Municipalities Financial Recovery Act

Amended Recovery 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

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Executive Summary

Executive Summary

The City of New Castle faces difficult financial decisions following a recent change in Pennsylvania law.

On October 31, 2014 Governor Tom Corbett signed Act 199 into law and made several changes to the Municipalities Financial Recovery Act (Act 47 of 1987). New Castle City government has been subject to Commonwealth oversight according to Act 47 since January 2007. In response to concerns that Act 47 municipalities remain under oversight too long, Act 199 sets deadlines for municipalities to exit the program successfully and consequences for not doing so. New Castle's deadline to exit oversight successfully is December 2019.[1]

Leaving oversight will not be automatic.

In 2019 the Recovery Coordinator – law firm Eckert Seamans and financial advisory firm Public Financial Management – will review City government finances and make a recommendation to the Secretary of the Pennsylvania Department of Community and Economic Development for one of the following actions:

- That New Castle's distressed status be terminated and it successfully exit oversight at the end of 2019;
- That a three-year exit plan be adopted; or
- That New Castle be declared in a state of "fiscal emergency" with the possibility of receivership.

Receivership is a new concept for Pennsylvania local governments. As of August 2015, 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. But Harrisburg's experience indicates that, under receivership, an individual appointed by the Governor and approved by Commonwealth Court would assume some of the decision making and executive authority from the locally elected officials.

At this point City officials want to avoid the fiscal emergency path that could potentially lead to receivership. They want to successfully exit Act 47 oversight, which is the guiding goal for this Amended Recovery Plan.

Leaving oversight also will not be easy.

The deadline to exit oversight by the end of 2019 translates to a deadline to stop using the additional taxing authority provided by Act 47. The City has used Act 47 to levy a higher earned income (or wage) tax on its residents and commuters who work in the City since 2008. The Act 47-authorized tax has generated millions of dollars that City government used to fund critical municipal services, like police patrol and fire suppression; pay its debt on time; and make the annual minimum required contributions to the employee pension plans. Those needs will not disappear when the Act 47 tax revenue does.

[1] The statutory deadline is "five years from the effective date of the most recent recovery plan or amendment," which was December 2014.

This Amended Recovery Plan provides a strategy to achieve the City leaders' goal of exiting Act 47 oversight successfully despite the limited options to close the deficits created by eliminating the Act 47-authorized tax.

Challenges and progress since 2007

While Act 199 creates new financial challenges for New Castle, it did not create the circumstances that led to the City's entrance into financial oversight in 2007.

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

	2000 Census	2013 ACS
% of individuals below poverty level		
New Castle	20.8%	25.8%
Lawrence County	12.1%	14.4%
Pennsylvania	11.0%	13.3%
United States	12.4%	15.4%
Median household income		
New Castle	$25,598	$29,559
Lawrence County	$33,152	$43,546
Pennsylvania	$40,106	$52,548
United States	$41,994	$53,046
Median home value		
New Castle	$42,300	$57,800
Lawrence County	$72,200	$96,700
Pennsylvania	$97,000	$164,700
United States	$119,600	$176,700

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 as a whole and 89.0 percent higher than all of Pennsylvania. The most recent census data shows New Castle's poverty rate now 79.2 percent higher than the County's and 94 percent higher than Pennsylvania's.

And while the national and Pennsylvania economy have rebounded from the Great Recession of 2007 – 2009, the City has not been as fortunate. The national unemployment rate was 5.3 percent in June 2015 and Pennsylvania's unemployment rate was a little higher at 5.6 percent. New Castle's unemployment rate was much higher at 8.2 percent and, unlike the national and state economy, the number of employed City residents has not yet returned to pre-recession levels. The number of employed New Castle residents in June 2015 was 12.1 percent lower than it was in June 2005.

In addition to these economic weaknesses, City government had a very poor financial record before it entered Commonwealth oversight. Before a single employee reported for duty in 2007, City government already faced a multi-million dollar deficit. The City was behind on its annual obligations to the employee pension plans and accumulated $4.0 million in debt related to its misuse of Tax Revenue Anticipation Notes (TRAN). Other large liabilities lingered behind these immediate deficits. 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 obligations and 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 the Pennsylvania Department of Community and Economic Development (DCED) designated New Castle as distressed according to four of the 11 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.

The 2007 Recovery Plan contained several difficult measures to wrench the City's finances back into balance – increases in the real estate tax, resident earned income tax and commuter earned income tax; higher fees for some services, like trash collection; wage freezes, fewer paid holidays and new health insurance cost sharing arrangements for City employees.

In late 2007 the Commonwealth gave the City a $750,000 interest-free loan to help meet its cash flow needs for the rest of the year. The City also needed an unfunded debt borrowing to repay the prior year pension obligation and the $4 million in TRAN debt. An unfunded debt borrowing is a rare transaction where the City has to secure court approval to issue debt, often at a higher interest rate, to retire prior year obligations.

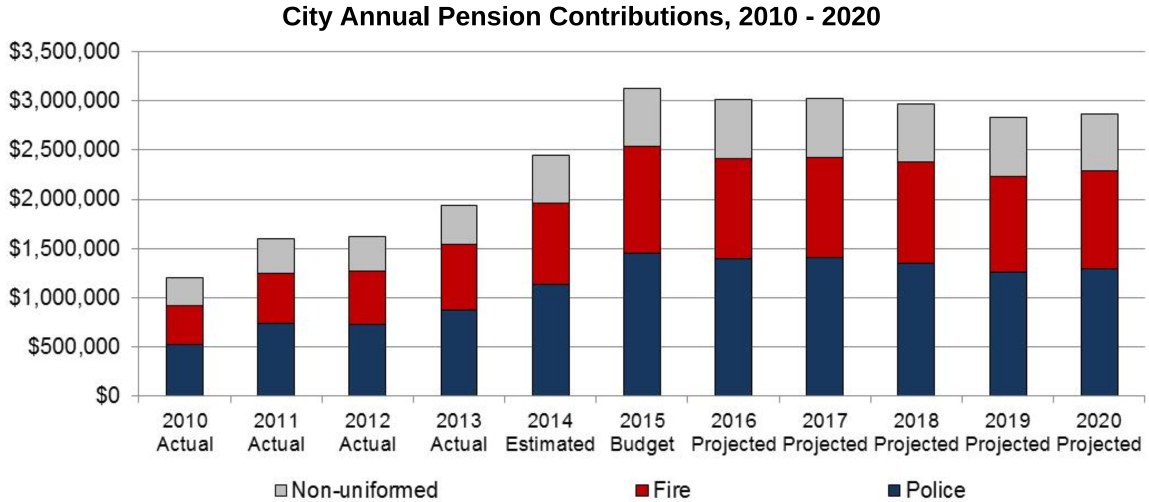
With those difficult measures in place, the City ended its streak of annual operating deficits in 2009. It retired its prior year obligation to the employee pension plans and started making its annual contributions on time every year going forward. Helped by an asset sale in 2010, the City repaid the unfunded debt borrowings several years ahead of schedule. Since then the City has also resolved the swap claim and settled the long-running eminent domain law suit.

Just as important, the City has dramatically improved its financial management. With the support of DCED and the Recovery Coordinator, the City upgraded its financial management software and improved its budgeting, procurement and accounting practices. It started generating periodic financial reports that give City Council and the public a clearer sense of City government's financial performance and condition. In recognition of the City's progress, Standard & Poor's recently cited the City's "strong [financial] management despite recent fiscal challenges."[2]

In 2012 the Coordinator wrote a comprehensive Recovery Plan amendment in response to the City's ongoing financial challenges and an emerging threat that many local governments face – rapidly rising required contributions to the employee pension plans. For reasons described in the 2012 Amended Recovery Plan, the funded ratio for those plans slipped from above 80 percent as of January 2007 to 55 percent as of January 2013. Consequently the City's annual contributions to the plans have jumped from $1.3 million in 2007 to $3.1 million in 2015.

The 2012 Amended Recovery Plan put a strategy in place for incrementally increasing the City's annual pension contributions to improve the funding level; avoiding costly benefit enhancements for current or past employees; and establishing a more affordable level of benefits for new hires. The pension problem is far from resolved, but there are signs of progress. As of January 1, 2015, the aggregate funded ratio across the three pension plans was 60 percent – still too low but better than 55 percent. Based on the information available at the beginning of 2015, the actuary projects that the City's Minimum Municipal Obligation (MMO) will at least level off in the next couple years and then could potentially start to decline.

[2] Standard and Poor's credit rating review, June 2014.



While there is still much for New Castle to do to achieve true, long-term financial recovery, even without the changes in Act 199, the City has unquestionably made progress since 2007. At a basic level, City government has gone from having at least three consecutive years of annual deficits[3] to six consecutive years with positive annual operating results.

New law leaves less revenue

As described above, Act 199 sets a deadline for the City to successfully exit Commonwealth oversight in 2019. In early 2019, the Coordinator will evaluate the City's current and projected financial condition over the next five years and then recommend one of three options – successful exit from oversight; a one-time three-year exit plan; or a "fiscal emergency" that could lead to receivership.[4]

One of the criteria for determining New Castle's readiness to exit oversight is whether the City can balance recurring expenditures against recurring revenues without the additional taxing authority provided by Act 47.

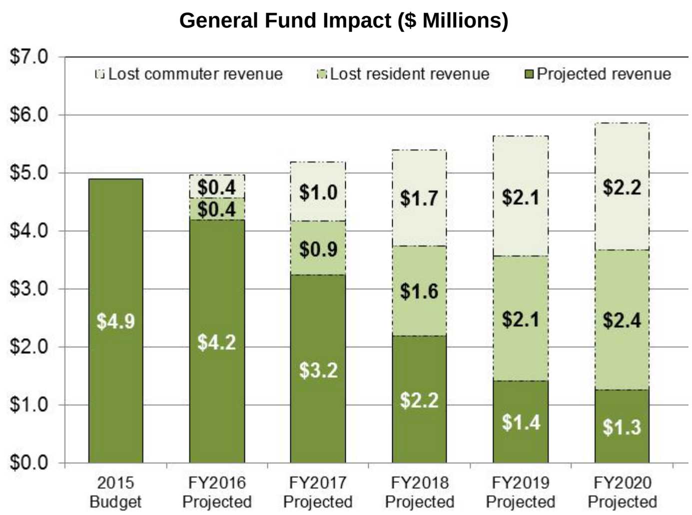
Currently New Castle levies a 2.15 percent earned income tax (EIT) on its residents with 0.95 percent tied to the City's Act 47 status. It also levies a 2.05 percent EIT on commuters with 0.85 percent tied to the Act 47 status. The City relies on the revenue generated by the Act 47-authorized EIT to maintain core municipal services, like police patrol and fire protection; to repay debt; and to help pay the Minimum Municipal Obligations (MMOs) to the employee pension plans.

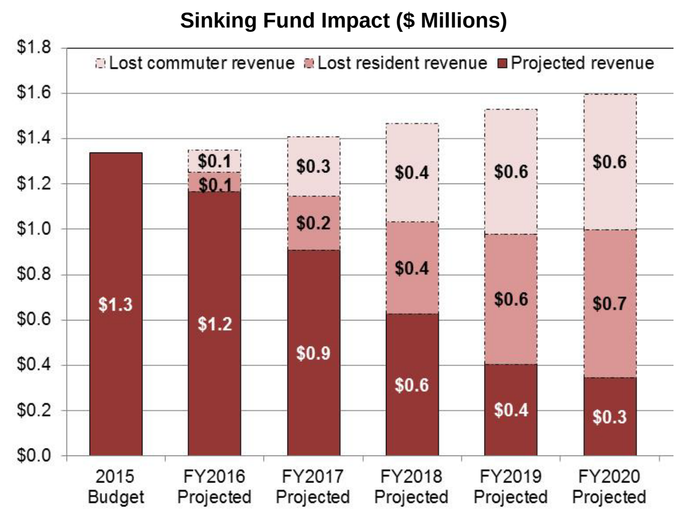
Under Act 199, the City has to eliminate the Act 47-authorized EIT by 2019. The law does not set the pace at which the City must eliminate that tax. Ideally the City would do so a couple years before 2019 so it could demonstrate that it can repeatedly balance its budget without the additional taxing power, and improve its case for exiting oversight. Practically speaking, eliminating the Act 47-authorized EIT will cost New Castle millions of dollars that the City relies upon. So the Coordinator assumes the City will reduce the Act 47 authorized EIT by roughly equal amounts each year through 2019.

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

[4] Disincorporation is a fourth option listed in Act 199 but it is prohibited for any municipality with a paid police or fire department.

In this scenario, residents would pay a 1.2 percent EIT after 2018 with 0.7 percent going to the City and 0.5 to the New Castle Area School District – much lower than the 2.15 percent they currently pay. Commuters would also pay a 1.2 percent EIT after 2018 with 0.2 percent going to the City and the rest to their home municipality – again much lower than the 2.05 percent they currently pay. But there is a cost to reducing the EIT rates this much this quickly. Relative to a scenario where the City did not change its resident or commuter EIT rates – a scenario no longer allowed by Pennsylvania law[5] – the City would have $5 million a year less to spend on operations (General Fund) and debt (Sinking Fund) by 2019.





Baseline projection

As in prior Recovery Plans, the Coordinator is required by law to project the City's revenues and expenditures in a baseline scenario. Act 47 now requires the projections to run through 2020, even though the City is attempting to leave oversight by the end of 2019.

The baseline projection begins with the City's adopted 2015 budget and then projects future revenues and expenditures based on detailed analysis of the City's likely workforce expenditures, debt payments, revenue growth and other factors.[6] Other than the mandatory EIT reduction, the baseline projection does not assume any other changes in taxes or fees, headcount or service levels.

[5] Before Act 199 of 2014, New Castle theoretically could have kept the EIT rates at the level currently in place, but that would not have been ideal either, since it would mean the City was not making progress toward exiting Act 47 according to this criterion.

[6] The baseline projection is described in more detail in subsequent chapters, particularly the Workforce and Revenue chapters. It is also shown in more detail in the Plan Appendix.

Baseline Projection[7] ($ Millions)

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Total revenues	$20,352,000	$18,741,000	$16,496,000	$15,277,000	$14,358,000	$14,261,000
Total expenditures	$20,416,000	$20,307,000	$20,192,000	$20,521,000	$20,906,000	$21,355,000
Surplus/deficit	($64,000)	($1,566,000)	($3,696,000)	($5,244,000)	($6,548,000)	($7,094,000)
Fund balance	$4,187,000	$2,621,000	($1,075,000)	($6,318,000)	($12,866,000)	($19,960,000)

The City's finances go from being nominally balanced in 2015[8] to growing deficits each subsequent year. In this scenario the City would only have enough unassigned reserves in the General Fund[9] to carry it through most of 2017. After that the City would struggle to fund its core services or make its debt payments and pension contributions on time, just as it did when it first entered oversight.

The single largest factor in the deficit projection is the gradual elimination of the Act 47-authorized EIT. As noted above, this scenario assumes the City will reduce the Act 47-authorized EIT by roughly equal amounts each year until it is eliminated in 2019.

In total the EIT generated $7.5 million in 2014, or 39 percent of all revenue in the three major funds.[10] EIT is now City government's largest source of income, surpassing even the real estate tax. The earned income tax base is growing and recent changes in Pennsylvania law boosted annual collections substantially starting in 2013. But those improvements are not enough to counter the mandatory reduction in the City's portion of the total EIT rate. Total EIT revenue sinks from $7.2 million budgeted in 2015 to $2.9 million projected in 2020 when the tax elimination is fully phased in.

