COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT

IN RE:	:	
	:	
BOROUGH OF MAHANOY CITY	:	Request for Determination of Distress under Act 47
	:	

ORDER

AND NOW, this 18th day of February, 2016, upon consideration of the Certified Municipal Record, the Department's Municipalities Financial Recovery Act's Consultative Report, and the Hearing Officer's Report, it is hereby ORDERED that the Borough of Mahanoy City has met the criteria set forth in Section 201 (8) of the Municipalities Financial Recovery Act, 53 P.S. § 11701.201 (8), and, therefore, a determination of municipal financial distress is hereby issued. Pursuant to the requirements of 53 P.S. § 11701.221(a), a coordinator shall be appointed to prepare a financial recovery plan to address the Applicant's financial distress.

By: ______________________
Dennis M. Davin,
Secretary

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HEARING OFFICER'S REPORT

1. On December 8, 2016, the Borough of Mahanoy City, Schuylkill County, Pennsylvania ("Borough") filed an application for a determination of municipal financial distress under the Municipalities Financial Recovery Act ("Act 47"), 53 P.S. §§ 11701.101 – 11701.501. Exhibit D, Request for Determination of Distress.
2. The Borough's application identified two (2) criteria under Section 201 of Act 47 to support a determination of municipal financial distress.
3. Specifically, the Borough has alleged in its application (criterion 4) that the Municipality has missed a payroll for 30 days.
4. The Borough also alleges in its application (criterion 8) that it had failed to make the budgeted payment of its Minimum Municipal Obligation (MMO) for its pensions.
5. Following the Borough's application, and in accordance with the requirements of 53 P.S. § 1701.203(c), the Governor's Center for Local Government Services (Center) conducted an investigation into the financial affairs of the Borough by conducting interviews with Borough officials and employees. Exhibit A, Consultative Evaluation.

6. On January 21, 2016, a public hearing was held to hear testimony regarding the Borough's application.
7. At the January 21, 2016 public hearing, Jim Rose, Local Government Policy Specialist, Governor's Center for Local Government Services, Department of Community and Economic Development provided testimony regarding the Center's investigation into the financial affairs of the Borough and published as the Municipalities Financial Recovery Act Consultative Evaluation, January 15, 2016 and is attached to this report.
8. Additionally, Mr. Rose testified that as of December 1, 2015, the Borough owes over $538,425 in unpaid vendor payments from 2015 and prior, and that the Borough has no other option to pay these bills.
9. Mr. Rose further testified that the Borough has experienced a continued pattern of year end structural deficits, negative fund balances, and significant cash flow difficulties which will make it difficult for the Borough to meet its current and prior-year obligations.
10. Mr. Rose testified that the Borough's total tax millage is 35.524 mills. (The breakdown is 21.9 mills General Purpose, 0.6 mills Sinking Fund, 3.35 mills Street Light, 7.2 mills Debt Reduction, 0.474 mills Library, and 2.0 mills for Blight.)
11. Further, Mr. Rose testified that the Borough only collects real estate taxes at a rate of 80% of the total billed.
12. Mr. Rose testified that over the last five years, the Borough has reduced its personnel complement and is unable to reduce staffing further without jeopardizing its ability to provide for the health, safety and welfare of the Borough residents.
13. Mr. Rose testified that the Borough attempted to raise revenue through a general obligation note for the intent to purchase the Borough's street lights from PPL. The

Municipal Energy Management (MEM) was then to maintain the lights under an energy savings contract with the loan being repaid through the energy savings. The Borough never received the services anticipated from MEM though as the company was dissolved and filed for bankruptcy. The Borough was still under obligation to repay the note and the current balance is $330,000. (Please see endnote that further explains this loan)

14. Mr. Rose further testified that the Borough has been paying off their Tax Anticipation Note (TAN) from prior years with the current year TAN. The outstanding amount now totals $260,000. At the end of 2015, the Borough was unable to make the anticipated loan payment(s) and, therefore; sought a TAN for 2016 to satisfy the outstanding amount. They requested an additional amount of $365,000 to be added to the 2016 portion of the TAN to include 2015 payables and to assist with 2016 cash flow needs.
15. Mr. Rose further testified that the Borough has been notified by creditors that legal action may be taken if payments on past due obligations are not made. The 2015 past due bills total $44,478 not including the outstanding refuse obligation, MMO or TAN. (Many creditors threatened to stop services or seek legal remedies if they were not paid.)
16. Additionally, Mr. Rose testified that the Borough's refuse collection agent has threatened to discontinue service because of a past due bill of $164,878.
17. Mr. Rose testified that the Borough's past due 2015 MMO balance is $69,069.
18. In addition to Mr. Rose's testimony, it is important to note that the 2016 Budget is presented as a balanced budget on a cash basis; however, it does not properly account for many of the prior years' accounts payables. Also, the Borough did not provide cash flow analysis to better determine the Borough's cash position.

19. Additionally, Mr. Rose testified that it is the Governor's Center for Local Government Services recommendation that the Borough of Mahanoy City be considered fiscally distressed as it has met one of the two criteria that the Borough has alleged. The Center was able to validate Section 201 criterion eight (8), but was unable to validate criterion four (4).

20. Further, Mr. Rose testified that Section 302(b) of Act 47 states that "In cases where a municipality has been declared distressed but prior to final adoption of a plan, the municipality or the coordinator appointed may apply to the department for an expedited loan or grant to immediately assist the distressed municipality." However, this may only occur if "the applicant verifies that he believes the municipality is in imminent danger of insolvency," or "the applicant verifies that he believes there is a clear and present danger to the health and safety of residents of the municipality." 53 P.S. § 11701.302(b).

21. Specifically, Mr. Rose testified that should it be determined to be distressed the Borough would qualify for an immediate emergency loan because the Borough of Mahanoy City, verified that it is in imminent danger of insolvency and that there is also a clear and present danger to the health and safety of Borough residents if certain obligations are not paid.

22. Mr. Rose concluded his testimony by stating that the Center recommends that the Borough be awarded an immediate emergency loan in the amount of $978,425.

23. At the January 21, 2016 public hearing, Mayor Patti Schnitzius testified that the Borough has attempted to control tax increases in recognition of the burden placed upon the Borough's elderly population.

24. Mayor Schnitzius further testified that the Borough has attempted to lower costs through staff reductions, but such efforts have been ineffective in meeting the Borough's needs.

25. Mayor Schnitzius testified that the Borough has an unusually great number of blighted properties that further place a strain on the Borough's finances.

26. Mayor Schnitzius testified that she is supportive of assistance that can be provided through Act 47.

27. At the January 21, 2016 public hearing, Borough Council President, Tom Maziekas testified that the Borough has been unable to meet its needs through increased tax revenue and staff reductions.

28. At the January 21, 2016 public hearing, Borough Manager, Daniel Lynch testified that he believed the above testimony was a good overview of the Borough's financial situation.

29. Mr. Lynch further testified that in 2012 and 2013, the Borough experienced $100,000 in unbudgeted blight related costs.

30. Mr. Lynch testified that the average value of the homes in the Borough is very low compared to other communities in the region and although the millage rate is high, little tax revenue is realized.

31. Mr. Lynch supported the Borough of Mahanoy City's request for distress determination, and its request for an immediate emergency loan. The Borough has made a request for an immediate emergency loan totaling $978,425.

32. After examining the testimony, as the Hearing Officer, it is my determination that the Recovery Coordinator can provide a broader and more detailed assessment of the Borough's cash position and can examine the terms of the loan in greater detail as part of

the Recovery Plan Recommendations. Therefore, I recommend a $625,000 emergency loan until that further analysis can be performed.

