Equipment	1,084,300	190,500	60,000	250,000	345,142
Infrastructure	280,000	300,000	413,164	200,000	215,103
Building upgrades	25,000	255,000	39,000	20,000	50,500
Recreation Assets	114,200	24,500	90,280	15,000	45,000
Information Technology	10,000	93,800	0	0	0
Other	168,927	138,927	109,927	43,703	162,000
Total	**$1,682,427**	**$1,002,727**	**$712,371**	**$528,703**	**$817,745**

[48] According to the capital budget ordinance enacted in 2012.

[49] The City had $15 million in capital assets related to governmental activities for the year ended December 31, 2017.

[50] Grant funded projects are not included in this table.

New Castle has also successfully shifted the cost of maintaining some assets out of its General Fund, which also pays most of the employee compensation and other cost of daily operations. Pursuant to the recommendation in the 2015 Amended Recovery Plan,[51] the City established a stormwater fee in 2018 and is estimated to provide over $800,000 in annual revenues to maintain the stormwater system and for any emergency repairs required as a result of flooding incidents. As a result of establishing the stormwater fee, the City was able to shift over $100,000 in annual General Fund expenditures to the storm water fund. More importantly, there is now an established funding source that is solely dedicated to the maintenance and upkeep of one of the largest City-owned assets.

This Exit Plan continues each of these strategies. Initiative RV01 extends the Act 47 authorized resident and commuter EIT for as long as is currently allowed by law and directs a growing portion of that revenue be used for capital projects. Initiative RV02 requires the City to take the first step in the Home Rule charter process so local leaders have more control over its resident EIT rate, which would enable the City to keep the capital designated portion of the resident EIT after New Castle exits oversight. This chapter provides further direction on how the City must maximize its limited capital investment and requires that services "expected to pay for themselves" actually do so by fully including the cost of associated capital projects.

CD01.	**Dedicate half of the Act 47 capital EIT revenues to a capital reserve fund**	
	Target outcome:	Ensure sustainable capital funding
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor, City Council

To ensure that the City has capital funding beyond 2022, the City shall establish a capital reserve fund beginning in 2020. Because the Act 47 capital EIT rate will gradually increase over the next three years according to the baseline projection assumption, the City shall dedicate half of the capital EIT revenues toward the capital reserve fund so that those funds can be available for capital uses in the years beyond 2022. Based on the schedule as outlined in the table below, the capital reserve fund will have $2.5 million in available funds by the end of 2022.

Revenues from the Act 47 Capital EIT

	2020	2021	2022	Total
Capital budget	$622,000	$890,000	$986,000	$2,498,000
Capital reserve	$622,000	$890,000	$986,000	$2,498,000
Total	**$1,244,000**	**$1,780,000**	**$1,972,000**	**$4,996,000**