[7] The baseline projection covers the City's three primary funds – the General Fund, the Sinking (or Debt Service) Fund and the Pension Fund. The last fund is a checking account that the City maintains to pay pension-related administrative costs and hold pension related revenues before they are deposited to the pension plans. It is not the pension plans themselves. Transfers between those three funds are removed to avoid double counting.

[8] The City's 2015 budget shows an $18,000 difference between General Fund revenues and expenditures, though that includes $1.1 million in prior year fund balance which the City records as revenue. The Coordinator anticipates that annual revenues in the Sinking Fund will exceed budget by $42,000 because of debt refinancing completed in early 2015. The Pension Fund budget shows a $125,000 negative difference between revenues and expenditures. The sum of those three results is -$64,000.

[9] The City had $7.5 million in unassigned fund balance at the end of 2014. That includes $2.4 million already designated for capital projects, leaving $5.1 million for other purposes. The 2015 budget anticipates that the City will use $1.1 million to cover expenditures this year, leaving $4.0 million entering 2016. A projected positive result in the Sinking Fund because of the early 2015 debt refinancing pushes the projected 2015 year-end fund balance to $4.2 million.

[10] These are total EIT receipts across all funds and all years. It is not just the portion tied to the City's Act 47 status.

The City's other major sources of revenue will not grow enough to compensate for the lower EIT receipts. The City's second largest revenue source is the real estate (or property) tax. The real estate tax base has been slowly declining for years and total real estate tax revenues have had only marginal growth since 2010. The baseline projection shows real estate tax revenues remaining flat, but continued erosion in the tax base could drive them lower. Taken together the EIT and real estate taxes generate the majority of total revenue in the City's three major funds. So large reductions in one and stagnation in the other means less money available to fund operations and meet debt and pension obligations, absent any other changes.

On the expenditure side, the baseline projection incorporates two percent annual base salary increases for employees after the expiration of their current collective bargaining agreements. Health insurance expenditures grow by 5.5 percent in concert with national trends and recent local experience. The City's actuary projects that the pension MMOs will slowly decline from $3.1 million in 2015 to $2.8 million in 2019. Debt service expenditures rise from $2.4 million in 2015 to $3.0 million in 2019 based on the current debt schedule.

Total spending drops in 2017 because that is the last year for which the City has identified funding for capital projects. Until 2012, the City had a very modest budget for renovating, replacing and improving its capital assets – buildings, roads, parks, bridges, vehicles, etc. In late 2012 the City secured $1.8 million in gas lease proceeds that funded the 2014 and 2015 capital budgets. A one-time windfall of $980,000 in prior year EIT revenue will provide funding for the 2016 capital budget. But, absent the initiatives in this Plan, there is no identified source to consistently fund these necessary projects after 2016.

Limited options to close the gap

If New Castle lost revenue at the amount and pace shown in the baseline projection, it would be financially devastating to City government. It could not maintain core services, pay its debt and make its pension contributions. So the first task is to find a way to retain some of that EIT revenue while still moving the City toward exiting oversight.

Under current law, New Castle has two options to offset some of the reduction in Act 47-authorized EIT.

The first is to shift part of the Act 47-authorized EIT to an EIT authorized by Act 205 of 1984 (i.e. the distressed pension EIT). The City has used that law to levy a distressed pension EIT on its residents and commuters since the 1980s, including a 0.2 percent levy this year. Distressed pension tax revenue can only be used for pension purposes, like paying the pension MMOs or repaying pension bond debt. It cannot be used for operations or repaying general obligation debt, like the Act 47-authorized EIT can. The City could increase the distressed pension EIT as it reduces the Act 47-authorized EIT, though the net change is still a lower EIT rate overall and less revenue than currently generated.

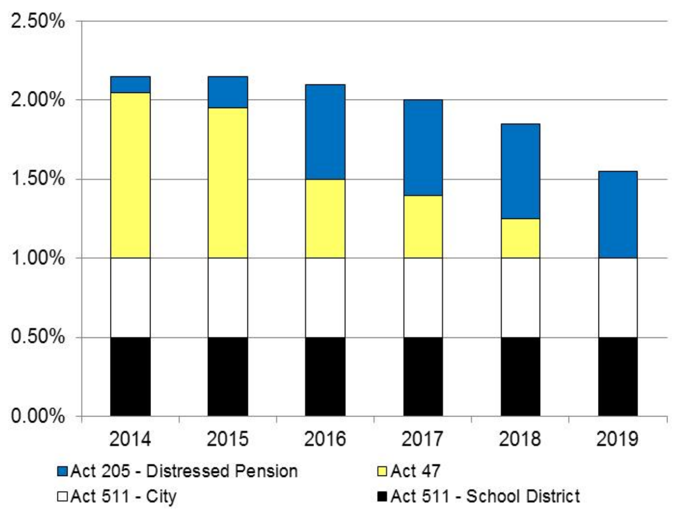
The second option is to adopt a Home Rule charter that would allow the City to levy a higher EIT on its residents than otherwise allowed by Pennsylvania law. In this option the City's elected officials could gain the ability to set the resident EIT at whatever level they choose, depending on the Home Rule charter's provisions. That would give them more flexibility to find a more suitable mix of EIT and real estate tax revenue to fund City services.

There are benefits and drawbacks to each approach as discussed in the Revenue Chapter. The distressed pension EIT gives the City a larger tax base (residents and commuters) and the City has the authority to increase that tax starting in January 2016. But the tax is subject to the limits set in Act 205, both in terms of the maximum tax rate and how the resulting revenue can be used, and the City would still be reliant on a provision of Pennsylvania law that could change.

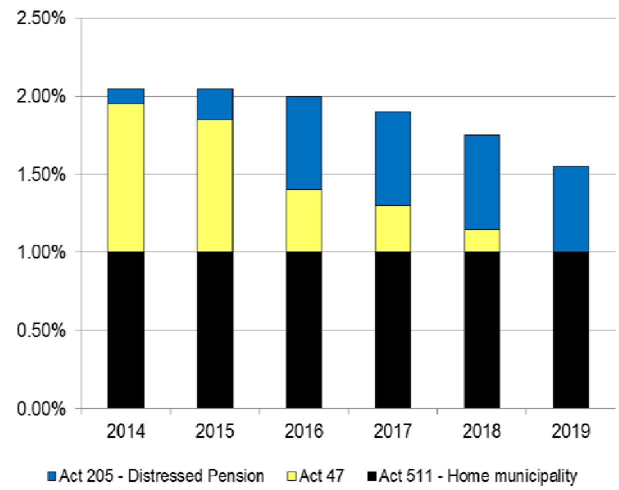
The Home Rule process would give the City more flexibility to increase resident EIT rates and use the resulting revenue as needed, without relying on a portion of Commonwealth law that could change. But the Home Rule process can be long and unpredictable, so there is no guarantee the process would result in more control over local tax rates. The Home Rule charter also would not give the City any additional taxing authority over commuters. In fact, once the Home Rule charter is in place, the City may lose the authority it currently has to levy the distressed pension tax on commuters.

Because of uncertainty about the timing and amount of revenue generated by the Home Rule option, the Plan assumes the City will use the distressed pension tax shift effective in 2016 while it considers the benefits of using Home Rule in later years. The EIT pattern described more fully in the Revenue Chapter and the associated Appendix would be as follows.

Resident EIT Rate



Commuter EIT Rate



	2015	2016	2017	2018	2019
Act 511 - School District	0.50%	0.50%	0.50%	0.50%	0.50%
Act 511 - City	0.50%	0.50%	0.50%	0.50%	0.50%
Act 47	0.95%	0.50%	0.40%	0.25%	0.00%
Act 205 - Distressed Pension	0.20%	0.60%	0.60%	0.60%	0.55%
Total	**2.15%**	**2.10%**	**2.00%**	**1.85%**	**1.55%**

	2015	2016	2017	2018	2019
Act 511 - Home municipality	1.00%	1.00%	1.00%	1.00%	1.00%
Act 47	0.85%	0.40%	0.30%	0.15%	0.00%
Act 205 - Distressed Pension	0.20%	0.60%	0.60%	0.60%	0.55%
Total	**2.05%**	**2.00%**	**1.90%**	**1.75%**	**1.55 %**

Please see initiative RV01 in the revenue chapter for more information.

In this scenario EIT rates would be lower for residents and commuters that than they currently are, though not as low as they would be in the baseline scenario. EIT revenues would be higher than in the baseline scenario, but not as high as in recent years. They would still drop from $7.2 million budgeted in 2015 to $5.0 million in 2020 when the Act 47 tax elimination is fully phased in. The projected annual deficits would be smaller than in the baseline, but still surpass $4 million in 2019. So more action is needed.

Moving to the expenditure side of City government finances, the majority of spending is for employee compensation. When spending on employee salaries, other forms of cash compensation, active and retired employee health insurance and pension contributions are combined, they accounted for two-thirds of total spending across the three major funds in 2014.[11] So any meaningful effort to reduce or control spending growth has to address employee compensation.

City government employees have contributed to the City's success in balancing annual expenditures against available revenue each year since 2009. Most have had at least two years without wage increases and increased their contributions toward the cost of their health insurance. That was necessary to reverse the trend of operating deficits and limit growth in active employee compensation so the City could make larger contributions to the employees' pension plans. Controlling the cost per employee also allowed the City to achieve those objectives without resorting to large scale layoffs or position cuts.

While the City needs to bring spending below the levels projected in the baseline to give itself a chance to exit oversight, the Coordinator's preference is that the City and employees achieve that objective without wage freezes beyond those described in the original and 2012 Amended Recovery Plans. A recent agreement between City management and the Fraternal Order of Police and International Association of Firefighters may provide an opportunity to achieve that goal.

As described in the Workforce chapter, those parties agreed to move police officers, firefighters and non-represented employees to a new health insurance plan with a lower cost than the previous one. The amount of savings the City will receive depends in part on how the costs grow with this new health plan. To ensure the City achieves and maintains the savings it needs, the Coordinator took the cost-sharing structure established in the 2012 Amended Recovery Plan, including the five percent cap on growth in the City's share of health insurance costs, and applied it to the new health plan beginning in 2017. This Recovery Plan then allocates the same amount per employee for health insurance to the other bargaining units after their contracts expire at the end of 2016.

Please see initiative WF02 in the workforce chapter for more information.

This Amended Recovery Plan then targets two services that are expected to pay for themselves – trash collection and the golf course at Sylvan Heights. In prior years those functions generated enough revenue to cover their respective operating costs. But in both cases expenditures are rising while revenues fall. The Coordinator projects that the refuse collection operation will have a deficit starting in 2016, if not sooner. Sylvan Heights already had a deficit in 2014 according to the City's preliminary year-end numbers and the deficit will grow once the cost of needed capital improvements is included. The Plan contains initiatives to address these trends so they do not make the projected deficits worse.

Please see initiative RV06 in the revenue chapter and initiative SH01 in the Golf Course chapter for more information.

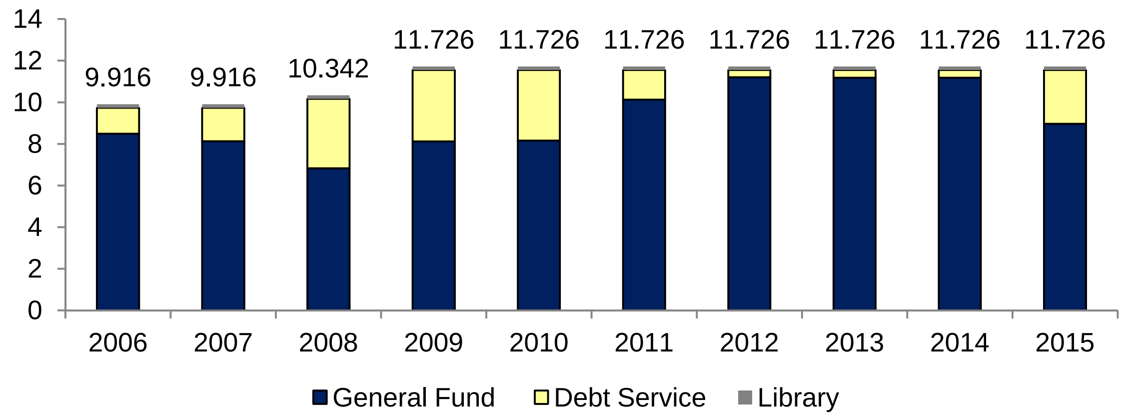
Real estate taxes

While these initiatives are helpful and necessary, they still do not close the deficit. There is only one locally controlled revenue option available in the short term that could generate enough money to help bridge the gap – a real estate tax increase.

[11] If the debt service for the pension obligation bonds is included, the total rises above 75 percent.

The original Recovery Plan included real estate tax increases in 2008 and 2009. Since then the City's tax rate has remained constant at 11.726. In recent years the City was able to shift a larger portion of the total tax rate to operations (General Fund) and away from debt service because of its focus on debt repayment and the absence of any significant new borrowing.

City Real Estate Tax Rates (Mills)



Even without tax increases in recent years, New Castle's tax rates are high relative to its neighboring municipalities. New Castle had the highest municipal tax rate in Lawrence County in 2012, and that is still the case in 2015. New Castle also had the highest school district tax rate in 2012, and it now has the second highest in Lawrence County.[12]

For a variety of reasons, real estate tax increases are undesirable. They make property ownership more expensive for home and business owners. They are especially difficult for households on a fixed income. They place a larger share of the cost burden on people who own property in the City, even though all residents and commuters benefit from municipal services like police patrol and fire protection. They make it harder for New Castle to attract and retain the tax base that the City needs.

But the City has limited options in the short term given the goal of trying to exit oversight successfully. The City needs to replace some of the revenue that will be lost when the Act 47-authorized EIT is eliminated. And the City needs *recurring* revenue to cover its *recurring* expenditures, so reliance on fund balance or other short-term solutions will not position the City to exit oversight.

So the Plan anticipates the following real estate tax rate increases.

	2015 (Current)	2016	2017	2018	2019
City millage rate	11.726	12.726	15.726	18.726	20.726
Increase from prior year	0%	8.5%	23.6%	19.1%	10.7%

The Coordinator understands the additional burden that these increases would create for property owners. The reduction in the resident EIT rate will offset some of the real estate tax increase for some property owners, but in many cases the likely net impact of these changes is a higher total

[12] According to DCED's municipal statistics, the Blackhawk School District has an 18.05 percent millage rate in 2015 while the New Castle Area School District has a 17.270 millage rate.

City tax burden. There is an appendix at the back of the Plan to help readers estimate how the changes will impact them.

Higher tax rates will also likely make it harder to collect the full amount due. New Castle's current year real estate tax collection rate has been low relative to national benchmarks for several years and higher tax rates could widen the gap, holding other factors constant. The Amended Recovery Plan takes that possibility into account and adjusts the current year and prior year revenue projections accordingly.

City officials understandably have concerns about the real estate tax increases and expressed a desire to find alternate sources of recurring, sustainable revenue to replace at least a portion of them. There have been several discussions about improving the current year real estate tax collection rate and there is an initiative in the Revenue Chapter that briefly describes some of the City's options. The City could also decide to make recurring, sustainable expenditure cuts beyond the reductions described in this Plan.

This Amended Recovery Plan provides City leaders with flexibility to meet this need a different way, so long as the solution has a recurring, sustainable impact. The 2012 Amended Recovery Plan had potential real estate tax increases in 2014 and 2015, which the City was able to avoid partly because changes in Commonwealth law boosted EIT revenues higher than projected. It may be possible again to replace at least a portion of the tax increases by identifying additional, recurring, sustainable revenue or expenditure reductions beyond those described in this Plan. But it is unlikely that the City will be able to keep real estate tax rates at the current level through 2019.