Respectfully submitted,

Richard Vilello, Hearing Officer

By: Richard Vilello

Endnote:

Mahanoy City Borough MEM Issue

In 2009-10, The Borough of Mahanoy City entered into a contract with Municipal Energy Managers (MEM) and took a general obligation note out from M&T Bank in the amount of $450,000. As part of the agreement, the Borough would purchase their streetlights from PPL and MEM would manage and maintain the streetlights, as well as handling the transfer of the streetlights from PPL to the Borough. Anticipated savings in electrical costs would cover the cost of the note. The Borough made an initial payment of $280,000 and planned to use the remainder of the note for the completion of the project.

MEM failed to deliver on its end of the deal. PPL indicated that they had never been contacted by MEM, and little to no work was done on the streetlights. MEM was not bonded, and the situation does not allow for coverage under errors and omissions insurance. MEM employees have been arrested, and the company has declared bankruptcy, with less than $50,000 in assets.

FINDINGS OF FACT

At issue in the instant matter is whether the Borough of Mahanoy City has met the criteria set forth in Section 201 of Act 47, and whether the Borough of Mahanoy City should be determined to be in financial distress under Section 203 of Act 47. Based on the findings of fact recited above and the conclusions of law set forth below, it is hereby determined that the Borough of Mahanoy City has satisfied Section 201(8) of Act 47, and further it is hereby recommended that a determination of financial distress under Section 203 of Act 47 be granted.

To support a determination of municipal financial distress under Section 203 of Act 47, the Department of Community & Economic Development ("DCED") is required to evaluate a municipality's financial stability against certain criteria set forth in Section 201 of Act 47. In its application for determination of financial distress, the Borough alleges that it has satisfied the criteria set out in Section 201 (4) and (8) of Act 47. Section 201(8) provides that it is a valid indication of municipal financial distress if a "municipality has failed to make the budgeted payment of its minimum municipal obligation as required by section 302, 303 or 602 of the act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, with respect to a pension fund during the fiscal year for which the payment was budgeted and has failed to take action within that time period to make required payments." 53 P.S. § 11701.201(8).

In the Municipalities Financial Recovery Act Consultative Evaluation prepared by the Governor's Center for Local Government Services ("Center"), it is noted that it is

Commonwealth policy, as stated in the policy statement of Act 47, "to foster the fiscal integrity of municipalities so that they provide for the health, safety and welfare of their citizens; pay principal and interest on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper accounting procedures, budgeting and taxing practices."

It is the Center's opinion that the Borough of Mahanoy City has exhibited conditions that make it difficult to fulfill its responsibilities as outlined above. This conclusion is based upon a continued pattern of year-end structural deficits, negative fund balances, and significant cash flow difficulties. The Borough's current tax millage is at 35.524 mills. The breakdown is 21.9 mills General Purpose, 0.6 mills Sinking Fund, 3.35 mills Street Light, 7.2 mills Debt Reduction, 0.474 mills Library, and 2.0 mills for Blight.) Although the total exceeds the maximum allowable amount under the Borough Code the General Purpose levy is less than the 30 mills authorized under the Code. Additionally, the Borough is only collecting 80% of real estate taxes.

Over the past five years, in an effort to reduce expenditures, the Borough has decreased its Public Works staff, leaving only three full-time employees, down from a high of 16 members in the 1990s. The Police Department has decreased from four members to three. The Administrative staff includes only three employees, a manager, a secretary/treasurer, and a codes enforcement officer. The Borough is unable to further reduce staff without jeopardizing the health, safety, and welfare of its residents.

As of December 1, 2015, the Borough owed creditors $209,356 in past due bills. The Borough has been notified by several creditors that if payment is not received, legal action may be taken. The current past-due bills recorded in the Accounts Payable listing total $44,478. The Borough's garbage collection service, Kreitzer Sanitation, has threatened to discontinue refuse service because of a $164,878 past-due balance as of December 31, 2015. The Borough's MMO past-due balance is $69,069, and the outstanding General Fund TAN that must be repaid by December 31, 2016 is $625,000 which includes $260,000 that was not paid from the 2015 TAN and $365,000 for a 2016 TAN to address cash flow issues.

In 2009, the Borough attempted to raise revenues through a General Obligation Note through M&T Bank for the Street Light Fund to be paid by Municipal Energy Managers. Due to the dissolution of this company, the Borough was required to pay back this $431,600 note, the outstanding balance of which now totals $330,000. Unfortunately, the Borough never fully received the services anticipated from Municipal Energy Managers.

For the past several years, the Borough has been paying off its Tax Anticipation Notes ("TAN") from prior years with its current year TAN including Fiscal Year 2015.

The Consultative Evaluation also presented an investigation into the Borough's request for an immediate emergency loan. Section 302(b) of Act 47 states that "In cases where a municipality has been declared distressed but prior to final adoption of a plan, the municipality or the coordinator appointed may apply to the department for an expedited loan or grant to immediately assist the distressed municipality." 53 P.S. § 11701.302(b). However, this may only occur if "the applicant verifies that he believes the municipality is in imminent danger of insolvency," or "the applicant verifies that he believes there is a clear and present danger to the health and safety of residents of the municipality." *Id.*

The Consultative Evaluation noted that the Borough of Mahanoy City is the applicant, and the applicant has asserted the existence of both of the conditions necessary to obtain an immediate emergency loan. The Center, in analyzing this assertion, agrees that the Borough should receive an immediate emergency loan for $278,425. There are two key elements to the Borough's application for an immediate emergency loan:

1. The Borough owes over $209,356 based on accounts receivable as of year-end including payments to its refuse collection service company of $164,878,and other outstanding obligations of $44,478 that if not paid create an imminent threat to the health, safety and welfare of Borough residents.
2. The Borough did not pay their 2015 pension MMO of $69,069 thus potentially jeopardizing its ability to satisfy its obligations to retirees.

Without an immediate emergency loan to address the above, the Borough is at serious risk of creditor judgments and service terminations thus having an adverse impact on the health and safety of Borough residents.

The Borough has further outstanding obligations though at present they do not create an imminent danger to the health, safety and welfare of Borough residents or place the Borough in imminent danger of insolvency. These obligations include the outstanding balance of $330,000 on a $431,600 M&T Bank General Obligation Note from 2009 (of which they are current in payments) and their Tax and Revenue Anticipation Note that is not due until December 2016. The Borough planned to use the GO note as part of an energy savings contract for streetlights with Municipal Energy Managers (MEM). MEM went out of business, however, and the Borough is required to pay back the balance of the loan. Annual payments are in excess of $25,000 at an interest rate of 3%. It is thus further recommended that these obligations be addressed as part of the comprehensive recovery plan that will be developed subsequent to a distress determination being issued.

Following a review of the evidence presented, the Secretary of DCED will make the final determination of whether or not the Borough is financially distressed. The Consultative Report has validated one (1) criterion of Section 201 of Act 47; however, this fact alone does not mandate a determination of municipal financial distress. See, Dupont v. Department of Community Affairs, 141 PA.Commw. 234 (1991). A determination of municipal financial distress lies within the exclusive discretion of the Secretary of DCED and is based on the ability or inability of the municipality to fulfill the policy objectives of the Act.