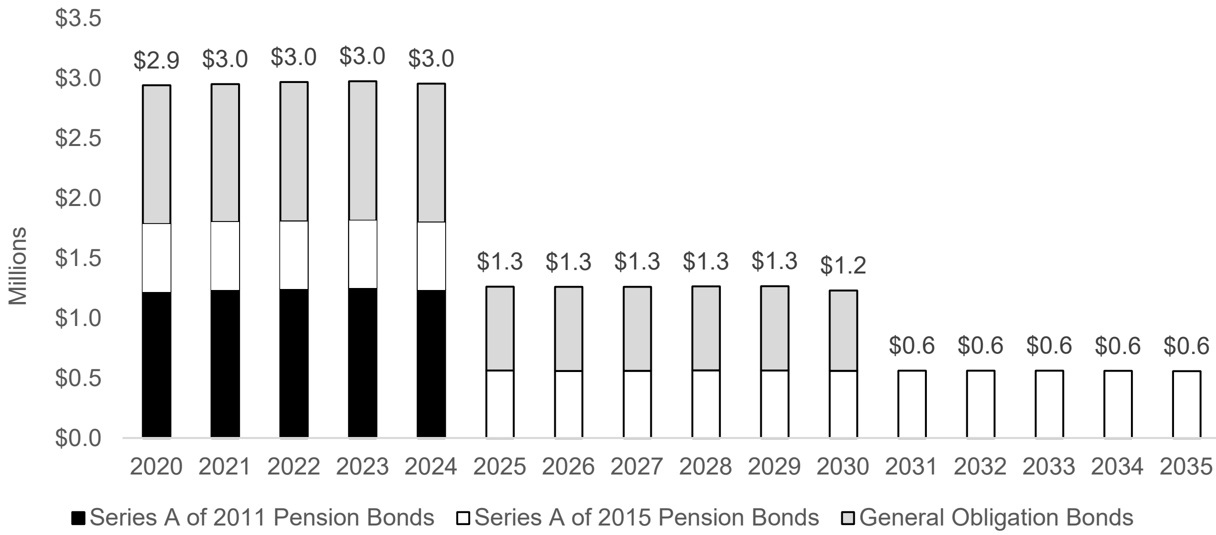
The amount of funding the City will have available for capital projects in the next three years in this scenario is still limited, but it provides a modest amount for urgent needs through the Exit Plan period, and provides funding for future capital projects in 2023 and 2024. The capital reserve at the end of 2022 would total $2.5 million, which would allow the City to spend – on average -- $1.2 million each year in 2023 and 2024.

Beyond 2024, the City may need to issue new debt to address some of its backlogged capital needs. As mentioned previously, the City refinanced its debt in May 2019 and the Coordinator updated the baseline

[51] See CP02 on p. 40 of the 2015 Amended Recovery Plan.

projection accordingly in the Exit Plan. According to the updated debt schedule, debt service payments will remain at approximately $3.0 million through 2024, after which it will drop to $1.3 million.

Debt Schedule, 2020 - 2035



Debt Service Payments, 2020 - 2025

	2020	2021	2022	2023	2024	2025
GO Bonds	1,157,227	1,149,901	1,162,022	1,163,008	1,157,161	699,655
Series A of 2011 Pension Bonds	1,221,273	1,235,360	1,245,031	1,250,643	1,237,075	0
Series A of 2015 Pension Bonds	563,497	565,830	561,825	562,030	560,928	563,805
Total Debt Service	**2,941,996**	**2,951,091**	**2,968,878**	**2,975,681**	**2,955,164**	**1,263,460**

= *Debt service payment drop from 2024 to 2025*

In 2025, the City's debt is scheduled to drop from $3.0 million to $1.3 million, largely because one of the pension bonds (Series A of 2011) will be paid off by the end of 2024. Because the that pension bond is currently funded by the distressed pension EIT revenues, and the City cannot use those revenues for purposes unrelated to pensions, the practical result is that the City will lose the $1.2 million in distressed pension EIT revenues after the pension bonds are paid off. However, the adoption of the Home Rule charter (see initiative RV02) and gaining the flexibility to set its resident EIT rate will allow the City to shift the money generated by the resident portion of the distressed pension tax to the General Fund.[52]

	Without Home Rule	With Home Rule
2025 Debt schedule	Debt service drops by $1.7 million from $3.0 million to $1.3 million	Debt service drops by $1.7 million from $3.0 million to $1.3 million
2025 Revenues	Act 205 EIT revenues drops by $1.2 million, in tandem with the drop in Series A of 2011 Pension Bonds	Replace the lost Act 205 EIT with a resident EIT according to the provisions in the Home Rule charter

[52] Home rule does not enhance the City's commuter taxing powers, so the commuters' portion of the distressed pension tax that funds debt repayment will be eliminated.

If the City is successful in adopting a Home Rule charter that allows the City to set its own resident EIT rate, the City could also choose to adopt a capital-designated EIT and use the associated revenues for pay-as-you-go capital funding or debt repayment. This would provide the City a recurring source of revenue to pay for improvements to the roads, facilities, parks and other assets it owns.