Please see initiatives RV03 and RV04 in the revenue chapter for more information.

There is also risk that, even with the real estate tax increases, actual revenue collections will fall short of the Amended Recovery Plan projections. Faster erosion in the real estate tax base, lower real estate tax collection rates or slower growth in resident or commuter earnings than projected would lead to less revenue than projected. The City could also experience external events that create an unanticipated need, like the June 2015 flooding that required emergency street repairs.

Building and maintaining a reserve will provide some contingency for dealing with those trends and events if they occur. It will also support the City's credit rating, which in turn results in lower borrowing costs, and it will bolster the City's case to exit oversight at the end of 2019. The Plan requires the City to transfer $1.2 million of its unassigned General Fund balance to the Rainy Day Reserve that was recently depleted for a court settlement and emergency road repairs.

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

Keeping the long term goal in sight

True, long-term financial recovery means more than balancing revenues against expenditures on an annual basis, though that is a core component of it. For New Castle to achieve true financial recovery, it needs its tax base to grow. Since New Castle's primary taxes are the real estate tax and the resident earned income tax, that means New Castle needs growth in the total assessed value of property in the City and resident earnings.[13]

[13] Growth in commuter earnings is also helpful, though Pennsylvania law restricts the City's ability to tax those earnings.

While acknowledging the tension between the anticipated real estate tax increases and the goal of tax base growth, this Amended Recovery Plan contains initiatives to guide City government's efforts to help build the tax base.

The City has made progress in implementing the Economic and Community Development initiatives described in the 2012 Amended Recovery Plan. The organizational initiatives from that Plan are largely complete and the City's Department of Community and Economic Development is beginning to pursue targeted priorities intended to facilitate growth in the City's tax base. Those priorities should change as progress is made and challenges and opportunities arise. The City has a sharper focus on this goal now than it did three years ago and it needs to be strategic and deliberate in how it uses its limited economic development resources.

Please see the Economic Development chapter for more information.

The City also needs to invest in its core infrastructure to facilitate economic development. Any effort to attract new residents and businesses will be hampered by crumbling roads, poorly maintained public spaces and flooded storm sewers. So the Plan directs a portion of the City's unassigned General Fund balance to capital projects over the next five years. While the allocation is unquestionably less than the City needs, it provides some funding for these projects beyond intergovernmental grants and external gifts. The Plan also lays out a strategy for improving the storm sewer system. That system is very old, partially mapped and reactively maintained. The City needs a proactive, comprehensive and funded strategy to mitigate the risk of further flooding, property damage and road deterioration.

Please see initiatives CP02 and CP03 in the Capital Improvement Program chapter for more information.

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.

Plan Implementation Scenario

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Total Revenues	$20,352,000	$19,606,000	$19,342,000	$19,826,000	$19,766,000	$20,109,000
Total Expenditures	$20,416,000	$20,747,000	$19,831,000	$20,125,000	$20,471,000	$20,605,000
Surplus/Deficit (Annual result)	($64,000)	($1,141,000)	($489,000)	($299,000)	($705,000)	($496,000)
FY Ending Fund balance	$4,187,000	$3,046,000	$2,557,000	$2,258,000	$1,553,000	$1,057,000
Annual result w/out transfers to reserve/capital	($64,000)	$60,000	$11,000	$201,000	($206,000)	($196,000)

According to the City's budgeting conventions, the use of unassigned fund balance to replenish the Rainy Day Reserve in 2016 and fund capital projects in 2017 through 2020 will be recorded as expenditures. While those transfers are important for maintaining financial stability and supporting economic development, their inclusion obscures the full impact of the Plan's provisions.

With those transfers removed, the City's annual financial results would be positive by narrow margins in 2016, 2017 and 2018 and negative in 2019 and 2020. The deficit in those later years still needs to be addressed but it is much more manageable than the multimillion dollar deficit in the baseline.

The City would finish 2020 with $1 million in its General Fund to meet cash flow needs and $2.5 million in its Rainy Day Reserve. The $3.5 million total reaches a recommended minimum level of reserves for municipal governments and will bolster the City's case to exit Commonwealth oversight.[14]

If financial performance is better than projected because of recurring revenue increases or expenditure decreases, the Plan anticipates that the City would reduce the real estate tax increases described earlier. If financial performance was better than projected because of short-term or one-time revenue increases or expenditure reductions, the Plan requires the City to use the difference to bolster its reserves (if necessary), fund capital projects, repay debt ahead of schedule or make an additional contributions to the employee pension plans.

This Amended Recovery Plan, like the others before it, contains difficult measures to address the City's ongoing financial challenges. Those measures are part of a larger strategy designed to give New Castle a better chance of successfully exiting Commonwealth oversight at the end of 2019.

[14] Please see initiative AD01 for more discussion.

Administration

Administration

This section covers the administrative functions of New Castle City government including the legislative, financial management and legal activities. The primary distribution of those responsibilities is as follows:

- The **Mayor** and the **Business Administrator** are responsible for the day-to-day operations of the City, including managing the money that funds local government. The Business Administrator also serves as the City's Chief Financial Officer, giving her authority over budgeting, financial reporting, debt management, accounting, purchasing, information technology and related functions. The Business Administrator also oversees human resources functions (employee benefits administration; collective bargaining and grievance resolution which she handles in cooperation with the Solicitor) and risk management. The Business Administrator is supported by a Finance/Payroll Assistant and Accounts Payable Clerk. The Mayor is supported by a secretary.

- The five-member **City Council** is responsible for introducing legislation; passing ordinances and resolutions; and reviewing, amending and approving the annual budget. City Council is supported by a part-time Clerk who holds another position within City government and a full-time Deputy Clerk.

- The **Solicitor** provides legal services including preparing ordinances and resolutions for Council; reviewing contracts for the sale or purchase of assets; collective bargaining; and defending and prosecuting claims against or on behalf of the City. The Solicitor also provides legal guidance to each of the Department Directors and manages all outside labor counsel arrangements. The Solicitor is supported by a full-time Legal Assistant and a part-time Assistant Solicitor.

- The City has an elected **Controller** and an elected **Treasurer** who oversees tax collection. The Treasurer's Office, which has three clerks, collects current year real estate taxes for the City and New Castle Area School District. Most other current year tax collection responsibilities have shifted to an external collector.

Staffing and finances

The administrative functions account for 21 positions (11 full-time, 10 part-time) in the 2015 budget, not including the additional stipends that are paid to full-time employees for handling responsibilities outside their regular position description.[1] The Administration Department dropped from four positions in 2012 to three in subsequent years when the Director of Community and Economic Development position moved to another part of the budget. The Parking unit dropped from two part-time positions in 2012 to one-full time position for 2013 and then switched back to two part-time this year.

Budgeted Headcount

	2012	2013	2014	2015
Mayor's Office	2	2	2	2
City Council (Includes members)	6	6	6	6

[1] For example, the City pays a "parking supervisor" stipend to a full-time employee in the Department of Administration who oversees this function in addition to his regular duties.

	2012	2013	2014	2015
City Treasurer	4	4	4	4
City Controller	1	1	1	1
Administration	4	3	3	3
Solicitor	3	3	3	3
Parking	2	1	1	2
Total	**22**	**20**	**20**	**21**

Grouped together these administrative functions account for $1.0 million in the 2015 budget. The City's expenditures in these units have been level from 2012 to 2014.[2] Please note the table does not include the City's contribution to the employee pension plan for these employees.

Administrative Expenditures, 2012 – 2014

	2012 Actual	2013 Actual	2014 Estimated	% Change
Mayor's Office - Personnel	100,612	105,733	89,961	-10.6%
Mayor's Office - Other	2,057	2,451	5,268	156.1%
Mayor's Office total	102,669	108,184	95,229	-7.2%
City Council - Personnel	84,850	83,206	84,898	0.1%
City Council - Other	68,214	31,733	32,277	-52.7%
City Council total	153,064	114,939	117,175	-23.4%
Treasurer's Office - Personnel	154,893	161,032	181,473	17.2%
Treasurer's Office - Other	18,178	24,747	21,232	16.8%
Treasurer's Office total	173,071	185,779	202,705	17.1%
Controller - Personnel	34,407	35,844	38,522	12.0%
Controller - Other	0	0	0	N/A
Controller total	34,407	35,844	38,522	12.0%
Administration - Personnel	324,289	236,683	246,136	-24.1%
Administration - Other	11,916	13,490	12,026	0.9%
Administration - total	336,205	250,173	258,162	-23.2%
Solicitor - Personnel	159,087	164,718	168,855	6.1%
Solicitor - Other	46,056	69,054	111,036	141.1%
Solicitor total	205,143	233,772	279,891	36.4%

[2] The 2014 estimates are unaudited year-end figures.

	2012 Actual	2013 Actual	2014 Estimated	% Change
Parking - Personnel	15,628	27,650	25,963	66.1%
Parking - Other	12,861	22,755	16,535	28.6%
Parking total	28,489	50,405	42,498	49.2%
Total	**1,033,048**	**979,096**	**1,034,182**	**0.1%**

In units this size, small changes in dollar amounts translate to large charges in percentages. So the $3,000 increase in non-personnel expenditures in the Mayor's Office appears as 156.1 percent growth and a change in health insurance for one position appears as a 10.6 percent reduction. For the larger changes by dollar amount:

- City Council reduced the spending in its "contingency" line item from $54,000 in 2012 to $19,000 in 2014. The contingency line item funds Council-targeted priorities (e.g. building demolition, miscellaneous one-time expenditures).

- Personnel spending in Administration dropped in 2013 when the Director of Community and Economic Development position shifted to another part of the budget.

- The Solicitor's Office spent more on legal services for collective bargaining support in 2014 when the City had the end of one interest arbitration process and the bulk of another.

Initiatives

AD01.	**Replenish and maintain rainy day reserve**	
	Target outcome:	Facilitate Act 47 oversight; Provide contingency for future emergencies; maintain credit rating
	Financial Impact:	($1,200,000)
	Responsible party:	Business Administrator, City Council

One of the City's successes since entering Act 47 oversight has been its ability to establish and maintain reserves in its General Fund. Having those reserves is an important signal of improved financial stability and maintaining it is a high priority. The reserves provide a buffer against unexpected revenue shortfalls or unbudgeted expenditures, like the recent spending to repair flood damage near Carl Street and Big Run.

Reserve levels are also one of the criteria that creditors and rating agencies use to determine the City's creditworthiness, which directly impacts the interest rates the City pays when it issues debt. In the last evaluation of the City's creditworthiness, the rating agency cited the City's "very strong liquidity position," meaning the amount of cash and similar assets that the City has in reserve, as a positive factor that counters negative factors that are harder for City government to control, such as the "very weak local economy."[3]

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

[3] Please see the Debt chapter for more discussion on this topic.

New Castle, should have keep more in reserve than larger governments or those with a long-running history of financial stability. Recognizing this variability, the Government Finance Officers' Association (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."*

In 2015 the City budgeted $19.1 million for operating expenditures.[4] Two months is roughly equal to 17 percent so the reserve level target according to this guiding principal would be $3.2 million. The City has surpassed this target in recent years, but the Amended Recovery Plan projections show the City depleting its unassigned General Fund reserves through 2019 as earned income tax revenues drop and the City maintains some level of capital spending.[5]

In addition to the unassigned General fund balance, the City has a "rainy day reserve" (officially called Act 47/Mayor/Council Reserve) that was first established when the City sold its sanitary sewer lines to the New Castle Area Sanitation Authority in 2010. The City's 2013 audit cited this reserve at $2.7 million, but the City used part of it to resolve long-standing litigation over property seized by the former Redevelopment Authority (i.e. McGaffic case). The 2014 audit shows $1.5 million left in this reserve,[6] but the City allocated $250,000 from it for emergency repairs following the June 2015 flooding around Carl Street. Assuming the City completes those repairs this year, the Rainy Day Reserve would have $1.3 million left at the end of 2015.

Given the projected depletion of the unassigned fund balance, the "rainy day reserve" becomes even more critical. To partially replenish that reserve, the City shall transfer $1.2 million from its unassigned General Fund balance to the "rainy day reserve" in 2016, bringing the total in that reserve to $2.5 million.[7] That, in tandem with the $1.0 million projected in unassigned General Fund balance at the end of 2020, would put the City close to the GFOA's 17 percent target at that the end of the projection period.[8] And that in turn will bolster the City's case for exiting Act 47 oversight at the end of 2019.

AD02.	**Direct windfall proceeds to Amended Recovery Plan priorities**	
	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

During the period covered by this Amended Recovery Plan, the City may benefit from financial windfalls – unexpected, significant, short-term revenue increases above projected levels or spending reductions below projected levels. By their nature, these windfalls cannot be predicted,

[4] This excludes the $1.3 million budgeted for capital projects in the General Fund and includes the City's expenditures on debt and pensions. New Castle makes its debt service and pension payments outside the General Fund, but those are regular, recurring expenditures and should count toward the reserve target.

[5] These factors are discussed in the Revenue and Capital Improvement chapters.

[6] 2014 Comprehensive Annual Financial Report, page 68.

[7] It is unknown whether the City intends to use any more of the reserve for further emergency repairs. If that occurs, then the balance will be less than $2.5 million after the transfer.

[8] The projected operating expenditures in 2020 are $20.3 million so 17 percent would be $3.5 million.

but they have happened before. For example, there was a one-time windfall of $980,000 in EIT revenues in late 2014 that the City will use to address its backlog of capital projects.

With the Coordinator's guidance, the City shall use any financial windfalls 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 the prior initiative, if they have fallen below that level;
- Fund capital projects identified through the City's capital improvement program and budgeting process;[9]
- Make a contribution to the employee pension plans above the scheduled Minimum Municipal Obligation (MMO) payments;[10] or
- Make an additional debt service payment beyond the amount of principal and interest due in a particular year.[11]

Using windfalls in this manner will ensure the City matches a non-recurring cost with a non-recurring benefit. It also will 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 2019. 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. And funding capital projects will help New Castle maintain and build its tax base so revenues remain in balance with expenditures over the long term.

There is also a chance that the City will experience the opposite of windfalls during the Plan period -- unexpected, significant, short-term *losses* in revenue or *increases* in spending above budgeted or projected levels. The June 2015 flooding that necessitated $250,000 in emergency street repairs is one example of those kinds of events. Maintaining the reserve levels discussed in the prior initiative will help the City respond to those events as they occur.

AD03	**Explore the potential long-term lease or privatization of parking assets**	
	Target outcome:	Increased revenue for a strategic reduction of recurring liabilities
	Financial Impact:	TBD
	Responsible party:	Administration, Council, Solicitor, Economic Development

The City's parking system has the following assets:

- One five-level parking garage on North Mercer Street;

[9] Please see the Capital Improvement Program chapter for more information.

[10] Please see the Workforce chapter for more information.

[11] Please see the Debt Management chapter for more information.

- Seven surface lots; and
- Approximately 275 parking meters.

The parking system generates revenue through meter deposits, monthly permits and daily fees. On average the City has transferred $105,000 from the parking system to the General Fund each year since 2010. The Finance Department and two part-time meter enforcement officers handle operations.

As noted in the prior Recovery Plans, privatization or leasing the parking system to a private operator could have several benefits. The operator would be able to focus its attention and resources on parking as its core mission where the City has to commit its limited resources to many other purposes. The operator may be able to improve service by updating the meters to accept different forms of payment and improve enforcement so scofflaws do not take advantage of the City's limited enforcement staff.

There are questions associated with privatization or long term leases that will need to be addressed, including whether parking rates will rise under private management and whether the lease payment would be large enough to justify the City relinquishing control of this asset. But the City's financial challenges create enough incentive to explore the benefits of potential privatization or long-term leases.