In addition to the indicia of municipal financial distress discussed above, there exists ample evidence of record that a determination of municipal financial distress is both necessary and appropriate. As is set out in detail in the Consultative Evaluation, the Borough has experienced a continued pattern of year-end structural deficits, increasing negative fund balances, and significant cash flow difficulties. Despite reductions in the Borough's workforce, including in critical areas such as the Police Department, Codes Enforcement, and the Public Works Department, the Borough has been unable to overcome the structural impediments for continued solvency. The structural mismatch between revenue and expenditures cannot be overcome without substantial additional cutbacks in expenditures and/or increased revenues.

Increasing tax revenue in the Borough of Mahanoy City is challenging for a number of reasons. The Borough of Mahanoy City receives revenue from real estate taxes, earned income taxes, other Act 511 taxes, intergovernmental transfers, and charges for services provided. It is projected that the Borough's future revenues will be at best flat. Real estate taxes comprise the largest percentage of the Borough's tax revenue, but real estate tax revenue has been steadily declining. The assessed valuation of the Borough's total taxable property has declined by over $949,290 or 4% since 2010, and real estate tax revenue is expected to remain flat, even though the Borough is at its legal millage maximum for general purpose real estate.

While increasing revenues is not currently feasible, cutbacks in expenditures have already begun. The Borough has reduced its staff and reductions in service are expected in future years due to an inability to raise revenue. Additionally, prior year financial obligations, expenditure patterns, socio-economic data, and demographic trends have further contributed to the financial difficulties of the Borough. Its tax base and resultant revenues have been declining over the past five years while expenditures have grown at unsustainable levels. The Borough has a very high tax burden, and coupled with its socio-economic trends has very limited ability to raise revenues through tax and fee increases.

Lastly, after examining all the facts presented in the testimony and Findings of Fact, it is my recommendation that the emergency loan be set at $278,425 until the Recovery Coordinator can perform a thorough assessment of the Borough's finances. This assessment would include analysis of the 2016 approved budget and the cash position. The fiscal stability of the Borough is of the upmost importance. Any loan recommended within the Recovery Plan must be fully vetted through the Center's staff, and ultimately examined and approved by the Secretary of the Department of Community and Economic Development.

It is the public policy of the Commonwealth, as stated in Act 47's policy statement, "to foster fiscal integrity of municipalities so that they provide for the health, safety and welfare of their citizens; pay principal and interest on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper financial accounting procedures, budgeting and taxing practices." 53 P.S. § 11701.102. Based on the testimony presented at the public hearing, including evidence gathered through the Consultative Evaluation and the Early Intervention Program Plan, the Borough meets the criteria for a determination of distress status under Sections 201 and 203 of Act 47. The Borough also meets the conditions for an immediate emergency loan, under Section 302 of Act 47, to assist the Borough due to an imminent threat of insolvency and a clear and present danger to the health and safety of the residents of Mahanoy City.

Furthermore, based on the testimony presented at the public hearing, the Borough will be unable to fulfill the policy objectives of Act 47 identified above without the remedies afforded by Act 47. Therefore, it is my recommendation that the Borough be granted a declaration of municipal financial distress pursuant to Act 47. It is further recommended that an immediate emergency loan to the Borough, in the amount of $278,425, is warranted.

By: Richard Vilello

Richard Vilello
Hearing Officer

EXHIBIT A

– PENNSYLVANIA. BUILT TO ADVANCE. –

Municipalities Financial Recovery Act Consultative Evaluation

Borough of Mahanoy City
Schulykill County, Pennsylvania

January 21, 2016

Commonwealth of Pennsylvania
Tom Wolf, Governor

Department of Community & Economic Development
Dennis M. Davin, Secretary

pennsylvania
DEPARTMENT OF COMMUNITY
& ECONOMIC DEVELOPMENT

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Introduction

The Municipalities Financial Recovery Act (Act 47 of 1987, as amended) was enacted to foster the fiscal integrity of municipalities so that they can provide for the health, safety, and welfare of their citizens; pay principal and interest on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper financial accounting procedures, budgeting and taxing practices. The failure of a municipality to do so shall affect adversely the health, safety and welfare not only of the citizens of the municipality but also of other citizens in this Commonwealth.

Section 202 of Act 47, "Standing to request a determination," provides ten categories of parties and individuals who have standing and may request a determination of municipal financial distress from the Secretary of the Department of Community and Economic Development (Department).

One party that has standing to allege that the municipality is financially distressed is "the Governing body of the municipality upon passing a resolution by a majority vote of the governing body after a special public meeting duly advertised as provided by law."

On December 8, 2015, the Borough Council of the Borough of Mahanoy City passed a resolution to "seek a determination of municipal financial distress and to make application for aid under authority of the Municipalities Financial Recovery Act." On December 15, 2015, the Department of Community and Economic Development, Center for Local Government Services received the resolution.

Subsequently, the Borough of Mahanoy City filed with the Department, on a form provided by the Department, a request that the Department determines that the Borough is a financially distressed municipality under the provisions of the Municipalities Financial Recovery Act.

Section 203(c) of Act 47 authorizes the Department to conduct a consultative evaluation into the financial affairs of the municipality after receiving the aforementioned request but prior to conducting a public hearing, as required under Section 203(b) of Act 47. This document will serve as the consultative evaluation. A public hearing is scheduled for Thursday, January 21, 2016 at 6:00 PM to receive testimony from Department of Community and Economic Development Officials, Mayor, Borough Council, Borough Officials, and other interested parties. The Public Hearing testimony will be relative to whether the Department should declare the Borough of Mahanoy City a distressed municipality under Act 47 and whether the Department should provide the Borough with emergency financial aid subsequent to any Departmental determination of distress.

Section 201 of Act 47 enumerates eleven criteria, at least one of which must be present in order for a municipality to be considered for a distress determination by the Department. The Borough Council of the Borough of Mahanoy City alleges that the following criteria, as set forth in Section 201 of Act 47, are present:

4. The municipality has missed a payroll for 30 days.

8. The municipality has failed to make the budgeted payment of its minimum municipal obligation as required by section 302, 303 or 602 of the act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, with respect to a pension fund during the fiscal year for which the payment was budgeted and has failed to take action within that time period to make required payments.

Scope of Investigation

The review by the Department of Community and Economic Development, Center for Local Government Services of the financial position of the Borough relied heavily upon the audited financial statements and other financial management data provided by the Borough Manager. Additional data was gathered from information provided on the Borough's Annual Audit and Financial Reports filed with the Department's Municipal Statistics Division, and other data such as the United States Census Data.

In conducting an investigation into the Borough's financial condition, the Center Staff relied heavily upon the accuracy and completeness of the financial information that was available. Financial, personnel, and other pertinent administrative records, and information, including interim financial reports to the extent that they were available, were all considered in this investigation. Limited efforts were made to verify available information by comparing with original source documents, as would be done on a selective basis in an audit of the municipality.

The Mayor, Borough Council, the Borough Manager and the employees of the Borough were instrumental in providing their assistance and cooperation in gathering information during the course of the investigation.

Objectives of Investigation

The objectives of this Investigation are fourfold:

1. To provide a brief history of the Department's involvement with the Borough's financial situation and the Borough's eventual request for distress determination;
2. To determine whether the Borough has met one or more of the eligibility requirements for a determination of distress under Act 47, and if so,
3. To examine available financial records and other relevant data in order to recommend whether or not the Borough should be determined to be distressed under the provisions of Act 47, and if so,
4. To determine whether the Borough qualifies for and should be granted an immediate emergency loan.