CD02.	**Dedicate half of the annual capital budget toward public infrastructure**	
	Target outcome:	Invest in core infrastructure
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor, City Council

Based on the total area of City roads and average resurfacing costs, $2 million was the estimated level of investment needed per year to keep up with life-cycle resurfacing.[53] Over the last six years, the City spent, on average, $215,000 annually on paving. While the City increased its spending on paving in 2018, the increase in General Fund spending was primarily because the project that was scheduled in 2017 was not executed until 2018.

Capital Spending on Paving, 2013 - 2018

	2013	2014	2015	2016	2017	2018
Paving funded by the General Fund	62,128	200,000	245,463	377,945	54,450	227,310
Paving funded by the stormwater fee	0	0	0	0	0	120,459
Total Spending on Paving	**$62,128**	**$200,000**	**$245,463**	**$377,945**	**$54,450**	**$347,769**

To ensure that the City continues to address its road paving backlog as well as the conditions of other public infrastructure used by both residents and commuters (e.g. bridges, sidewalks), the City shall dedicate half of its Act 47 EIT toward public infrastructure beginning in 2020. Public infrastructure projects shall exclude purchases or replacements of vehicles and equipment.

In addition, because road paving is typically completed in the summer when the weather conditions are optimal, moving forward, the City shall issue request for bids in the first quarter of the year so that the City selects a contractor in time for the road paving to commence in the summer.

Capital Budget Allocation

	2020	2021	2022	Total
Public Infrastructure (excl. vehicle or equipment purchases)	311,000	445,000	493,000	**1,249,000**
Other capital projects	311,000	445,000	493,000	**1,249,000**
Total Annual Capital budget	**$622,000**	**$890,000**	**$986,000**	**$2,498,000**
Amount dedicated to capital reserve according to initiative CD01	**$622,000**	**$890,000**	**$986,000**	**$2,498,000**

[53] See analysis on p. 30-31 of the 2015 Amended Recovery Plan

CD03.	**Enact a capital improvement fee for the Sylvan Heights Golf Course**	
	Target outcome:	Facilitate exit from Act 47 oversight; invest in core infrastructure; reduce long-term liabilities
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Council

Over the last five years, the Sylvan Heights golf course has operated at a deficit once the cost of capital projects at the course are included. Even though revenues increased in 2016 and 2017 and helped the City reduce the operating deficits in those years, the golf course operated with annual deficits averaging $56,000 over the last six years, primarily driven by capital expenditures.

Revenues and Expenditures of the Sylvan Heights Golf course, 2013 -2018

	2013	2014	2015	2016	2017	2018
Revenues	212,328	211,895	238,000	258,295	256,033	248,501
Expenditures	229,232	237,619	258,149	228,165	256,366	257,782
Net operating result	**($16,904)**	**($25,724)**	**($20,149)**	**$30,129**	**($333)**	**($9,281)**
Capital expenditures	62,650	54,240	64,000	116,277	0	0
Net result incl. capital	**($79,554)**	**($79,964)**	**($84,149)**	**($86,148)**	**($333)**	**($9,281)**

From 2013 to 2016, the City spent almost $300,000 on capital improvements at the golf course, which is more than one year's worth of revenues generated by the golf course. Every dollar that the City spends at the golf course is a dollar that it cannot spend on street paving, bridge and building maintenance, vehicle placement, or other priorities. The capital spending on the golf course also means that capital dollars funded by residents and commuters at-large were used to pay for improvements for a facility that only a fraction of the population uses.

Beginning in 2020, the City shall enact an additional fee charged to members and users of the course to fund capital improvements. With the Coordinator's support, the City shall determine the capital needs of the golf course over the next three years and build those costs into the charges for service. The revenues generated from this capital improvement fee shall be dedicated toward a capital reserve designated for the golf course. Any capital projects for the golf course must be funded by this capital reserve and the City is prohibited from using any capital EIT revenues or other funds for the golf course in the next three years.

The City shall also ensure that it eliminates any operational deficits and recovers the full cost of operations and maintenance through fees throughout the Exit Plan period.