With the support of the Coordinator, the City shall explore the possibility of leasing its parking assets to a private operator or undertaking similar public-private partnership transactions. The use of any proceeds from such a transaction shall be subject to the parameters listed in the prior initiative.

Debt Management

Debt Management

As of April 1, 2015, the City of New Castle had approximately $28.8 million in debt principal outstanding, and $38.6 million in scheduled debt service payments through 2035.[1] In 2014, Standard & Poor's upgraded the City's credit rating (a measure of its creditworthiness) from BBB to A- with a stable outlook. This credit rating was reaffirmed in 2015 citing the same strengths and weaknesses.

The City has continued the efforts described in the 2012 Amended Recovery Plan to reduce its debt burden.

- In 2012, the City refunded the Series A of 2005 General Obligation Bonds that were originally issued to refund some of the City's prior debt issuances and to provide funds for various capital projects including street improvements and public works. The 2012 General Obligation Bonds had $7.6 million in principal and $3.2 million in interest, totaling $10.8 million in debt service that is scheduled to be paid off by 2030 and is callable on or after May 1, 2017. The City generated $296,000 in savings as a result of this refunding.

- In 2013, the City used $800,000 of its fund balance to repay its Section 108 loan from the US Department of Housing and Urban Development (HUD) and reduced the City's debt burden by $913,000 over four years from 2014 to 2017. Also in 2013, the City refunded the 2004 General Obligation Bonds that were originally issued to complete sewer projects and generated savings of $156,000. The 2013 General Obligation Note had $3.2 million in principal and $510,000 in interest, totaling $3.7 million in debt service that is scheduled to be paid off by 2024 and is callable at any time.

- In 2015, the City refunded its 2005 federally-taxable General Obligation Pension Bonds by issuing the Series A of 2015 federally-taxable General Obligation Pension Bonds and generated total savings of $609,000. The 2015A Bonds had $7.4 million in principal and $3.8 million in interest, totaling $11.1 million in total debt service that is scheduled to be paid off by 2035 and is callable on November 15, 2025. The City also issued $355,000 of Series B of 2015 General Obligation Bonds to purchase a new fire vehicle.

As a result, debt service expenditures in the Sinking Fund as a percentage of City's total expenditures dropped from 15.8 percent in 2012 to a 14.3 percent in 2014.

Debt Service Spending from the Sinking Fund, 2012 - 2014

	2012 Actuals	2013 Actuals	2014 Estimated
Debt Service expenditures[2]	2,759,182	3,575,065	2,636,227
Three-Fund Total Expenditures[3]	17,420,321	18,750,908	18,405,426
Debt Service as a % of Total Expenditures	15.8%	19.1%	14.3%

Source: City General Ledger reports provided to the Coordinator on February 19, 2015.

[1] The figures in this chapter were provided by the City's underwriter in May 2015 and do not include the 2013 Line of Credit that is fully reimbursed outside the Sinking Fund by the Commonwealth for Riverplex projects.

[2] Debt service expenditures exclude payments and issuance costs related to refinancing transactions, but include the 2013 $800,000 debt repayment of the City's Section 108 loan from HUD.

[3] Total expenditures from the General Fund, Sinking Fund and Pension Fund, except for transfers between those funds.

Credit rating upgrade

In June 2014, credit rating agency Standard and Poor's (S&P) raised the City's underlying rating by two notches from BBB to A- with a stable outlook. S&P cited the City's "very strong liquidity position"; "very strong budgetary flexibility"; "adequate budget performance with assistance provided under Act 47" and "strong management despite recent fiscal challenges" as reasons for the upgrades. Those strengths were offset by New Castle's "very weak local economy" and "very weak debt and contingent liabilities with high pension costs and market value debt."

New Castle's credit rating is average compared to similarly sized cities in Western Pennsylvania and has the highest rating among similarly sized Western Pennsylvania cities under Act 47 oversight. New Castle ranks fourth out of nine in the larger list and ranks first out of seven in the list of Act 47 cities.[4]

Credit Ratings of Comparable Pennsylvania Cities

Moody's Credit Ratings	S&P's Credit Ratings	Cities
Aaa	AAA	
Aa1	AA+	
Aa2	AA	Greensburg; McKeesport
Aa3	AA-	
A1	A+	Hermitage
A2	A	
A3	A-	New Castle; Washington; Altoona
Baa1	BBB+	
Baa2	BBB	Johnstown; Oil City
Baa3	BBB-	Duquesne

**Aliquippa, Clairton and Farrell are also Act 47 cities in Western Pennsylvania but are not listed in the table above because their ratings are withdrawn.*

Regarding any future rate changes, S&P cites more risk of a downgrade than potential for an upgrade:

"New Castle continues to rely on the additional tax levy permitted under Act 47 to balance operations; according to management, it will continue to do so for the next few years. We could lower the rating if these pressures were to result in significant reserve or liquidity deterioration. We believe, what we consider, the city's very weak economy and very weak debt and contingent liabilities profile currently limit any possible upward rating movement."

Future expenditures

The 2015 budget anticipates $2.7 million in total debt service payments (principal and interest), but the refinancing in the first half of 2015 will bring actual spending on debt service closer to $2.4 million, absent any other changes. Instead of paying $561,000 of debt service on the 2005

[4] All credit ratings are the City's underlying rating for its most-recently issued debt except Duquesne, where only the local currency rating is available.

Pension Bonds, the City will only have to pay $178,000 of debt service on the Series A and B 2015 Bonds. That change will drop projected debt service expenditures in 2015 to 11.6 percent and in 2016 to 11.3 percent of the three-fund total, before they return to the 14.4 percent level in 2017 and then gradually decline, assuming no further refunding or new debt issuances.

Baseline Sinking Fund Expenditures

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Debt Service	2,365,911	2,294,090	2,915,548	2,875,301	2,962,337	2,941,899
Total Three-Fund Expenditures[5]	20,416,236	20,306,426	20,191,585	20,520,331	20,906,005	21,354,919
% of City Expenditures	**11.6%**	**11.3%**	**14.4%**	**14.0%**	**14.2%**	**13.8%**

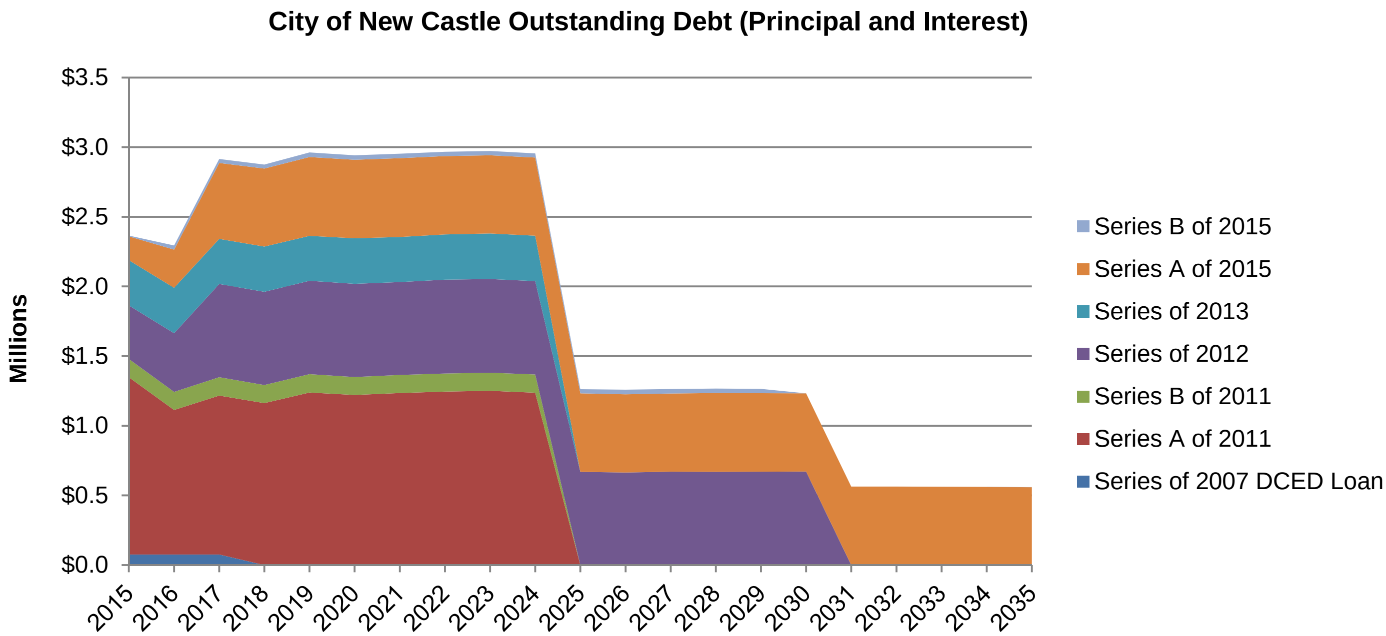
The City uses its Sinking Fund to repay three General Obligation Bonds, two GO Pension Bonds, one General Obligation bank note and a loan from the Pennsylvania Department of Community and Economic Development (DCED). In 2007, the City received a $750,000 no interest loan as part of the initial effort to restore cash flow stability and enable the City to meet its obligations for the rest of 2007. The City will make its last payment on that loan in 2017.

Outstanding Debt Service (Principal and Interest)

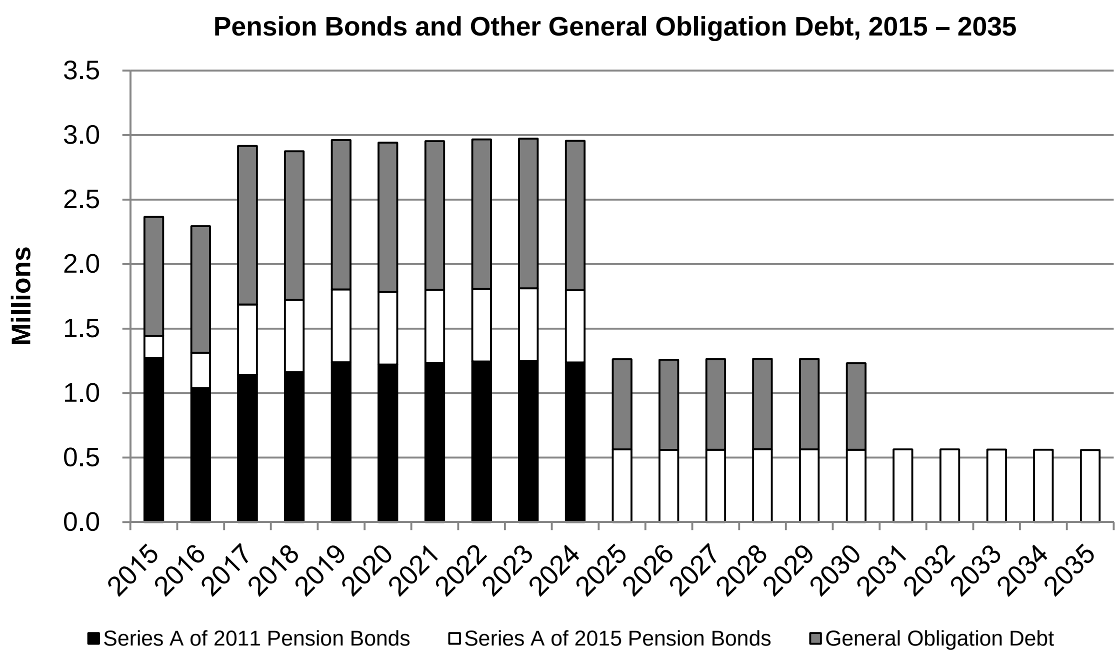
	Description	Last Payment	Debt Service 2015 - 2020	Interest
2007 DCED Loan	Loan	2017	$225,000	0%
Series A of 2011	GO Pension Bonds	2024	$7,075,882	Increases from 2.92% to 5.283%
Series B of 2011	GO Bonds	2024	$782,325	Increases from 2.0% to 4.35%
Series of 2012	GO Bonds	2030	$3,482,260	Increases from 1.6% to 4.0%
Series of 2013	GO Bank Note	2024	$1,949,132	2.60%
Series A of 2015	GO Pension Bonds	2035	$2,680,620	Increases from 1.0% to 4.375%
Series B of 2015	GO Bonds	2029	$159,866	Increases from 2.0% to 3.125%

The City issued new debt of $355,000 in 2015 to purchase a fire vehicle. There is no new debt issuances assumed in the Plan baseline, though the City's backlog of capital improvement needs may force the City to divert from that assumption before 2020.

[5] These are the total expenditures from the General Fund, Sinking Fund and Pension Fund, except for transfers between those funds.



The City's federally-taxable General Obligation pension bonds (Series A of 2011 and Series A of 2015) represent more than half of the City's debt service spending (61 percent in the 2015 budget). The following chart shows the City's current distribution of general obligation pension bonds versus other general obligation debt.



Outside the Sinking Fund, the City has a 2010 General Obligation Note of $5.0 million funded by the Commonwealth of Pennsylvania under the Redevelopment Assistance Capital Program (RACP) for the Riverplex facility renovation. The City uses a line of credit from a local bank to fund construction and then the Commonwealth reimburses the City for the principal and interest. The City tracks these transactions in an account separate from the Sinking Fund.

How does the City pay debt service?

The City of New Castle maintains a single Sinking Fund specifically dedicated to debt service on its general obligation debt. In recent years the City has had two recurring sources of revenue to make its debt principal and interest payments – a portion of the real estate tax and a portion of the earned income tax.

Predating the City's entry into Act 47, it has used a portion of its real estate millage to repay debt service. Money from that debt service millage flows directly into the Sinking Fund. The City also transfers a portion of prior year real estate tax revenue into the Sinking Fund. In the last 10 years the Sinking Fund millage has ranged from a high of 3.4 to a low of 0.34 mills. In recent years the City has been able to use less of the total real estate tax millage for debt and shift more to operations because of early debt repayment, refinancings and availability of prior year reserves in the Sinking Fund.

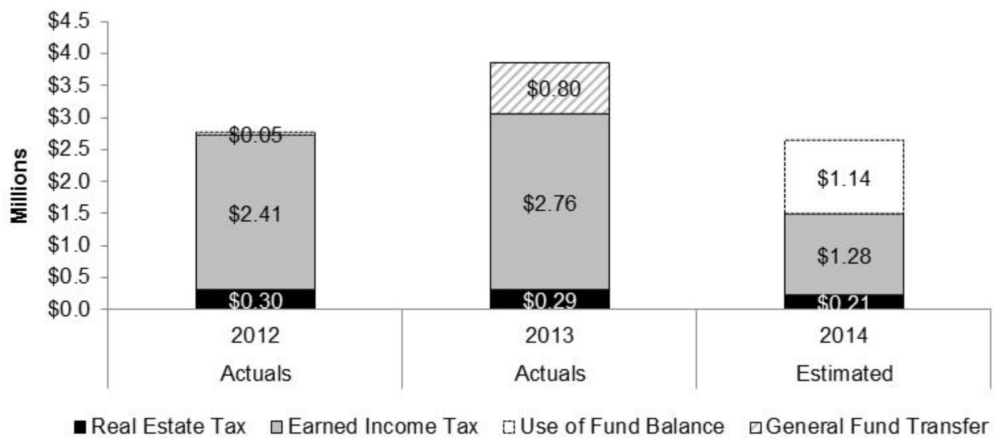
City of New Castle Millage Rates, 2005 - 2015

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund	8.493	8.131	6.833	8.121	8.163	10.128	11.205	11.18	11.18	8.969
Debt Service	1.246	1.608	3.332	3.428	3.386	1.421	0.344	0.369	0.369	2.58
Library	0.177	0.177	0.177	0.177	0.177	0.177	0.177	0.177	0.177	0.177
Total Millage	**9.916**	**9.916**	**10.342**	**11.726**	**11.726**	**11.726**	**11.726**	**11.726**	**11.726**	**11.726**

The City has also used a portion of the earned income tax (EIT) to pay debt. When the City entered Act 47 oversight, it was using a portion of the distressed pension EIT paid by residents and commuters to cover its pension-related debt. In recent years it has primarily used the Act 47-authorized EIT to cover pension debt. Unlike the portion of real estate tax allocated specifically to pay debt service from the Sinking Fund, the Act 47-authorized EIT that flows into the Sinking Fund can be shifted elsewhere as needed, so long as the City has that additional taxing authority.