The Mayor and Borough Council's request for a determination of financial distress alleges the presence of Section 201 criteria numbers 4 and 8. Central to criterion 4 is validation of that the municipality has missed a payroll for at least 30 days; and validation of criterion 8 requires the municipality to miss its annual Minimum Municipal Obligation (MMO) pension payment.

Additionally, a request for immediate emergency financial assistance requires the municipality to verify that it is, in either imminent danger of insolvency or that, there is a clear and present danger to the health and safety of residents of the municipality.

History of the Department's Recent Involvement with the City

On July 15, 2015, Dan Lynch, Borough Manager of the Borough of Mahanoy City contacted the Department of Community and Economic Development, Center for Local Government Services regarding a request for technical financial management assistance. Mr. Lynch spoke to the Northeast Regional Representative, Mr. James Rose, regarding concerns about the financial condition of the Borough.

Subsequently, Mr. Rose visited the Borough on July 23' 2015 and met with Mr. Lynch, Joe Boyle of the Pennsylvania Economy League, and Ryan McGowan of M&T Bank to discuss the possibility of an application for the Early Intervention Program (EIP). At that time, the Borough was experiencing serious fiscal difficulties. The Borough Manager projected that the Borough would be able to meet both payroll and the Minimum Municipal Obligation (MMO) pension payment obligations by December 31, 2015.

As Mr. Rose more closely followed the situation in the Borough of Mahanoy City, he believed he would like his supervisor to examine in detail the financial situation in the Borough. In September, Marita Kelley, Deputy Director of the DCED Governor's Center for Local Government Service, and Mr. Rose met with Mr. Lynch and suggested that the Borough immediately submit an application for the Early Intervention Program (EIP).

The Borough Manager submitted the application on September 29, 2015. A Request for Proposal for the Early Intervention Program (EIP) study consultants was issued on October 9, 2015. Interviews were held on October 23, 2015 and the Pennsylvania Economy League was selected as the study coordinator.

Before the consultant was brought on board to execute the EIP study, Daniel Lynch, Borough Manager, approach the Mayor and City Council about a much more serious fiscal crisis. Mr. Lynch suggested to Borough Council that the Borough should bypass the EIP program and immediately apply for consideration for the Act 47, the Municipalities Financial Recovery Program's distress determination.

Accordingly, the Mayor and Borough Council passed a resolution on December 8, 2015 requesting a determination of municipal financial distress under the Municipalities Financial Recovery Act. On December 15, 2015, the Department received the resolution. In accordance with the Act, the Department of Community and Economic Development, Secretary, Dennis M. Davin, issued a legal advertisement on December 29, 2015, for a Public Hearing to be held on January 21, 2016 at 6:00 PM. Testimony will be presented at the hearing including the Municipalities Financial Recovery Act Consultative Evaluation. At the Department's Public Hearing, oral testimony will be accepted from the Department Officials, the Mayor, Borough Council, Borough Manager, other Borough officials, and the public.

<u>Conclusions on Presence of Distress Criteria</u>

<u>Act 47, Section 201, Criteria 4 and 8 Examined</u>

The following summary is provided to validate the criteria alleged by the Borough for Act 47 consideration. The Borough has set forth criteria numbers 4 and 8 under Section 201 of the Act that it believes make the Borough eligible for consideration for an Act 47 determination.

Criterion 4: The municipality has missed a payroll for 30 days.

Criterion 8: The municipality has failed to make the budgeted payment of its minimum municipal obligation as required by section 302, 303 or 602 of the act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, with respect to a pension fund during the fiscal year for which the payment was budgeted and has failed to take action within that time period to make required payments.

Validation information is provided below:

Criterion 4: The municipality has missed a payroll for 30 days.

<u>Not Validated:</u> The municipality has not yet missed a payroll for 30 days.

Criterion 8: The municipality has failed to make the budgeted payment of its minimum municipal obligation as required by section 302, 303 or 602 of the act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, with respect to a pension fund during the fiscal year for which the payment was budgeted and has failed to take action within that time period to make required payments.

Validated: The Borough did not pay its 2015 Minimum Municipal Obligation (MMO) totaled $69,069 and payment was due December 31, 2015. As of January 1, 2016, the City did not pay any portion of its 2015 MMO.

The Borough's failure to make the budgeted payment of its Minimum Municipal Obligation (MMO), as required by section 302, 303 or 602 of the act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, validates that the Borough meets criteria 8 as set forth in Section 201 of Act 47.

Based upon an analysis of available financial management records, it is the Department of Community and Economic Development, Center for Local Government Services Staff's conclusion that the Borough of Mahanoy City be considered for a distress determination because criterion 8 can definitively be validated.

Distress Determination

Based upon the above analysis, this report has validated the presence of Criterion number 8 as enumerated in the Act. The fact that Criterion 8 was determined to be present enables the Center to conduct a further evaluation and recommend whether or not the Borough of Mahanoy City should be designated as distressed under Act 47.

It is Commonwealth policy, as stated in Act 47, "to foster the fiscal integrity of municipalities so that they provide for the health, safety and welfare of their citizens; pay principal and interest on their debt obligations when due; meet financial obligations to their employees, vendors and suppliers; and provide for proper accounting procedures, budgeting and taxing practices."

It is the Center's opinion that the Borough of Mahanoy City has exhibited conditions that make it difficult to fulfill its responsibilities as outlined above. This conclusion is based upon a continued pattern of year-end structural deficits, negative fund balances, and significant cash flow difficulties. The Borough's current tax millage is at 35.524 mills, which exceeds the maximum allowable amount under the Pennsylvania Borough Code. Additionally, the Borough is only collecting real estate taxes at a rate of 80%.

Over the past five years, in an effort to reduce expenditures, the Borough has decreased its Public Works staff significantly, leaving only three full-time employees, down from a high of 16 members in the 1990s. The Police Department has decreased from four members to three. The Administrative staff includes only three employees, a manager, a secretary/treasurer, and a codes enforcement officer. The Borough is unable to further reduce staff without jeopardizing the health, safety, and welfare of its residents.

As of December 1, 2015, the Borough owed creditors in excess of $538,425 in past due bills. The Borough has been notified by several creditors that if payment is not received, legal action may be taken. The current past-due bills recorded in the Accounts Payable listing is $44,478. The Borough's garbage collection service, Kreitzer Sanitation, has threatened to discontinue refuse service because of a $164,878 past-due balance as of December 31, 2015. The Borough's MMO past-due balance is $69,069, and the outstanding General Fund TAN that must be repaid by December 31, 2016 is $260,000.

In 2009, the Borough attempted to raise revenues through a General Obligation Note through M&T Bank for the Street Light Fund to be paid by Municipal Energy Managers. Due to the dissolution of this company, the Borough was required to pay back the balance of this note, totaling $440,000. Unfortunately, the Borough never fully received services anticipated from Municipal Energy Managers.

For the past several years, the Borough has been paying off their Tax Anticipation Notes (TAN) from prior years with their current year TAN including Fiscal Year 2015.

Accordingly, it is the Center's recommendation that the Borough of Mahanoy City be declared fiscally distressed.

In arriving at a recommendation, the Center's analysis relied on many other factors, including audited financial statements and other financial management data provided by the Borough Manager, and data gathered from information provided on the Borough's Annual Audit and Financial Reports and other sources.

Other relevant factors, which are discussed below:

1. **Tax Base**
2. **General Fund Revenues and Expenditures**
3. **Revenue Trends**
4. **Workforce History by Year**
5. **Accounts Payable**
6. **Police Pension Status**
7. **Socio-Economic and Demographic Trends**

1.)Tax Base

It is evident from the following Table 1, Trends in Assessed Valuation, that the Borough is experiencing a loss of taxable properties and thus a reduction in revenues that further inhibit its ability to pay for basic and fundamental services. For the six year period from 2010 – 2015 the assessed valuation of the Borough has decreased in real dollars.