CD04.	**Enact a capital improvement fee for the parking system**	
	Target outcome:	Facilitate exit from Act 47 oversight; invest in core infrastructure; reduce long-term liabilities
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Council

The parking system generates revenue through meter deposits, monthly permits and daily fees. The City receives transfers of approximately $100,000 from the parking system to the General Fund each year. The Finance Department and two part-time meter enforcement officers handle operations.

The most recent capital spending on the City's parking system was in 2015 when the City allocated $11,000 in capital funds to install new parking meters for the Mercer Street Parking Garage. While the capital improvement projects for the parking system have been limited, the City will inevitably have to maintain the aging infrastructure. The City may also consider improving service by updating the meters to accept different forms of payment.

Similar to the rationale laid out in initiative CD03, every dollar that the City spends on the parking system is a dollar that it cannot spend on street paving, bridge and building maintenance, vehicle placement, or other priorities. The capital spending on the parking system also means that capital dollars funded by residents and commuters at-large were used to pay for improvements for a facility that only a fraction of the population uses.

Unless the City is able to enter into a lease for the parking system (see initiative AD02) over the next three years, the City shall recover the full cost of capital improvement projects for the parking system.

Beginning in 2020, the City shall enact an additional fee for its monthly permits and daily fees. With the Coordinator's support, the City shall determine the capital needs of the parking system that the City has not already identified and build those costs into the charges for parking. The revenues generated from this capital improvement fee shall be dedicated toward a capital reserve designated for the parking system. Any capital projects for the parking system must be funded by this capital reserve and the City is prohibited from using any capital EIT revenues or other funds on the parking system in the next three years.

The City shall also ensure that it fully recovers the cost of operations and maintenance through permits and fees throughout the Exit Plan period.

CD05.	**Develop a five-year capital planning process**	
	Target outcome:	Improved financial management
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Council

The City established a Capital Improvement Program (CIP) as required in the original Recovery Plan. In 2012, the City successfully implemented a capital budget ordinance, including engaging in a collaborative capital budget development process each year. Every year, project requests are solicited from each department; department heads and the Mayor prioritize among requested projects to develop a capital budget; and the capital budget is approved by Council.

While the capital budgeting process represents a significant improvement compared to when the City entered Act 47, the City must improve its capital planning efforts to help bolster the City's ability to exit oversight. Currently, capital projects are selected based on the urgency of the need, and a disproportionate amount of capital funding is dedicated to vehicles and equipment rather than buildings and infrastructure. The following table shows the City's 2019 capital budget spending by category.

2019 Capital Budget

	2019 Capital Budget	% of Capital Budget
Vehicles/Equipment	345,142	42.2%
Recreation Assets	45,000	5.5%
Buildings	50,500	6.2%
Infrastructure	215,103	26.3%
Other	162,000	19.8%
Total	**$817,745**	**100.0%**

Moving forward, the City must develop a multi-year approach to developing its capital plan. This initiative is particularly important if the City decides issue debt to fund its capital improvement projects in the future.

Beginning with the 2020 budget process, the City shall develop a five-year capital plan outlining the name, description, type, responsible department, and projected funding amount of the capital projects the City wants to pursue over the then upcoming five-year period. The City shall submit the capital plan to the Coordinator for approval every year by October 15th and prior to petitioning the Lawrence County Court of Common Pleas to use the additional taxing authority in Act 47 to increase the rate of earned income taxation upon residents and commuters.[54] The City shall not petition the Lawrence County Court of Common Pleas until the Coordinator confirms that the capital plan is in compliance with the Exit Plan.

To help the City establish a baseline understanding of its capital needs and priorities, the City requested $61,000 in Act 47 grants for a facility asset inventory and high-level condition assessment of facilities as part of the 2015 Amended Recovery Plan. Upon the grant approval by DCED, the City shall issue an RFP and select a vendor to begin this assessment. Once completed, the City shall use the information provided in this condition assessment report to form its annual capital planning strategy.

[54] See initiative RV01.

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