As noted above, the City transferred $800,000 from its General Fund to the Sinking Fund in 2013 to pay off the Section 108 loan ahead of schedule. In 2014 the City used $1.1 million in Sinking Fund cash reserves to cover debt obligations. Those reserves existed because tax collections were higher or debt spending lower than budgeted (after refinancing or early repayment) in prior years.

Sinking Fund Revenues and Use of Fund Balance[6], 2012 - 2014



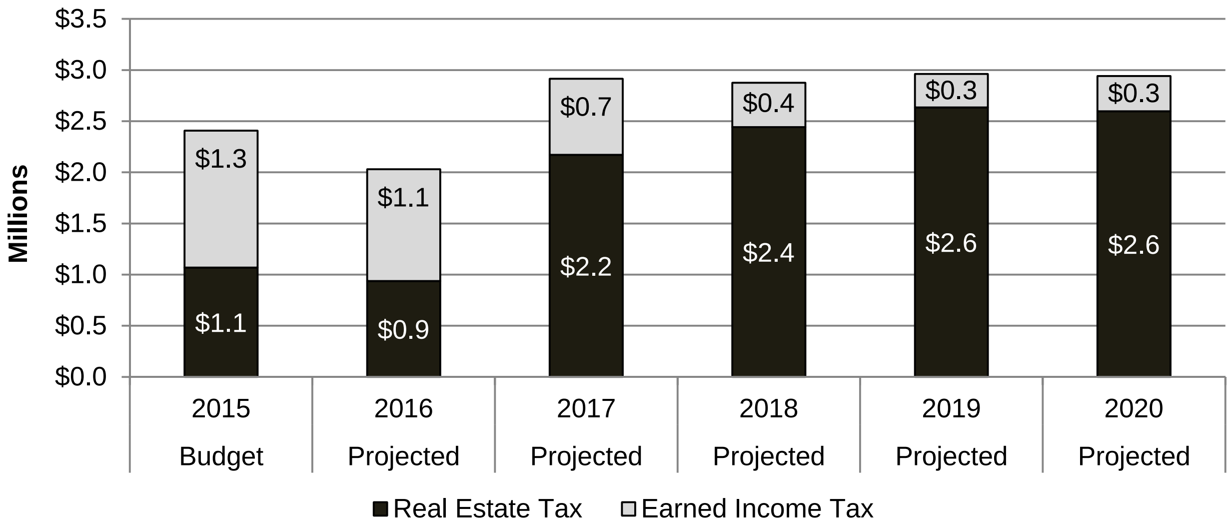
[6] There are also very minimal interest earnings (less than $3,000 per year) that are not shown because of the graph scale.

In the 2015 budget, the City estimated that it would have $341,384 remaining in the Sinking Fund at the end of 2014 that could be applied to 2015 GO obligations. The actual year-end bank balance for 2014 was $222,013.[7] There would have been a deficit of $119,000 in the Sinking Fund budget if the City had not also reduced debt service expenditures through the early 2015 refinancing. The baseline projections assume the refinancing will reduce 2015 debt spending enough to cover the $119,000 deficit and leave a $264,000 balance in the Sinking Fund that can be applied to the 2016 obligations.

As described in detail in the Revenue Chapter, the City needs to eliminate the Act 47-authorized portion of the EIT to exit Commonwealth oversight. The baseline projection shows the City eliminating a portion of the Act 47-authorized EIT on residents and commuters each year through 2018. The baseline projection also assumes that the impact of the EIT rate reduction will be distributed across the General Fund and the Sinking Fund. The end result in this scenario is less EIT available to cover debt.

Practically the City cannot have a deficit in its Sinking Fund since it has to pay its debt obligations, regardless of its Act 47 status. So the baseline projection shifts a larger portion of the total real estate tax revenue to the Sinking Fund, leaving less money from that source to support operations.[8]

Sinking Fund Baseline Revenue Projections, 2015 – 2020



[7] In addition to the $222,000 in cash, there was also a $134,000 loan due to the Sinking Fund from the General Fund at the end of 2014. The Amended Recovery Plan projections generally consider the City's total fund balance across the three major funds (General, Sinking and Pension), so shifting money from the General Fund to the Sinking Fund does not impact the City's overall financial condition. It would, however, provide a larger year-end Sinking Fund balance in 2015, allowing the City to shift a corresponding portion of the tax revenue to other purposes in 2016.

[8] The City could eliminate all EIT revenue that flows into the Sinking Fund and keep more in the General Fund. It would then have to use a larger portion of the real estate tax revenue to cover debt payments from the Sinking Fund. In either scenario there is less total tax revenue available for operations.

	2015 Projected	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Real Estate Tax	1,068,792	937,706	2,170,833	2,441,459	2,634,193	2,597,347
Earned Income Tax	1,339,395	1,092,096	744,715	433,842	328,144	344,551
Total Sinking Fund Revenues	**2,408,187**	**2,029,801**	**2,915,548**	**2,875,301**	**2,962,337**	**2,941,899**
Debt Services Expenditures	**2,365,910**	**2,294,090**	**2,915,548**	**2,875,301**	**2,962,337**	**2,941,899**
Surplus / (Deficit)	42,277	(264,290)	0	0	0	0
Ending Fund Balance	264,290	0	0	0	0	0

Initiatives

As noted above, the mandatory EIT rate reduction changes the mix of tax revenue that the City will use to pay its debt. In the Plan's baseline scenario the City would have less EIT revenue available to pay debt service, so it would have to use more of its real estate tax revenue.

The Revenue chapter describes the full impact of the EIT reduction in more detail and provides two options for retaining some of the additional EIT revenue that the City has relied upon since entering Act 47 while still complying with the deadline for exiting oversight. Initiative RV01 describes the recommended approach and an appendix at the back of the Amended Recovery Plan shows the impact that initiative has on the City's Sinking Fund revenues. The initiative basically restores some of the EIT revenue available to pay pension bond debt, allowing more real estate tax revenue to fund operations.

The City's underwriter identified three debt issuances that can be refunded during the term of this Amended Recovery Plan. He recommended a simple savings estimate of 5 percent of the remaining principal for each issuance at the time that the bond or note is callable. The exact amount of any savings will depend on issuance costs and other factors that are not predicted here.

DS01.	**Identified debt refinancing opportunities**	
	Target outcome:	Close projected deficits
	Financial Impact:	$178,000
	Responsible party:	Business Administrator, City Solicitor, City Council

The City's underwriter identified the following debt refinancing opportunities:

- The City issued $1.2 million in General Obligation Bonds in 2011 to fund capital improvements. As of 2015, there is still $1.1 million in principal to be retired through 2024. The estimated financial impact assumes that the bonds would be called back within 90 days of the callable date of November 15, 2016, thereby retiring the remaining $975,000 in outstanding principal through current refunding. The estimate below assumes a five-percent savings estimate ($49,000) taken in 2017.[9]

[9] Assuming that the City refunds this series before November 15, 2016

- The City issued a $3.2 million General Obligation Note in 2013 to refund the Series 2004 General Obligation Bonds that were originally issued to complete sewer projects. This debt series is callable anytime, and the estimated financial impact assumes that the City would refund this series in 2016 when the remaining principal is $2.6 million to provide $129,000 in savings.[10]

While the estimate below shows the City taking all of the 2011 GO Bond savings in 2017 and distributing the 2013 GO Note savings across five years, the City could distribute the savings differently across this period.

Financial Impact

Refunding item	2016	2017	2018	2019	2020
2011 GO Bonds Series B	0	49,000	0	0	0
2013 GO Note	25,800	25,800	25,800	25,800	25,800
Total estimated savings	**25,800**	**74,800**	**25,800**	**25,800**	**25,800**

The City has a third opportunity to refinance debt, but the impact is different because of the underlying debt involved. The City issued $7.6 million in General Obligation Bonds in 2012 to fund a portion of the unfunded actuarial accrued pension liability. The bonds are callable on May 1, 2017, and by then there would be $7.3 million in outstanding principal to be retired. Applying the 5 percent estimate results in $364,000 in savings.[11]

Refinancing pension bond debt would lower the total projected pension costs as defined by Pennsylvania Act 205 of 1984,[12] which in turn lowers the total amount of distressed pension tax revenue that the City can generate from levying the distressed pension tax as described in initiative RV01. The projected amount of distressed pension tax revenue is tied to the City's projected pension-related debt expenditures so reductions in pension debt spending are offset by reductions in distressed pension revenue. The City could still receive savings by refinancing the pension debt, but the savings would be used to lower the distressed pension tax rates, and not for use elsewhere.

DS02.	**Adopt debt policy**	
	Target outcome:	Improved financial management; maintain credit rating
	Financial Impact:	N/A
	Responsible party:	Business Administrator, City Solicitor, City Council

The City does not have a formal policy to guide its debt related activities. Adopting such a policy would provide a guideline for evaluating future debt-related decisions, set benchmarks for managing overall debt burden and send another signal to financial institutions, including credit

[10] Assuming that the City would refund this series before October 1, 2016

[11] Assuming that the City refunds the bond by November 1, 2017

[12] Total pension costs as described by Act 205 include pension-related debt and the City's minimum municipal obligation to the employee pension plans.

rating agencies, that New Castle has improved its financial management. It will also be a useful tool to guide future debt decisions after the City leaves Act 47.

With the Coordinator's guidance, the City shall adopt by ordinance a debt policy that achieves the following objectives:

- Set targets for the annual total debt service as a percent of operating expenditures and other important measures;

- Establish processes for how the City will issue new debt;

- Provide guidelines for when the City will issue debt, when it will pursue refinancing opportunities and whether it will use any swaps or derivative products after it exits Act 47 oversight.[13]

As an example of an issue that the City's debt policy should address, the City could have a policy that it will only pursue debt refinancing when it produces savings equal to a minimum net present value of the bonds being refunded. That would help prevent the City from rushing into a refunding that would have yielded higher savings in the future. The City can build conditions into the policies so that the Administration has the flexibility to manage the City's debt while keeping City Council and the public informed about the impact on City government's overall financial picture.

What about issuing new debt?

The Amended Recovery Plan assumes the City will not issue any new General Obligation debt through 2019, setting aside the refunding opportunities noted above. The City has large projected annual deficits because of the mandatory reduction in the Act 47 authorized portion of the earned income tax and does not have the financial capacity to take on higher debt service payments. The Amended Recovery Plan already anticipates real estate tax increases through 2019 and increasing the debt burden above the baseline levels could push those increases even higher.

However, the City's elected and appointed leaders rightly note that the City's abstinence from issuing debt has consequences for New Castle residents, businesses and visitors. Without issuing debt, the City is forced to rely on its reserves, non-recurring funding sources like the Marcellus Shale gas lease proceeds, and any grant funding to execute any significant capital improvements, like street paving, bridge repair and building renovations. The next chapter describes those needs in more detail and directs a portion of the reserves to capital improvements, though not enough to meet the City's needs.

Depending on the nature and urgency of future capital needs, the City may need to revisit the assumption that it will not issue any new General Obligation debt through 2019. If that occurs, the Coordinator will guide the City's deliberations by providing updated financial projections. The City should also pass the debt policy described in DS02 to further guide those discussions.

[13] New Castle is prohibited from using swaps while it is under Act 47 oversight.

Capital Improvement Program

Capital Improvement Program

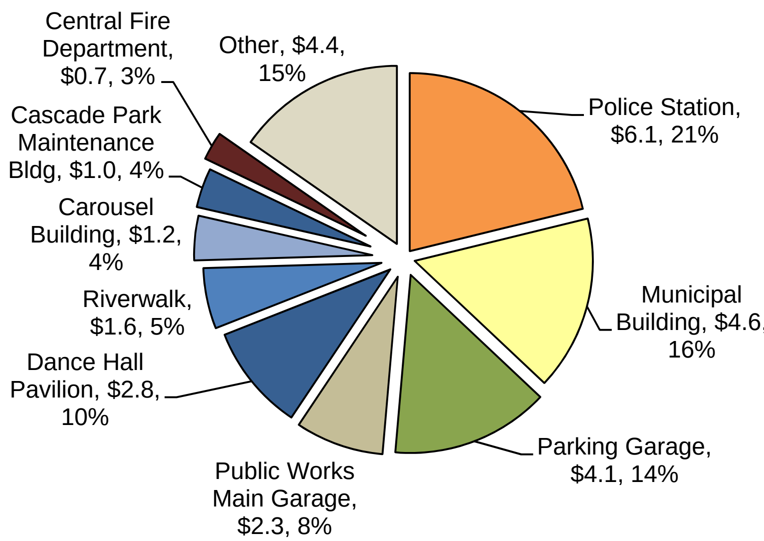
This chapter talks about New Castle's capital assets and their general condition; the City's current and recent capital budgets and three-year capital plans; and the City's processes for managing its capital assets and its capital program.

The City's capital assets fall into four main categories: buildings; infrastructure (roads, bridges, and storm water system); vehicles and equipment; and recreational assets, including New Castle's historic Cascade Park. Each of these categories is briefly described below.

Buildings

An insurance listing of New Castle's buildings and parks includes 112 structures and parks at 28 different locations. Only a few of these are major structures like the City Building, Police Station, Central Fire Station, Fire Department Sub-Station, and a five-level parking garage. Many are dug outs, concession stands, park restrooms, basketball courts, picnic shelters, and so on. The major structures are worth distinguishing because proper maintenance of, and periodic capital investment in, these structures is necessary for continued use of the buildings. The chart below shows that three buildings make up about half of the total insurance value of New Castle facilities: the Police Station, the Municipal Building, and the Parking Garage. Another third of the total value is in the Public Works Garage, Central Fire Department, and several Parks and Recreation facilities, including the maintenance building at Cascade Park.

New Castle Facilities by Insurance Value, 2014



There are nine buildings that are used in daily City operations. These are shown in the table below.

City of New Castle Structures Used in Daily Operations

	Structure	Square Feet	Insurance Value ($)
1	Police Department	101,470	$6,113,250
2	Municipal Building	25,206	$4,576,522
3	Steel Parking Garage	TBD	$4,141,540
4	Public Works Main Garage	20,450	$2,310,693
5	Cascade Park Maintenance Building	TBD	$1,030,000
6	Central Fire Department	5,500	$738,541
7	Public Works Garbage Shed	7,800	$378,055
8	Impound Lot and Office	TBD	$216,300
9	Fire Substation	3,250	$206,000
	Subtotal		**$ 19,710,901**

City facilities are in a broad range of conditions. At the best end of the scale is the Police Department Building, which was acquired by the City in 2010 and had renovations completed in 2011. The facility was badly needed, since the Police Department had previously been located on the first floor and basement of the Municipal Building, in space that was inadequate for Department functions and in extremely poor condition. The new building accommodates all the Department's current needs, is more than adequate in terms of space, is code-compliant and provides an appropriate, professional setting for Police Department functions.