Coupled with the losses in other critical categories, it is evident that the Borough is experiencing a steadily increasing erosion of sustainable income for the local government.

Table 1 Mahanoy City Borough - Trends in Assessed Valuation			
Year	**Assessed Valuation Taxable**	**Annual Change**	**Mills Levied**
2010	25,593,300.00		28.524
2011	25,355,110.00	-0.93%	30.524
2012	25,114,215.00	-0.95%	30.524
2013	24,872,365.00	-0.96%	32.524
2014	24,646,415.00	-0.91%	32.524
2015	24,644,010.00	-0.01%	32.544
Source: Mahanoy City Borough. Tax Records			

2.)General Fund Revenues and Expenditures

Table 2, the Summary of General Fund Revenues and Expenditures recorded on a cash basis indicates that the Borough barely meets its expenditure obligations and in 2012 and 2013 experienced structural deficits, whereby the expenditures exceeded the revenues. Since the Borough historically has been carrying over significant number of unpaid bills from the prior year the cash based reporting does not illustrate the true fiscal position for the Borough.

Table 2 Mahanoy City Borough - General Fund Revenues and Expenditures				
Year	**Revenues**	**Expenditures**	**Surplus/Deficit**	**Percent Surplus/Deficit**
2009	$1,222,691.00	$1,187,185.00	$35,506.00	2.90%
2010	$1,347,930.00	$1,228,639.00	$119,291.00	8.85%
2011	$1,276,760.00	$1,274,120.00	$2,640.00	0.21%
2012	$1,155,638.00	$1,163,453.00	$(7,815.00)	-0.68%
2013	$1,520,443.00	$1,544,984.00	$(24,541.00)	-1.61%
2014	$1,226,553.00	$1,197,285.00	$29,268.00	2.39%
2015	$1,302,321.14	$1,284,652.79	$17,668.35	1.36%
Source: Independent Audit Report & 2015 Estimated, Cash Basis				

3.)Revenue Trends

The Table 3 below illustrates the Percentage of General Fund Revenue by source from 2009 to 2015. The percentage of General Fund taxes has declined by almost 16% in 2015 as compared to 2009. In addition, most other General Fund Revenue Sources have declined as illustrated within the table. This decline in Revenue Sources clearly shows an inability for the Borough to increase revenue at a time where there has been a continual decline for most revenue sources over for the past seven years.

Table 3 Mahanoy City Borough, Percentage of General Fund Revenue			
	2009 Percentage of General Fund Revenue	2015 Percentage of General Fund Revenue	Percentage Increase/Decrease of General Fund Revenue
Taxes	68.36%	52.58%	-15.78%
License and Permits	3.80%	3.10%	-0.70%
Fines and Forfeits	2.29%	1.52%	-0.77%
Interest, Rents and Royalties	0.24%	0.17%	-0.07%
Intergovernmental Revenues	6.43%	7.07%	0.65%
Charges for Services	1.65%	1.90%	0.26%
Miscellaneous Revenues	13.35%	0.82%	-12.53%
Interfund Operating Transfers	3.88%	32.82%	28.94%
TOTAL REVENUES	100.00%	100.00%	
Source: Independent Audit Report-Cash Basis, Unaudited Cash Basis 2014, 2015			

Real Estate Tax dollars have fluctuated over the past seven years as indicated in Table 4, Real Estate Tax Revenues found below. There was, however, a significant decline in constant dollars in Real Estate Tax Revenues over the seven-year period. The analysis in constant dollars indicates a significant loss in real dollars and calls into question the ability for the Borough to rely on Real Estate Tax Revenue as a source for revenue growth. The Borough's collection of Real Estate Tax has averaged 80% over the last seven years. A collection rate in the high to middle 90% range should be the Borough's target collection rate.

The average home value in the Borough of Mahanoy City is extremely low with values expected to continue to fall. This creates an inability to raise any significant revenue from an increase in real estate tax millage.

Table 4 Mahanoy City Borough - Real Estate Tax Revenues (General Purpose) Formula: Real Estate Tax Revenues - (Constant Dollars)							
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Real Estate Tax Revenues	$ 510,018.00	$ 483,842.00	$ 535,787.00	$ 521,573.00	$ 537,951.00	$ 483,100.57	$ 425,399.39
CPI for Local Area	123.85	125.615	129.453	131.976	133.619	135.573	135.334
CPI in Decimal	1.24	1.26	1.29	1.32	1.34	1.36	1.35
Millage Rates	28.524	28.524	30.524	30.524	32.524	32.524	32.544
Real Estate Tax Revenues - constant $	$ 411,304.84	$ 384,001.59	$ 415,338.76	$ 395,131.06	$ 401,455.97	$ 355,221.01	$ 315,110.66
Source: Table for national (or U.S. City Average) C-CPI-U, 2013-2015 estimated Annual Audit and Financial Report, Unaudited Cash Basis, 2014 & 2015							

4. Workforce History by Year

During the course of our field survey work, the Center staff was also able to verify all of the workforce numbers with the Borough Staff. A complete review and breakdown of Table 5, Borough Workforce History by Year, found below. The current staffing shows a decline in Administration, the Public Works Department, and the Police Department. The Borough has recently experienced significant increases in crime and drug trafficking and cannot afford to further reduce police staff.

Table 5 Mahanoy City Borough - Workforce History By Year							
Department	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Mayor	1	1	1	1	1	1	1
Council	7	7	7	7	7	7	7
Administration	4	4	4	4	4	3	3
Public Works/Streets	4	3	3	3	3	3	3
Police	4	4	4	4	4	3	3
Source: City Finance Department							

5. Accounts Payable

In addition, to the accounts payable found on Table 6 of General Fund, Accounts Payable, totaling $44,478, the Borough also owes the trash hauler, $164,878, the MMO, $69,069, and a TAN, $260,000. Therefore, the total outstanding debt for the General Fund is $538,425.

In addition, the Street Light Fund has a General Obligation Note that must be repaid that totals $440,000.

Table 6 General Fund Accounts Payable
December 31, 2015

Alfred Benesch & Company	$6,218.16
Antz	$214.18
Attorney Michael A. O'Pake	$2,740.00
Verizon	$966.05
Berkheimer Tax Administrator	$979.04
Comm Environmental Systems	$271.86
Dempsey Uniform & Linen Supply	$382.35
Galls, Inc.	$1,584.52
George Link Plumbing & Heating	$250.00
PP&L	$2,314.88
Patton & Company CPAs	$164.00
Quill Corporation	$793.72
Skytop Fuels, Inc.	$910.00
Souchuck Lumber, Inc.	$107.76
Tom Ward, Jr.	$867.00
HJ Heiser & Co.	$66,22

US Municipal Supply, Inc.	$1,142.28
Franks Lock Service	$40.50
Jack Rich, Inc.	$1,074.50
Service Electric Cable TV, Inc.	$54.31
Airgas USA, LLC	$226.26
NEPA	$275.00
Diltz Equipment Sales, Inc.	$54.54
Verizon Wireless	$346.63
Brown and Brown Insurance	$1,152.00
Home Depot	$659.48
Witmer Public Safety Group	$394.00
The Body Man	$926.70
Reading & Northern RE Co.	$100.00
Central PA Teamsters H&W Fund	$10,679.75
Vikki L. Buffington Tax Collector	$62.46
Advanced Business Equipment	174.50
Girard Estate Lockbox	$3,430.00
Lease Associates, Inc.	$185.00
Schuylkill Medical Center	$185.00
Stevens & Lee	$4,000.00
Marlin Business Bank	$297.20
Hajoca Corporation	$152.80
Uline	$101.47
Total	$44,477.90

6. Police Pension Status

The Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended) governs the actuarial funding of all municipal employee pension plans. The Borough of Mahanoy City has individual pension plans for the Police Department, which are funded through the Borough's General Fund budget appropriations, State Aid, and employee contributions. The amount of the Borough's budget appropriation for the pension plan is determined annually by the Chief Administrative Officer for the pension plan and is known as the Minimum Municipal Obligation (MMO). This obligation includes funds received through State Aid for employee contributions and Borough funds.

Table 7, Police Pension Assets and Liability Summary indicates that the Pension ratio has decreased over the three-year period but remains relatively healthy.

Table 7 Mahanoy City Borough Police Pension Assets and Liability Summary				
Year	**Assets**	**AAL/UAAL**	**(Under) AAL**	**Funded Ratio**
2007	$1,480,744.00	$ 959,497.00	$ (521,247.00)	154.3%
2009	$1,306,863.00	$ 1,405,698.00	$ 98,835.00	93.0%
2011	$1,189,996.00	$ 1,564,869.00	$ 374,873.00	76.0%
Source: AG 385 Report				

7.) **Socio-Economic Trends**

Demographic and Socio-Economic Information

Table 8 Comparative Population in Similar Sized Boroughs					
	1990 Total Population	2000 Total Population	2010 Total Population	Change (2000 to 2010)	% Population 65 years and older
Mahanoy City Borough	5209	4647	4162	-10.4 %	19.5 %
Minersville Borough	4877	4552	4397	-3.4%	17.8 %
Fleetwood Borough	3478	4018	4085	1.7 %	6.6 %

West Reading Borough	4142	4049	4212	4.0%	21.9 %
Shenandoah Borough	6221	5624	5071	-9.8	19.9 %
Slatington Borough	4678	4434	4232	-4.6%	5.2%

According to the American Community Survey of the 2010-2014 U.S. Census, the Borough of Mahanoy City has had a steady population decline over the last twenty years. Boroughs of similar size in the region have endured similar, though not as steep declines. The Borough of West Reading and the Borough of Fleetwood in Berks County both saw population increases, while the Borough of Shenandoah and the Borough of Mahanoy City in Schuylkill County, both experienced significant drops in population.

Table 9 Comparative Income & Housing in Similar Sized Boroughs

	2010 Median Household Income	2010 Per Capita Income	2010 Percentage of Residents Below Poverty	2010 Median Home Value	2010 % Home Ownership
Mahanoy City Borough	27,576	17,204	29%	29,900	73.4%
Minersville Borough	35,116	19,170	15.7%	61,200	70.8%
Fleetwood Borough	62,621	29,222	6%	158,200	74.2%
West Reading Borough	45,867	22,345	12.1 %	116,000	63%
Shenandoah Borough	27,659	15,003	28.9%	32,300	65.8%
Slatington Borough	41,083	22,113	15.9%	141,700	58.6%

Source: 2010-2014 U.S. Census American Community Survey

While the Borough of Mahanoy City has a high rate of home ownership among its residents, their property value remains the lowest among Boroughs of a similar size and scale in the region. The Borough of Mahanoy City has the lowest median household income in the region and is on par with Shenandoah Borough at having the lowest per capita income in the region. This positions 29% of their residents below the poverty line.

Table 10 Comparative Occupied/Vacant Housing in Similar Sized Boroughs

	Occupied Housing Units		Vacant Housing Units		% Structures built before 1940
Mahanoy City Borough	1780	73.7 %	634	26.3 %	71.2%
Minersville Borough	1991	86 %	324	14 %	62%
Fleetwood Borough	1662	96.6 %	58	3.4 %	31.1 %
West Reading Borough	1528	82.9%	315	17.1%	59.7 %
Shenandoah Borough	2213	71.1%	899	28.9%	71.2%
Slatington Borough	1766	91.5 %	165	8.5 %	48.9%

Source: 2010-2014 U.S. Census American Community Survey

The majority of structures in the Borough were built before 1940; approximately, 71.2%, and the Borough has a significant amount of vacant housing in comparison with similar

Boroughs. The rental population is on par with the surrounding area; however, 62.5% of renters report their rent being at least 35% of their monthly income.

Table 11 2010 Rental Unit Information in Similar Sized Boroughs

Mahanoy City Borough	526	29.6 %
Minersville Borough	782	39.3%
Fleetwood Borough	393	23.6 %
West Reading Borough	564	36.9 %
Shenandoah Borough	755	34.2%
Slatington Borough	732	41.4%

Source: 2010-2014 U.S. Census American Community Survey

Table 12 Comparative Education & Unemployment in Similar Sized Boroughs

	25 years and over High School graduate or higher	Population 16 years and over Not in Labor Force
Mahanoy City Borough	81.3%	55.4%
Minersville Borough	86.6%	40.5%
Fleetwood Borough	95.3%	28.7 %

West Reading Borough	73.5%	43.2 %
Shenandoah Borough	76.3%	45.5%
Slatington Borough	88.5%	31.4%

Source: 2010-2014 U.S. Census American Community Survey

A majority of the Borough of Mahanoy City residents have a high school diploma but only 7% of them have a bachelor's degree or higher. The resident population is 4,162 with 3,075 of them 16 years or older and of that total 55.4% are unemployed. Others Boroughs of a similar size and scale have high rates of high school graduates but none has unemployment levels as high as the Borough of Mahanoy City.

Conclusion regarding the Borough's Request for an Immediate Emergency Loan

Section 302(b) of Act 47 states that, "in cases where a municipality has been declared distressed but prior to final adoption of a plan, the municipality or the coordinator appointed may apply to the Department for an expedited loan or grant to immediately assist the distressed municipality." However, this may only occur if one of the following conditions exists:

1. The applicant verifies that he believes the municipality is in imminent danger of insolvency.

2. The applicant verifies that he believes there is a clear and present danger to the health and safety of residents of the municipality.

The Borough of Mahanoy City is the applicant, and the applicant has indeed asserted the existence of both of the conditions necessary to obtain an immediate emergency loan. The Center, in analyzing this assertion, agrees that the Borough should receive an immediate emergency loan for **$978,425**. There are two key elements to the Borough's application for an immediate emergency loan:

1. The Borough owes over $538,425 on debts to creditors for 2015 accounts payable. These debts are nearly 42% of the Borough's annual revenue, and the Borough has no ability to pay them.

2. The Borough is currently making payments on a $440,000 M&T Bank General Obligation Note from 2009. The Borough planned to use this note to raise revenues through streetlight funding to be paid by Municipal Energy Managers (MEM). MEM went out of business, and the Borough is required to pay back the balance of the loan. Annual payments are in excess of $25,000 at an interest rate of 3%. Paying off the balance of the note with a no-interest loan would allow the Borough to avoid this 3% interest and would eliminate the monthly payments.

   The Borough currently has no other option to pay its debts, aside from an immediate Act 47 emergency loan.

   Without an immediate emergency loan, the Borough is at serious risk of creditor judgments and possible bankruptcy. With judgments and bankruptcy, Borough employees could lose healthcare benefits, the Borough police force could be dramatically reduced and other Borough services could be eliminated, resulting in an adverse impact on the health and safety of Borough residents. Therefore, without immediate funding for this **$978,425** debt, there is a clear and present danger to the health, safety, and welfare of the residents of the Borough of Mahanoy City.