The Central Fire Department is in the middle of the range of conditions of City buildings. The building is aging and has some functional shortcomings (e.g., the locker room and work-out room are in the garage rather than the building proper). However, there have been incremental improvements. The garage roof and station "man-doors" were replaced in 2015, the former through a Hoyt Foundation grant and the latter using City capital funds. Funds remaining from the roof project will be requested for use on window replacements. Bathroom and kitchen upgrades are still needed.

At the bottom end of the range of conditions is the Public Works Main Garage. Although the Main Garage is "home base" for Public Works employees, it has no operational toilets because it is not connected to the sewer system or septic tank. Instead, one portable toilet is in the main garage area. The old lights in the garage area were replaced with LED lights, but there are so few that most of the garage is very dimly lit. Climate controls are inadequate, particularly for the vehicle mechanics who work in the main space of the garage year-round. Garage doors and man-doors are seriously deteriorated, there are gaps between the walls and the roof, and there are places where vegetation is growing in through the walls. Garage equipment is in poor condition as well; recently, a hydraulic lift failed, and the vehicle that had been on the lift crashed to the floor.

Infrastructure: Roads

The City is responsible for about 100 centerline miles of roads. The City does not have an inventory of road segments. However, the City does maintain a database of complaints about potholes or other road condition problems that is used to prioritize repairs and resurfacing projects.

The City's engineer estimates that the average useful life of a road in New Castle is 10 years. According to the records of the engineer, the City has done some paving every year since 1997 except 2004, 2005 and 2012. Nonetheless, he estimates that about half of the City's roads are in poor condition ("patches on patches"). He also notes that the City does not do any improvements to its alleys.

He notes that resurfacing projects in New Castle typically require milling – not just applying another coat on top of the existing surface – because of elevations of curbs and curb drains. He estimates that the City's average costs for resurfacing are $15 per square yard, not including manhole adjustments or base repairs. Based on the total area of City roads and average resurfacing costs, $2 million is the estimated level of investment needed per year to keep up with life-cycle resurfacing. By contrast, the City expects to spend about $524,000 in FY2015 for road resurfacing projects.[1]

Infrastructure: Bridges

The City of New Castle owns ten bridges, including one jointly owned with North Beaver Township. The bridge spans range from 15 feet to 237 feet for the recently replaced Grant Street Bridge, and construction types include steel beam with concrete deck, reinforced concrete, and wood decks. Three of these bridges, including the one that is jointly owned, are closed because of their poor condition. Another is restricted to a single lane of traffic. The City's engineer states that inspections of the City's bridges are current.

In addition to the bridges owned by New Castle, there are a number of bridges in the City that are owned by the Commonwealth of Pennsylvania. When construction work is done on the state bridges, the City of New Castle is responsible for the sidewalk portion of construction.

According to the City's engineer, the City does not have an annual preventive maintenance and capital program for its bridges; repairs are made to bridges when required as a result of inspections.

Infrastructure: Storm water system

The City storm water system includes storm water pipes and inlets. These assets are only partially mapped, and the maps that exist are not 100 percent accurate. For underground assets, the City does not typically know asset conditions until there is a problem that requires excavation – partly because of budgetary limitations, and partly because some storm water lines are very deep or located under residential buildings. The City occasionally inspects storm water lines using a flusher truck and a sewer camera when necessary, but these inspections are limited for budgetary reasons, since renting the camera alone costs $150 per hour. As of August, 2015, the City's flusher truck has broken down, and likely must be replaced. The City tried unsuccessfully to include the storm water assets in the 2010 sale of its sanitation assets to the New Castle Sanitation Authority.

As part of the normal operation of storm water lines, they gradually become clogged with sand, rocks, branches and other debris if not periodically flushed. The City has a modest maintenance program, but it is insufficient given the extent of the storm water system. The age of the storm water lines is also a significant problem. Although the City does not know how many miles of lines there are and what the age of each line segment is, the City engineer estimates that most lines range from 50 to over 100 years old. Many of them are made of vitreous clay, which has an estimated service life of 100 years. In that case, some portion of the City's storm water lines may have already reached the end of their service life and more will do so every year. Although reaching the end of the service life does not mean a pipe will break, it does suggest that systemwide the City can expect the rate of line collapse to increase in the coming years.

Much of the City's work on the storm water system is reactive, e.g., replacing collapsed storm water lines or broken inlets. The engineer estimates that there have been 12 to 13 bid packages in the last 10 to 15 years to replace several inlets at a time (the range of cost per inlet is $1,800 to $3,500). Nonetheless, he feels that inlets are replaced at a slower pace than they are broken.

[1] This amount includes County and utility contributions to project costs.

As of July 2015, he estimates that 50 inlets need replacement at an average cost of $3,000 per inlet, or $150,000 in immediate inlet repair costs alone.

Heavy rains in June 2015 caused flooding in the City, including the collapse of a hillside along Big Run and extensive damage to Carl Street. The Carl Street repairs triggered the City's use of $200,000 from the Act 47 City Council reserve fund. Although it is not possible to prevent emergencies and repairs resulting from storm events, the severity and frequency of emergency repairs would be reduced by a preventive maintenance and capital program that prioritized higher-risk parts of the system.

Vehicles and equipment

Overall, the condition of the City's equipment and vehicle fleet has improved significantly in recent years. The City expects to receive two new 750-gallon pumpers for the Fire Department by the end of 2015. In 2012 the City signed a seven-year lease for two garbage trucks, replacing vehicles that had broken down to the point of the City needing to rent temporary replacements. A particular emphasis of the 2015 capital budget was replacing vehicles that could no longer pass annual inspection. In 2015, budgeted vehicle and equipment acquisitions included the following:

- 5 sedans for Code Enforcement
- 2 zero turn mowers (1 for Parks and Recreation, 1 for Public Works)
- $30,000 for Police vehicle replacement program
- 1 ton dump/ salt truck for Public Works
- 3 pick-up trucks for Public Works
- 1 750-gallon rescue pumper for Fire (the other is grant funded)

Capital funds budgeted for vehicles and equipment account for 55.6 percent of the total 2015 capital budget.[2] In addition, the 2015 capital budget included the purchase of ten golf carts for the Sylvan Heights golf course as part of a two-year conversion from leased to owned golf carts.

Despite recent investments, there are still vehicles and equipment operating beyond their useful lives. For example, Public Works' backhoe has a broken boom, so it is unusable. When a backhoe is needed, the City must rent one, but rentals are not always available when the City needs them.

Recreational assets

The City's recreation assets include 39 parks and playgrounds, ranging from the 72.26 acre Cascade Park to the 18-hole golf course at Sylvan Heights to smaller neighborhood parcels. There are several significant structures located at Cascade Park and Sylvan Heights, as shown in the table below.

Parks and Recreation Facilities – 2014 Insurance Values

Structure	Year	Sq Ft	Value ($)
Cascade Park Dance Hall Pavilion	1996	15,444	$2,787,482
Cascade Park Carousel Building	TBD	6,358	$1,164,549
Cascade Park Swimming Pool	TBD	TBD	$460,716
Golf Course & Club House	1971	3,630	$391,428
Bath House	TBD	TBD	155,944
Golf Cart Storage garage	1971	4,584	151,089
Total, these buildings	--	TBD	$5,111,207

[2] Based on a budget amount for the pumper of $300,000, i.e., the cost net of donations. Excludes $150,000 budgeted for a Fire/ EMS vehicle.

The City has added modestly to its portfolio of recreation assets in the last several years. At the Deshon Sports Complex, there is a new storage building, playground equipment and grant-funded double batting cage. At Cascade Park, there are two new gazebos, one provided by the Rotary Club, and the other provided by a private donation. The generosity of New Castle's residents and organizations is praiseworthy, and results in real benefits for those who use New Castle's parks; at the same time, the City must recognize that additional structures will increase its annual maintenance responsibilities and eventually its capital needs as well.

There have also been a number of capital improvements at the City's existing recreation facilities, including roof repairs at the Carousel and Dance Pavilion buildings in Cascade Park, restroom and patio renovations at the Sylvan Heights club house, and new roof and siding for the Sylvan Heights golf cart shed. With the help of the United Way, the City expects to be able to re-open the Olympic-size swimming pool at Cascade Park in 2016. And the City is partnering with Lawrence County on a grant-funded site plan encompassing Cascade, Deshon, and Arlington Parks.

Other

Besides buildings, infrastructure, vehicles and equipment, and recreational assets, New Castle has other capital assets briefly described below.

- **Parking:** The City's five-story parking garage was referenced in the building section; this structure was renovated in 2010 through 2011. The City's parking assets also include surface parking lots, parking meters and a vehicle. One surface lot was paved in 2014, and the City has obtained Redevelopment Assistance Capital Program (RACP) funding to pave two additional lots in 2015; no additional paving projects are expected to be needed for several years. The City's parking meters are new, and the City recently acquired a new pickup truck for parking operations.

- **Signage:** The City is responsible for traffic signage. City representatives noted that the Commonwealth of Pennsylvania has recently passed legislation with new reflectivity requirements. It is not yet known whether the City will have to replace its existing signs and, if so, at what cost.

- **Traffic signals:** The City has eliminated some traffic signals where they were no longer necessary, and has replaced others that were beyond their useful life. The cost of replacing traffic signals at an "average" intersection is estimated at $100,000. When the City has obtained grant funds, it has replaced lamps in traffic signals with light emitting diodes (LEDs), which will result in lower electric costs relative to the old lamps. The City continues to apply for LED grants.

- **Street lights:** The local electric utility, Penn Power, used to own most of the street lights in New Castle. However, ownership is transferred to the City upon replacement (e.g., if the City wants to replace a standard street light with a decorative one, or if street light replacement is required as part of a bridge reconstruction project). When ownership is transferred from Penn Power to the City, billing is no longer based on the utility's bulk street light meter but on an individual street light meter. Although LEDs would be more energy efficient for street lights as well as traffic lights, the up-front cost has been prohibitive to date.

Capital Budget and plans

The City passed an ordinance in 2012 establishing a Capital Improvement Fund, annual capital budget and processes for developing and monitoring the Capital Improvement Plan (CIP) Since then, in compliance with the ordinance, the City has developed a capital budget and three-year CIP each year. The table below summarizes the capital budgets from 2012 to 2015 by project category.

Budgeted Capital Expenditures – Summary by Category, 2012-2015[3]

Category	2012	2013	2014	2015	4-Yr Total
IT	0	0	10,000	10,000	20,000
Vehicles/ Equipment	212,000	52,000	15,000	1,084,300	1,363,300
Recreation Assets	0	144,000	130,000	114,200	388,200
Buildings	40,000	24,000	0	25,000	89,000
Infrastructure	0	105,000	200,000	280,000	585,000
Other	0	50,000	185,000	168,927	403,927
Total	**252,000**	**375,000**	**540,000**	**1,682,427**	**2,849,427**

Grant funded projects, such as the police station renovation, are not included in this table.

The capital projects are organized into the following categories:

- **Information technology:** The only IT project was hardware and software for code enforcement. The City also received an Act 47 grant from DCED to replace hardware and network infrastructure in 2015.

- **Vehicles/equipment:** Projects in this category includes police vehicles, code enforcement sedans, pick-up trucks, a trash truck, fire pumpers, parking meters, and a police video system.

- **Recreation assets:** This category includes all projects for the Sylvan Heights Golf Course, including new golf carts; roof repairs at the Cascade Park Carousel and Dance Pavilion buildings; and picnic shelter improvements.

- **Buildings:** The projects in this category are diesel exhaust removal systems at the fire stations, new man doors at the fire stations and a drainage project at the Public Works garage.

- **Infrastructure:** The only Infrastructure projects are paving (each year from 2013 to 2015) and storm water inlet repairs in 2013.

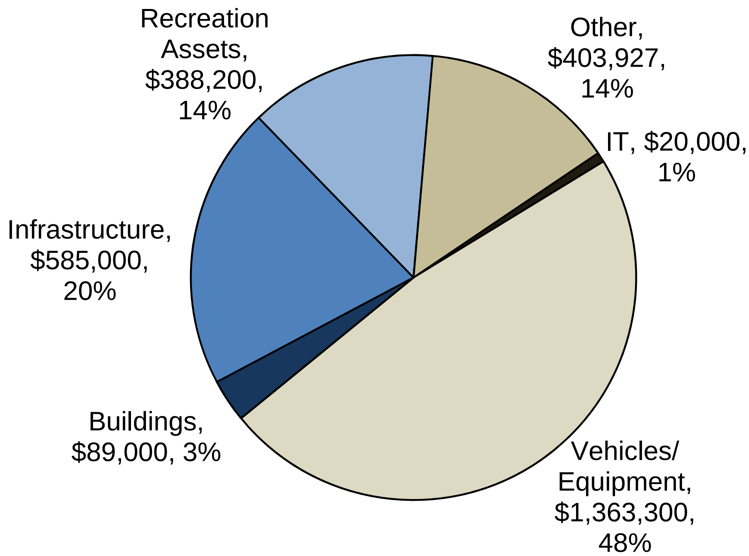
- **Other:** This category includes neighborhood stabilization for code enforcement;[4] budgeted matching funds for grants; and the Police Impound Lot.

The pie chart below summarizes the four-year capital budget totals by category. From 2012 to 2015, nearly half of authorized capital budgets were in the *Vehicles and Equipment* category. Less than a quarter of the value of budgeted capital projects were for *Buildings and Infrastructure*. This indicates that the City's capital budgets have favored shorter-lived projects over longer-lived projects.

[3] The total capital budgets in 2010 and 2011 were $10,000 each for projects recommended in the original Recovery Plan. With the approval of DCED and the Act 47 Coordinator, the City reprogrammed the grant funding for other projects, such as technology upgrades in City Council chambers.

[4] Please see the Economic Development chapter for more discussion.

Capital Budgets by Category, 2012-2015



Capital maintenance requirements

Given that each of the City's capital assets has a useful life, the City needs to plan to replace or substantially improve each asset at life-end, or invest in assets on an interim basis to extend their useful lives. For the City to estimate how much funding is necessary for such useful-life projects, and when it is needed, the City needs to know how old each asset is, what its useful life is, and what the asset costs. This is information the City does not currently have.

A central question for City officials is, "how much should the City invest in its capital assets to at least maintain their condition?" Until the City can compile the information necessary to answer this question with some precision, a more theoretical estimate may be instructive. The table below lists four categories of the City's capital assets, and shows theoretical annual spending targets based on an assumed total value and a rule-of-thumb useful life. It also shows average annual capital budgets from 2012-2015, and compares these amounts.

Theoretical Annual Capital Spending Targets: Selected Capital Asset Categories

Asset Category	Assumed Useful Life (Years)	Assumed Total Value	Annual Spending Target	Avg Annual Capital Budget, 2012-2015[5]	Surplus/ (Shortfall)
Vehicles/ Equipment[6]	5	$5,010,720	$1,002,144	$340,825	($661,319)
Recreation Assets[7]	40	$5,787,049	$144,676	$97,050	($47,626)
Buildings[8]	40	$11,205,670	$280,142	$22,250	($257,892)

[5] Capital budgets do not include grant funds, so actual funding available for capital projects is somewhat higher.

[6] Vehicles/ Equipment: based on City's 2013 audited financial statements. Useful Life is that used for depreciation purposes; assumed total value as presented in the Capital Assets schedule.

[7] Recreation Assets: Includes the Dance Hall, Carousel Building, and other recreational facilities. Useful life assumed to be the same as Buildings. Assumed total value based on insurance listing.

[8] Buildings: Only includes buildings used in daily municipal operation. Useful Life is that used for depreciation purposes. Assumed total value based on insurance listing.