Recommendation

Based on the Center's investigation, conducted in coordination with the Mayor, Borough Council, and Borough Manager, it is the Center's recommendation that the Borough of Mahanoy City be determined to be a financially distressed municipality under Act 47. Clearly, the Borough is and has been experiencing ongoing financial challenges over the past several years. These conditions make it difficult for the Borough to continue to fulfill its responsibilities to provide for the health, safety and welfare of its citizens.

The Center further recommends that the Department loan the Borough of Mahanoy City ***$978,425*** to help ensure the health and safety of the Borough of Mahanoy City residents and to maintain the continued solvency of the Borough.

Appendix A – 2016 Budget

General Fund Budget Mahanoy City 2016

	Budget 2016
300 · REVENUES	
300.00 · Real Property Taxes	
301.10 · Real Estate Tax-Current	431263

301.40 · Real Estate Taxes-Delinquent	84250
Total 300.00 · Real Property Taxes	515513
310.00 · Local Tax Enabling Act 511	
310.01 · Per Capita Taxes	7500
310.03 · Per Capita Tax-Delinquent	3200
310.10 · Real Estate Transfer Tax	14800
310.21 · Earned Income Taxes	227350
310.41 · Occupation Tax	35750
310.43 · Occupation Tax-Delinquent	26600
310.52 · EMS Tax	12900
310.70 · Mechanical Devices Taxes	100
Total 310.00 · Local Tax Enabling Act 511	328200
319.00 · Penalties and Interest on Taxes	
319.01 · P & I Property Tax	20500
Total 319.00 · Penalties and Interest on Taxes	20500
321.00 · Business License and Permits	
321.20 · Health Licenses	400
321.61 · Licenses-Transient Retailers	100
321.80 · Cable TV Franchise Fee	45900
Total 321.00 · Business License and Permits	46400
331.00 · Fines	
331.10 · Court/Police Fines	2000
331.11 · State Police Fines	3000
331.12 · Fines from Magistrate	9000
331.13 · Local Parking Fines	4550
331.14 · Code Enforcement Fines	2000
331.15 · Schuylkill Cty-Clerk of Courts	3600
Total 331.00 · Fines	24150
341.00 · Interest Earnings	250
342.00 · Rents and Royalties	3000
354.00 · State Capital & Operating Grant	
354.10 · CDBG-Manager/Code Officer Reimburse	36600
354.20 · MMO-Pension Reimburse State(355.05)	0
Total 354.00 · State Capital & Operating Grant	36600
355.00 · State Shared Rev & Entitlements	
355.01 · PURTA	1200
355.04 · Alcoholic Beverages Licenses	3050
355.05-MMO State Aide Reimburse(354.20)	55000
Total 355.00 · State Shared Rev & Entitlements	59250
361.00 · General Government	
361.51 · Sales of Signs and Maps	2400
Total 361.00 · General Government	2400

362.00 · Public Safety	
362.11 Accident Report Copies	100
362.20 · Fire Protection Fee	14055
362.41 · Building Permits	11000
362.42 · Electrical Permits	50
362.45 · Occupancy Permits	3000
362.46 · Chimney/Burner Permits	200
362.47 · Demolition Permits	180
Total 362.00 · Public Safety	28585
363.00 · Highway and Streets	
363.10 · Street/Sidewalk Permits	200
Total 363.00 · Highway and Streets	200
380.00 · Miscellaneous Revenues	
380.20 · Ins. Premium Refund/Claim Reimb	
380.30 - Fuel Sales to MASD	
380.31 - Fuel Sales-Water Authority	
380.32 - Fuel Mahanoy Township	
380.33 - Fuel Sales Ambulance	
380.34 - Mahanoy Twp Auth-Street Openings	
380.35 - Fuel Sales West End Fire and Rescue	
380.36- Fuel Sales MCSA	
380.40 - 06 flood FEMA Reimbusement	
380.41 - Flood Insurance-ARDCO	
380.42 - Environmental Cleanup Reimbuse	
381.21 · Adopt a Banner Program	2100
380.00 · Miscellaneous Revenues - Other	2000
Total 380.00 · Miscellaneous Revenues	4100
392.00 · Interfund Operating Transfers	
392.20 - Transfer from Sinking Fund	
392.34 - Transfer from Sanitation Fund	11000
392.35 · Transfer from Liquid Fuels	36000
392.36 · Transfer from Debt Reduction	0
392.40- Transfer from other Funds	
Total 392.00 · Interfund Operating Transfers	47000
Total 300 · REVENUES	
394.00 · Tax Anticipation Loan	600000
	1716148

400 ·
EXPENDITURES

400.00 · General Government

400.11 · Elected Officials Meeting Pay	8700
401.00 · Executive	
401.10 · Mayor Salary	2400
401.12 · Manager Salary	47000
401.13 · Assistant Manager Salary	
Total 401.00 · Executive	58100
402.11 · Auditing Services	
402.31 · PS-Financial	8000
Total 402.11 · Auditing Services	8000
403.00 · Tax Collection	
403.11 · Tax Collector Wages	26500
403.20 · Tax Collection Supplies	2000
Total 403.00 · Tax Collection	28500
404.31 · Solicitor/Legal Fees	7000
405.00 · Secretary/Clerical Expenses	0
405.12 · Secretary Salary	30,000
405.14 - Clerical Salaries (Sanitation)	
405.153 · Office-Disability Insurance	1200
405.155 · Office-D/E/P	
405.156 · Office-Hospitalization	38957
405.161 · Office-Pension	12000
405.20 · Office Supplies	2500
405.26 · Office Equipment	0
405.30 · Office-Miscellaneous	1100
405.31 · Office-Training	500
405.32 · Office-Phone	3000
405.34 · Office-Advertising	1500
405.35 · Office-Secretary Bond	400
405.354 · Office-Workers Comp	5874
405.42 · Office-Dues Memberships	1250
Total 405.00 · Secretary/Clerical Expenses	98281
408.00 · Engineering Services	
408.31 · Contracted Engineering Services	12000
Total 408.00 · Engineering Services	12000
409.00 · Building	
409.20 · Building-Supplies	300
409.23 · Heating Fuel(Garage/Teen Canteen)	6000
409.25 · Bldg-Repairs & Maintenance	4500
409.26 · Building Equipment	500
409.30 · Building-Other	1250
409.32 · Building-Phone(Garage)	0
409.35 · Building-Ground Rent(Garage)	3500

409.36 · Building-Public Utility	16000
Total 409.00 · Building	32050
Total 400.00 · General Government	243931
410.00 · Public Safety	
410.12 · Chief Salary	64260
410.13 · Police Salaries	245755
410.153 · Police-Disability Income	2400
410.155 · Police-Police D/E/P	
410.156 · Police-Hospitalization	77931
410.16-Police Pension - MMO	70310
410.20 · Police-Supplies	2600
410.231 · Police-Fuel	14000
410.238 · Police-Uniforms	3700
410.30 · Police-Other	2246
410.31 · Police-Training	2000
410.32 · Police-Phone	6250
410.33 - Police-Transportation	
410.341 · Police-Advertising	0
410.354 · Police-Work Comp	20400
410.37 · Police-Building Maint	500
410.371 · Police-Vehicle Maintenance	2400
Total 410.00 · Public Safety	514752
411.00 · Fire Company	
411.10 · Fire-Personnel	4600
411.231 · Fire-Vehicle Fuel	7000
411.354 · Fire-Workmen's Comp	14720
411.355 · Fire-Vehicle Insurance	12250
411.46 · Hydrant Fees	10200
411.50 · Contributions and Grants	12900
411.55 · Fire Police Expenses	
Total 411.00 · Fire Company	61670
412.00 · Ambulance/Rescue	
412.354 · Ambulance-Work Comp	2100
Total 412.00 · Ambulance/Rescue	2200
413.00 · Code Enforcement	
413.10 · Code Enforcement Personnel	35875
413.20 · Code Inspection Supplies	550
413.231 · Code Inspection Fuel Charge	750
413.30 · Code Enforcement-Other	250
Total 413.00 · Code Enforcement	37425
420.00 · Health and Human Services	
421.00 · Health	