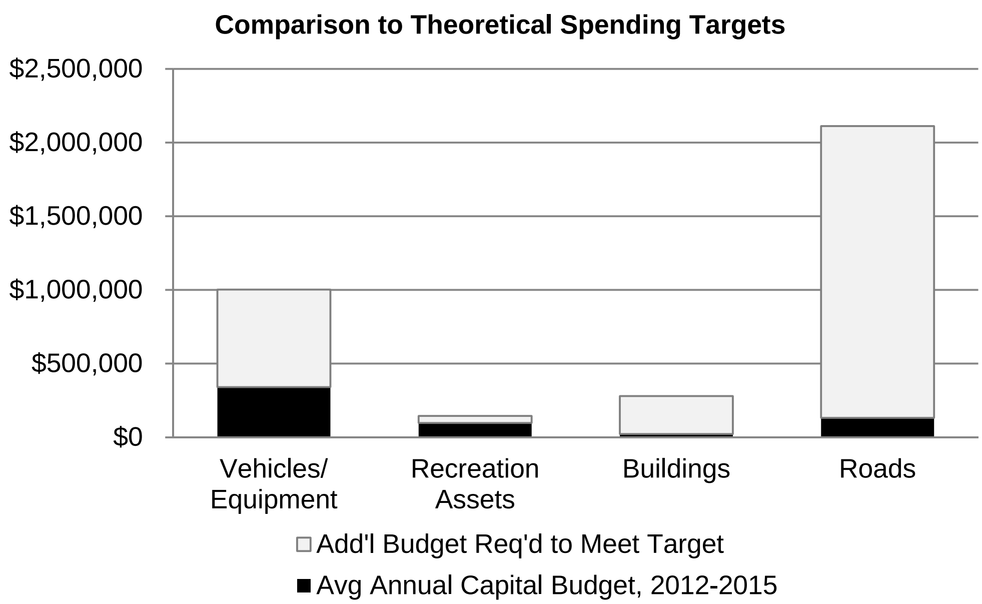
Asset Category	Assumed Useful Life (Years)	Assumed Total Value	Annual Spending Target	Avg Annual Capital Budget, 2012-2015[5]	Surplus/ (Shortfall)
Roads[9]	10	$21,120,000	$2,112,000	$132,500	($1,979,500)
Total		**$43,123,439**	**$3,538,962**	**$592,625**	**($2,946,337)**

Notes: Bridges and the storm water system are critically important assets but not included in this calculation due to lack of value data.

This theoretical calculation suggests that actual spending significantly lags the amounts necessary to maintain assets properly. For example, if the average useful life of the City's buildings is 40 years, and the total value of those buildings is $11.2 million, then average annual spending of $280,000 may be sufficient to keep them in an overall stable condition. However, based on capital budgets from 2012 to 2015, average annual budgets for buildings is only $22,000, or not even 10 percent of the target amount. Even if annual spending targets were only half of what is shown in this theoretical calculation, actual budgets would still significantly lag targets in each of these categories except recreation assets.

As shown in the chart on the following page, the comparison of actual budgets to theoretical spending targets also suggests that the City's capital budgets for Vehicles and Equipment and Recreational Assets may be closer to the theoretical targets than its budgets for Buildings or Roads. In other words, although the City appears to be under-spending in all categories, the under-investment is likely worse in the longer-lived asset categories of buildings and roads.

It should also be noted that the standard for investing in storm water infrastructure according to one source[10] is one percent of the system's value; this would be consistent with an average useful life of 100 years of storm water assets. So if the City has $10 million in infrastructure assets, an order-of-magnitude estimate of required annual spending would be $100,000.



[9] Roads: Useful Life provided by City engineer; Assumed Total Value calculated based on total centerline miles, average street width, and average cost per square yard of resurfacing projects as provided by City engineer.

[10] Based on Meadville, PA: *City of Meadville, Stormwater Program and Funding Project,* http://www.paseagrant.org/wp-content/uploads/2012/08/Meadville-Impervious-Fee-Talk-3reduced.pdf

Capital Funding Sources

The City's capital budget identifies which projects are authorized in what amounts, but it does not identify which funding sources are used for which projects. Unless there are funds earmarked for a specific project, such as grant funds, the Business Administrator typically determines which funding source to use based on the project and available funds at the time payments are made.

The City has a real estate tax millage designated for repaying the principal and interest associated with bonds issued to make capital improvements.[11] Since entering Act 47 oversight in 2007, City leaders have focused on paying off the debt that the City carried into oversight or new borrowings that were needed to sustain day-to-day operations in 2007 and 2008.

Since entering Commonwealth oversight in 2007, the City has rarely issued new debt to fund capital improvements and 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 has used for capital improvement projects. The City used $408,000 in 2014 and budgets another $1.3 million in 2015. If the City uses that amount, there would be less than $100,000 left in the account in 2016.

- **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 General Fund that must be used for capital projects, paying debt ahead of schedule or making an additional contribution to the employee pension plans, according to the provisions of the 2012 Amended Recovery Plan.[12] The Administration intends to use the $980,000 for capital projects starting in 2016 when the Marcellus Shale money is exhausted.

- **Commonwealth liquid fuels allocation:** The City receives a Liquid Fuels allocation from the Commonwealth to help cover street related expenditures. The City has used a small portion of that allocation for street paving, with the rest used to purchase road salt or pay for street light electricity. The 2015 budget allocates $35,000 for paving and patching materials.

- **Grant funds:** The City has been very successful in supplementing its own capital funding sources with grants and donations. It is important to note that generally grant-funded capital projects are not included in the capital budget. The table below summarizes grants for capital purposes from 2011-2015; it includes a $1.3 RACP grant for the renovation of the new Police Station building.

[11] Please see the Revenue chapter for more information.

[12] Please see the Revenue chapter for more information on this transfer.

Grants for Capital Purposes, 2011 - 2015

	2011	2012	2013	2014	2015	5-Yr Total
Police	1,300,527	29,114	29,946	38,502	10,000	1,408,089
Fire	0	12,590	0	13,133	544,319	570,042
Public Works	0	360,000	0	236,590	0	596,590
Parks and Recreation	0	9,734	0	10,000	0	19,734
Total	**1,300,527**	**411,438**	**29,946**	**298,225**	**554,319**	**2,594,456**

Other funding sources for capital projects include utility contributions to road resurfacing projects; Pennsylvania Act 13 funds; and Police forfeiture funds.

In addition to grant funds, the City has had capital projects executed by volunteers, particularly at Cascade Park. For example, the following are projects implemented by the Rotary Club at Cascade and Gaston Parks in recent years:

- Rebuilt part of the Grove kitchen and reroofed the whole building;
- Painted the Carousel Building, rebuilt the arch door and chemically cleaned the old stone entrance;
- Installed the Cedar Gazebo at the overlook;
- Built new stalls in the old stone restrooms;
- Cleaned the creek at Gaston Park, replacing eroded stone wall; replaced footers, pier and wooden walking bridge.

Given limitations on City capital funds, the grants and volunteer projects are badly needed. At the same time, the City should report all capital investments made from all funding sources. The City also may need to compensate in its project prioritization process for those projects that are not eligible for grant funds or not desirable projects for volunteers.

Capital Program Management

New Castle has many reasons to be proud of its progress in capital program management. It has successfully implemented the capital budget ordinance that was passed in 2012, including faithfully engaging in a collaborative capital budget development process each year. It has inventories of some capital assets, specifically its buildings, recreational assets, vehicles and equipment. The 2015 capital budget demonstrates an understanding of the importance of ongoing infrastructure investments with paving funded each year and inlet repairs funded in two years. And the City has been very successful in augmenting its limited capital funding resources with grants and donations.

There is still room for improvement. The City's current capital project identification process is based on what is on City managers' "radar screens" rather than data about the assets under their care. Most importantly over the long-term, the City has one significant network of capital assets – its storm water system – that does not have a complete inventory or condition assessment, and is likely to have significant capital needs. The City needs to shift from reactive emergency repairs to a proactive plan for inventorying its storm water system and data-based annual maintenance and capital program. This effort needs to include development of a dedicated revenue stream to offset system costs. Although emergency repairs will inevitably be necessary, more effective management should gradually reduce the frequency and severity of those emergencies.

Second, the City's process for prioritizing among identified capital needs must be re-considered. When capital funds are limited, it is hard to "bite the bullet" and spend a large percentage on one project, deferring many other compelling needs. But it is a mistake to spend money renovating picnic shelters when Public Works employees do not have a functional restroom. The City appropriately prioritized the renovation of the new Police Station in 2010 and 2011, and the new facility has had significant, positive impacts on both productivity and morale. The same decisive step needs to be taken now for the Public Works Garage.

While these two urgent needs should be the City's top priorities in terms of capital program management, other, longer-term goals should include developing an asset management plan (for assets other than storm water) based on at least a basic asset inventory and condition assessment; and improving the presentation of capital budgets so that they present revenues as well as expenditures and include grant-funded projects as well as those funded by pay-as-you-go sources. The following section describes initiatives for advancing these goals.

Initiatives

The Coordinator recognizes the fundamental tension that exists between the analysis in this chapter and the financial realities described in other parts of this Amended Recovery Plan.

This chapter demonstrates a way of estimating how much money the City needs to spend to maintain its current assets and improve basic infrastructure, like roads, bridges and storm water sewer lines. Even with the City's success in securing grants and the $2 million in proceeds from the Marcellus Shale gas lease, the City has not been able to spend the amount needed on its infrastructure.

The City's ability to continue even the current level of infrastructure spending is tentative at best. New Castle has to eliminate the portion of the resident and non-resident earned income tax that is tied its Act 47 status to comply with the statutory deadline for exiting Act 47 by 2019. As described in the Revenue Chapter, that mandatory reduction will cost the City millions of dollars from its largest and most robust source of revenue. The Amended Recovery Plan's baseline projection shows a large deficit in 2019, the same year in which the Coordinator has to determine whether the City is financially stable enough to leave Act 47 oversight.

City officials have had preliminary discussions about issuing new debt in the next couple years to help address the backlog of capital improvements, especially road paving and storm water system repairs. Their desire to address these needs is understandable and appropriate. But at this point the City cannot afford the principal and interest payments associated with new debt, particularly against the backdrop of annual real estate tax increases that may be needed to sustain basic day-to-day operations. In the short term, the Amended Recovery Plan continues to City's practice of funding capital needs on a pay-as-you-go basis, albeit at a much lower level than is ideal. The Plan then focuses the City's resources and attention on a limited set of high priorities:

- Improving the storm water management system and establishing a fee to fund ongoing maintenance and system repairs;
- Addressing the very poor conditions at the Public Works garage;
- Improving the existing capital improvement planning and budget process.

CP01.	**Replace or renovate Public Works Garage and "Garbage Shed"**	
	Target outcome:	Address high priority capital need
	Financial Impact:	TBD
	Responsible party:	Mayor, Public Works Director, Capital Project Review Committee

The first Amended Recovery Plan adopted in 2012 included an initiative called, “Review alternatives to replace the public works garage.” That initiative noted, “the sheet metal structure is in poor condition and needs significant renovations or replacement. Situated between two minor inclines, the building has flooding problems. It also lacks sufficient indoor office space and does not have the temperature control needed to house computer equipment.”

Since November 2012, Public Works did correct the flooding problems and received one used window unit air conditioner from the Police Department for use in Director’s office where computer equipment is located. However, serious problems remain, including the lack of proper sanitary facilities, deteriorated doors, compromised walls, and inadequate lighting. The “Garbage Shed” is not as seriously deficient as the Main Garage since it does not house office space or a lunch room. However, it also has deteriorated doors, compromised walls, and inadequate lighting.

The City must immediately begin a process of improving or replacing the Garage and Garbage Shed. This process might include the following steps:

- Developing a brief cost-benefit analysis to determine whether the garage and shed should remain at their current location;

- Obtaining an architectural and engineering assessment of the deficiencies of the current buildings; improvements (with alternatives, as appropriate, e.g., renovation versus relocation); and the estimated cost of improvements; and

- Developing a plan – phased, if necessary – for implementing the identified improvements, prioritizing the remediation of the conditions that are most egregious for the users of the facilities.

It is very unlikely that the City can build a new public works garage, given the City’s financial challenges and the many competing needs for capital improvements, including projects that have a more visible benefit to tax payers, like road paving. The City was in a similar situation in 2007 when the original Recovery Plan identified the Police Department’s working space as being similarly poor. In that case the City was able to find a suitable existing space in the City, gain control of the site and renovate it for the Police Department’s use. The Coordinator encourages the City to think creatively about similar opportunities to meet the Public Works Department’s needs.

CP02.	**Develop a storm water asset management plan and funding source**	
	Target outcome:	Repair and maintain core infrastructure to mitigate property damage; cost recovery for existing repair work
	Financial Impact:	$304,000 in General Fund
	Responsible party:	Mayor, Public Works Director, City Council

As described above, the City’s storm water system is very old, partially mapped and reactively maintained. The Public Works Director and his staff have a good working knowledge of the system and the highest priority needs, but they have very limited resources to either address the known system deficiencies beyond emergency repairs or identify and fix unknown deficiencies before they create bigger problems for residents, property owners and others in the City. Coincidentally City Council’s discussion with the Coordinator about the contents of this Amended

Recovery Plan overlapped with Council hearings where residents expressed their frustration about storm-related flooding and the damage it caused.

The City is doing what it can to address these frustrations by using a portion of the Act 47 City Council reserve fund for emergency repairs and working with the US Army Corps of Engineers on related issues. But New Castle needs a more aggressive, more comprehensive approach to manage this system and reduce the likelihood of further property damage and safety risks related to storm water flooding. Ideally that approach should enable the City to do the following:

- Establish and meet service standards for storm water management, including a process for regularly monitoring, cleaning, repairing, replacing and maintaining the storm water pipes and inlets;

- Comply with federal, state or local regulations for storm water management;

- Reduce the incidence of flooding or other system failures and the need to fund repairs on an ad hoc basis

- Creating a reliable, predictable stream of revenue that fairly distributes the cost of system maintenance and improvements to all residents and property owners who would benefit from a stronger storm water management system

Therefore, this initiative has two components -- to develop and implement a plan for the stewardship of the City's storm water assets, and to create a revenue stream to fund this ongoing responsibility.

The storm water management plan has at least four distinct steps.

- ***Incrementally develop an inventory of the City's storm water lines and inlets.***

  It is unlikely that the City could immediately develop a complete inventory of all storm water lines and inlets given the nature of the system as described earlier in this chapter. Therefore, this inventory should be developed incrementally when made possible by investigation or repair/construction work on roads and underground utilities. At every opportunity, the City shall add to a geographically-based inventory of its storm water pipe systems, junctions, and inlets including data such as the following:

  - Pipes: Material, diameter, depth, length, functionality, and inventory date
  - Inlets and other structures: structure type, material, depth if applicable, top elevation, functionality and inventory date

  In order for this incremental approach to be successful, the City needs to ensure that mapping activities are triggered every time a road, storm water or utility project makes them possible. If appropriate, the City could include storm water asset mapping activities with every road repair or reconstruction project.

- ***Develop an annual maintenance plan.***

  Regardless of the conditions of the City's storm water system, there are maintenance activities that will help them convey storm water safely away from roads and buildings. These activities include flushing inlets and lines to remove debris and other clogging items. The City must establish a system for performing these maintenance activities, cycling through all its storm water assets on a regular schedule.

- ***Develop an annual capital plan.***

  Although the City's efforts to identify and prioritize storm water projects will be imperfect before its inventory is complete, the Department and the City's external engineer likely know about some storm water capital projects that are needed now. In its capital projects list spanning 2014 (adopted) and 2015-2017 (proposed), the City did establish a line for inlet repairs, $50,000 per year, in 2016 and 2017. The City should continue to commit funding in its annual capital budgets for capital storm water projects until the storm water fee is in place.