421.10 · Health-Personnel	3000
421.30 · Services-SPCA Agreement	
421.55 · Health Officer-Postage	
Total 421.00 · Health	
Total 420.00 · Health and Human Services	3000
430.00 · Highways	
430.10 · Street-Personnel	75374
430.11 · Street-Personnel-Foreman	41900
430.153 · Street-Disability	1500
430.155 · Street-D/E/P	
430.156 · Street-Hospitalization	19255
430.161 · Street-Pension	11825
430.20 · Street-Supplies	2500
430.231 · Street-Fuel	9750
430.238 · Street-Uniforms	2200
430.26 · Street-Small Equipment	1000
430.310 · Street-Training	150
430.74 - Payments Loader	
430.354 · Street-Workmen's Comp	9816
Total 430.00 · Highways	175270
451.00 · Culture and Recreation	
451.459 · Culture-Christmas Tree Lighting	
451.53 · Culture/Recreation	0
451.54 - Banner Expenses	
Total 451.00 · Culture and Recreation	0
462.00 · Community Development/Housing	
462.45 · Demolition Dumpster Program	
Total 462.00 ·Community Development/Housing	
463.00 · Urban Redevelop/Housing	
463.10 · Grant Administration Services	0
Total 463.00 · Urban Redevelop/Housing	0
471.00 · Debt Principal	
471.60 · Tax Loan Line of Credit	600000
Total 471.00 · Debt Principal	600000
472.00 · Debt Interest	3400
480.00 · Miscellaneous Expenses	
485.00 · Unemployment Compensation	4300
486.00 · Insurance Premiums	36200
487.00 · Employee Related Expenses	32000
492.00 - Interfund Transfers other	
480.00 · Miscellaneous Expenses - Other	2000
Total 480.00 · Miscellaneous Expenses	74500

Total 400 · EXPENDITURES	1716148
Total	0

Appendix B – MEM Issue Summary

In 2009-2010, The Borough of Mahanoy City entered into a contract with Municipal Energy Managers for the purpose of taking ownership of the streetlights from PPL. The Borough would then own the lights, have the freedom to install LED streetlights and then as part of the deal, MEM would maintain those streetlights and perform maintenance on them as necessary. In order to meet the costs associated with taking ownership and making those changes, the Borough took a general obligation note from M&T bank in the amount of roughly $450,000 (virtually all of the files are with our solicitor, so I'm approximating some dates and amounts). The theory was that the subsequent drop in electrical costs would cover the cost of the note and the project would thus be cost neutral. The Borough made an initial payment to MEM of approximately $280,000.00, with the remainder of the note to be used as the project progressed. Additionally, there was language in the deal that if MEM had not completed the work prior to the first payment of the note coming due, MEM would make the payments on the note until work was completed. MEM had also promised to do all the administrative work and contact work with PPL to initiate the transfer.

MEM failed to deliver on any of the promises it made. Some work was completed by a third party contractor but was later halted as PPL indicated that no contact had been made with them whatsoever. Not long after this MEM completely fell out of contact with the Borough. They never made any payment or reimbursement of payments to the note as they came due. Initially, the Borough used the remaining principle to make the payments on the note as the project was designed to be cost neutral there was no money budgeted for the payments, but making these payments has quickly became a burden to the Borough. MEM was not bonded and the situation does not warrant coverage under errors and omissions insurance because these were not Borough employees. It's also been well documented that MEM officials have been arrested for their actions in other areas and roughly 17 municipalities have been affected, including larger ones such as

Bethlehem. As a company they have declared bankruptcy with less than $50,000.00 in assets while they own millions to the various municipalities.

I've since spoken with John Kucher, key account manager from PPL. We discussed the process of taking ownership of streetlights, something PPL is actually neutral on. However, PPL would eventually like to have all municipalities on LED lights regardless. In my opinion, even with the proposed maintenance agreement, a small borough like Mahanoy City should have no interest or desire in owning their streetlights. This project was entirely too long and dependent on being cost neutral with a relatively new and unproven company which, perhaps most importantly, was not bonded. No contact was made with PPL prior to this undertaking when they absolutely should have been a part of the conversation.

At this point, the borough is burdened with the note they had taken, still owing well over $300,000.00 with annual payments amounting to roughly $45,000, which is about 2.5 mils for the borough. Funds had to be diverted to debt reduction in order to cover this note. Money that could most definitely be used by the borough to repair infrastructure or tackle our blight problem.

I have asked John and PPL about any potential way to speed up the process of getting switched over to LED streetlights. Perhaps in light of what happened to the borough, we could be a "test community" for such a project. Perhaps even through restructuring the note we could provide a match for the upfront materials cost of the lights. That might be a valid way of accomplishing what was originally planned, thus allowing for our cost savings on electric to cover the note. Recovery on the actual funds at this point seems highly unlikely. While other municipalities might be able to easily absorb this cost of being defrauded, it creates a very large burden for Mahanoy City.

Appendix B – MEM Letter to Rep. Goodman

March 5th, 2015

The Honorable Neal P. Goodman
39 West Centre Street
Mahanoy City, PA 17948

Dear Mr. Goodman,

As you are aware, in 2009, The Borough of Mahanoy City took a general obligation note from M&T bank while working in conjunction with Municipal Energy Managers for the purpose of taking ownership of their streetlights with the eventual goal of switching to highly efficient LED light systems that would create considerable cost savings. The amount of the note was $440,000. The design of the project was such that the realized energy savings would pay for the debt financing of the note and the project would cost neutral to the Borough. As you are also away, MEM was not a trustworthy company and for lack of a better term this was essentially a scam that the Borough was caught up in and now is responsible for the payment of this note to M&T bank. At the drafting of this letter, approximately $325,000 is still owed on the note.

As a resident of the borough, you are no doubt aware that this note represents a significant burden to the taxpayers of the borough. A burden that will prevent the Borough from seeking other bonds in the future, which will be problematic should the Borough want to take on any projects that might include a sizable match.

The Borough is respectfully requesting your assistance in investigating whether any action can be taken at the state level that might help provide a solution for the Borough. I believe that there can be a number of possible alternatives, such as:

1. PPL has stated that they do wish to eventually switch their owned street lights to LED, perhaps a pilot program that would emphasize municipalities that were defrauded as becoming the first to get updated lights.
2. A Green energy initiative that would grant affected municipalities funding which would allow them to purchase the necessary hardware themselves while working in conjunction with PPL to install it.
3. Though it would not accomplish the initial goals, any type of debt offset or assistance that could be provided by the state.

The Borough greatly appreciates your help and attention on this matter, and I hope that something can be done to help the Borough of Mahanoy City.

Respectfully,

Daniel Lynch, Mahanoy City Borough Manager