- ***Establish a contingency fund.***

  Although the flooding that occurred in June 2015 may have been unusually severe, it is likely that flooding incidents and resultant repair needs will recur. It would therefore be prudent for the City to set aside funds each year for emergency capital projects related to its storm water system.

The scale of the City's storm water system, the risk associated with its age and partially unknown condition, the many competing demands for capital funding, and the limitations on the City's ability to use its existing funding sources to meet these needs all lead to the conclusion that the City needs to establish a dedicated revenue stream to cover the full cost of storm water system maintenance and improvements. A fee is an appropriate way to deal with the costs of maintaining and improving the system because every parcel owner – not just those subject to municipal taxes – benefit from a properly functioning storm water system. Therefore, the City shall establish a storm water management program funded by a dedicated storm water fee.

One model for developing such a program and fee can be found in the City of Meadville in Crawford Count (Population: 13,265). Meadville's storm water ordinance establishes a storm water management system fund for operating and capital expenditures.

That work is funded by a fee charged on the basis of an "Equivalent Residential Unit" (ERU), which measures the number of square feet of measured impervious surface as determined through aerial photography and surface feature evaluation process. Each single-family detached residential dwelling is one ERU and each ERU pays $90 annually or in quarterly installments. Properties with more impervious ground cover have more ERUs and pay higher fees accordingly; properties with approved mitigation techniques can receive credits offsetting the fee.

For reference, Meadville's Storm Water Fund revenues and expenditures are shown below. The revenues are comprised almost entirely of storm water fees, nominally supplemented by interest earnings and offset by credits and uncollected fees. Expenditures include both operating and capital expenditures.

Meadville Storm Water Fund Revenues and Expenditures

	2012 Actual	2013 Actual	2014 Projected	2015 Adopted
Revenues	400,016	702,556	879,892	824,468
Expenditures	516,212	600,464	833,224	823,700

The City shall begin the process of developing a storm water fee by engaging a consultant with appropriate expertise to do the following[13]:

[13] A presentation called *City of Meadville, Stormwater Program and Funding Project* is a partial source for the scope elements described here: http://www.paseagrant.org/wp-content/uploads/2012/08/Meadville-Impervious-Fee-Talk-3reduced.pdf

- Provide a better understanding of the City's current and future storm water management practices and challenges (quantified, to the extent possible);
- Recommend appropriate levels of annual maintenance and capital improvements;
- Quantify the annual cost associated with those recommendations;
- Obtain community input on policy issues as determined by the Mayor and City Council;
- Recommend a methodology for assessing a storm water fee, including any calculations to determine the initial fee levels;
- Provide a plan for implementing that fee, addressing legal, logistical and technical issues; and
- Assist in the development of the storm water service fee, including billing system, billing data files, credit program and public outreach as needed.

The Coordinator has requested grant funding from the Pennsylvania Department of Community and Economic Development to support this process as noted in the Plan Appendix.

The City should also consider establishing a stakeholder advisory committee, as Meadville did, to provide input and build consensus on proposed policies. Meadville's advisory committee included large taxpayers and tax-exempt entities – a large industrial business, small commercial businesses, the county planning office, a watershed group, a local engineer, a local realtor, a human services not-for profit, and a local ministerium representative.

The table below only shows the estimated financial impact on the City's General Fund. That estimates it will take one year to establish the Storm Water Fee and Fund. Once they are in place, the City can transfer the costs of the Sewer Maintenance Unit and any other storm water expenditures in the General Fund to the Storm Water Fund.[14] The estimate does not show the total level of revenues needed to implement this initiative since they would be collected and spent from a separate fund. Once the City has the Fund in place, it will alleviate the need to spend its limited capital improvement funds on storm water projects, though that is not quantified here.

Financial Impact (General Fund Only)

2016	2017	2018	2019
0	98,000	101,000	105,000

CP03.	**Use a portion of the General Fund balance on capital needs**	
	Target outcome:	Stewardship of assets
	Financial Impact:	$1.5 million through 2019; $1.8 million through 2020
	Responsible party:	Mayor, Business Administrator, City Council

[14] From January 1 to August 20, 2015, the City spent $5,775 on storm water maintenance from the Streets/ Bridges Road Maintenance account. It is assumed that full-year spending will be about $7,700, and that this level of spending would occur each year.

Given the City's financial limitations, it cannot afford to issue new debt to fund capital projects at this time. While the City has done an admirable job successfully applying for grants and gifts to pay for capital projects, the City also cannot rely on that as its sole source of capital project funding. A one-time windfall in prior year resident earned income tax revenue provides $980,000 that the City should use for capital needs. The City should also have some of the gas lease proceeds left at the end of 2015. The exact amount will depend on how much the City spends during the rest of 2015, but the adopted 2015 budget shows just $70,000 left in that account entering 2016.

Beyond these identified funding sources for capital projects, the City will have to rely on pay-as-you-go funding when it is available, at least in the short term. Therefore, the City shall use $1.8 million of its General Fund reserves for capital projects. The chart below shows the Amended Recovery Plan assumptions for when the City will spend this money, but the actual distribution may differ depending on the City's desire to allocate the limited funds more evenly over the next five years and its ability to complete the capital projects planned.

Capital Project Funding ($000s)

Source	2015	2016	2017	2018	2019	2020	Total
Gas lease proceeds	$1,347	$70	$0	$0	$0	$0	**$1,417**
EIT windfall	$0	$980	$0	$0	$0	$0	**$980**
DCED IT Grant	$0	$150	$0	$0	$0	$0	**$150**
General Fund reserves	$0	$0	$500	$500	$500	$300	**$1,800**
Total	**$1,347**	**$1,200**	**$500**	**$500**	**$500**	**$300**	**$4,347**

Note: This chart does not include any grant supported capital funding except for the DCED grant for information technology upgrades, which may be completed and spent earlier than shown here.

This is clearly not the ideal level of capital project funding, or even a sufficient one relative to the theoretical targets described earlier in the chapter. But it provides a modest amount for urgent needs through the Amended Recovery Plan period.

CP04.	**Implement an asset management plan**	
	Target outcome:	Improved stewardship of assets; reducing the need for more costly emergency repairs
	Financial Impact:	N/A
	Responsible party:	Public Works

The City of New Castle successfully established a Capital Improvement Program (CIP) and budgeting process as required in the original Recovery Plan. Project requests are solicited from each department; department heads and the Mayor prioritize among requested projects to develop a capital budget and three-year plan; and the capital budget is approved by Council. However, three factors suggest the current project identification and prioritization process needs improvement:

- The urgency of the need to replace or renovate the Public Works Main Garage;
- The potential financial risk posed by the condition of the City's storm water lines and inlets; and

- A disproportionate amount of capital funding has been dedicated to vehicles and equipment rather than buildings and infrastructure.

The City shall develop an asset inventory that includes basic information about asset useful lives and conditions, which will in turn help the City make better decisions about the use of its limited capital funds.

Develop a more complete asset inventory and schedule for addressing needs

The capital budget and plan development process needs to be informed by an understanding of the full scope of the City's assets and their conditions – i.e., an asset management plan. The foundation of the asset management plan is an asset inventory identifying assets and, to the greatest extent possible, their ages and condition.

For example:

- Key building components, such as roofs, boilers, and doors and windows, have a useful life that can be estimated. If the City knows the age of a roof, it can project the year in which the replacement of that roof should be included in the capital budget.

  If a professional assessment of the condition of the building component is available, then the City would have an even more specific projection of its useful life rather than just a more theoretical target.

- Vehicles and equipment also typically have a useful life beyond which maintenance and repair costs increase rapidly. Useful lives will differ based on vehicle/equipment type and usage. The useful life of a police cruiser will be different from that of a code enforcement vehicle.

  The City's mechanics probably have a more specific sense of the actual useful life of any given City vehicle based on their work. If this information was recorded and provided to the Interdepartmental Committee prioritizing project requests, it would guide that prioritization process.

As described in the Plan Appendix, the Coordinator has requested grant funding from DCED for external support to develop a basic facility asset inventory and condition assessment. This will give the City a more fully informed starting point for the inventory which the City should then be able to update on its own.

Use the asset inventory to inform capital budget decisions

Information about the full range of the City's assets and their conditions is the first step in developing an effective asset management plan. The second is using that information to appropriately prioritize the use of the City's very limited capital funds.

The asset inventory should be a primary source for capital project requests. When the City collects capital project requests during its capital budget process, a representative from each department should have responsibility for identifying every asset or asset component that is "due" for a capital project and developing a capital project request from for it. The Public Works Director or his designee should be responsible for developing requests that will be submitted every year – e.g., the multi-year paving project or the multi-year inlet repair project.

Once all capital needs have been identified, the Mayor and interdepartmental capital project review committee should review them according to the prioritization criteria already established in the capital plan ordinance. That ordinance prioritizes public safety and statutory compliance needs over others, so projects that involve bringing buildings up to code (like the Public Works Garage) should emerge as higher priorities.

Obviously, the asset management plan by itself will not ensure that the City can properly care for its assets. Funding has to be available to replace them at the end of their useful lives and the City's capital funding identified in this Plan will likely not be sufficient to address the inventoried needs. Nonetheless, it is better for the City to identify and quantify its needs, and then use that inventory to guide its capital budgeting decisions as much as its financial limitations allow, than to identify capital projects reactively in response to asset failures.

CP05.	**Broaden information provided by the capital budget**	
	Target outcome:	Improved financial management
	Financial Impact:	N/A
	Responsible party:	Business Administrator

Although in recent years the majority of the City's capital budget has been funded by a one-time payment to lease natural gas rights, other funding sources such as grants and Liquid Fuels funds have also had a material impact. The budget should show the total approved amount of each capital project, and then show how the project is to be funded, breaking each source out separately. The table below shows one way of accomplishing this with some of the City's 2015 capital budget projects.

	Fire Department: 750-Gallon Pumper	**Public Works: Paving**	**Code/ Zoning/ Planning: Demolition**	**Police Vehicle Replacement Program**
Marcellus Shale	300,000	274,173	8,500	30,000
Bond Proceeds	340,650			
PennDOT		21,124		
Act 13		51,842		
Utility Credit		88,661		
Act 47 Reserve		109,734		
PHARE (Act 13)			23,750	
Dept. Operating Budget			26,250	
Roethlisberger Grant				10,000
Police Forfeiture Funds				2,000
Total	**640,650**	**545,534**	**58,500**	**42,000**

Similarly, the capital budget needs to include those projects that are funded by grants or donations. Previously capital projects such as the grant-funded new roof for the Central Fire Department have not been included in the capital budget. Excluding this information means that the capital budget understates the level of investment in buildings, infrastructure, equipment and vehicles occurring in the City.

For example, a listing of grants provided by the City shows a total of $1.1 million in grants for capital purposes from December, 2010 to June, 2015. In addition to the grants on the list, the City received $1.3 million in Redevelopment Assistance Capital Program (RACP) funding for the renovation of the Police Station building, and $100,000 from the Hoyt Foundation for the Central Fire Station roof.

Finally, the City should establish a separate capital fund for projects with budget amounts that do not lapse at the end of the fiscal year. New Castle's capital project budgets lapse at the end of the fiscal year; i.e., any amounts not spent are no longer available to be spent. One of the reasons for establishing a capital budget is to allow capital budgets to "carry forward" from year to year, because capital projects can take longer than one year to implement. Although it is a good practice to review projects to ensure that any amounts remaining at year end should carry forward, establishing ongoing appropriations will reduce the need for the City to re-consider projects that are still valid but that take longer than one year.

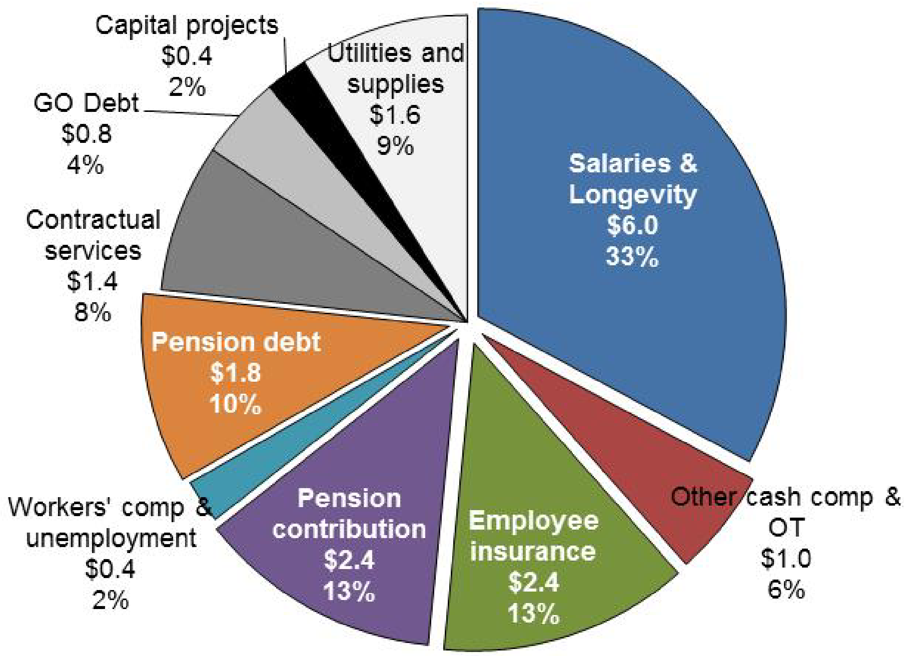
The City shall make these improvements to its capital budget document and process.

Workforce

Workforce

Municipal government is labor intensive. Important local services such as police patrol, fire suppression and road maintenance depend on effective personnel. Employee compensation commonly accounts for the majority of a local government's spending, and that is true for the City of New Castle. Of the $18.4 million that the City spent from its three major funds in 2014, two-thirds was related to active and former employee compensation. If the debt from the 1997 and 2005 pension bonds is included, the total was more than three-quarters of those expenditures.

2014 Expenditures by Category[1] ($ Millions)



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 lays out the strategy for managing employee compensation so the City can sustain critical public services while balancing revenues against expenditures so New Castle has a chance to exit Commonwealth oversight at the end of 2019.

Workforce composition

The 2015 budget has 110 full-time positions and 41 part-time positions for a total headcount of 151.[2] The first Amended Recovery Plan written in 2012 noted 141 positions (112 full-time; 29 part-time). Since then the City added six part-time firefighters, increased the number of part-time police officers and eliminated three full-time firefighter positions.[3] Most full-time employees (96 of 110) are members of one of five collective bargaining units.

[1] Expenditures from the General Fund, Sinking Fund and Pension Fund. Transfers between those three funds are excluded to avoid double counting.

[2] The budget shows a part-time position for the parking supervisor which has historically been a stipend paid to an existing City employee. It is not included in the headcount calculations, nor is the small stipend paid to golf course starters.

[3] Please see the Fire and Police chapters for more information.

Group	Covered positions include	Budgeted positions	Contract term
FOP, Lodge 21	All full-time police officers except the Chief	35	1/1/13 - 12/31/15
Laborers, Local No. 964 - Public Works	Laborers, equipment operators, refuse collectors, tradesmen	25	1/1/12 - 12/31/16
IAFF, Local No. 180	All full-time fire fighters except the Chief	21	Expired 12/31/13
Laborers, Local No. 964 - Clerical	Most clerical and administrative support positions including treasury and records clerks and financial and legal assistants	10	1/1/12 - 12/31/16
Teamsters, Local 26	Code enforcement employees and part-time health officer	5 full-time 1 part-time	1/1/12 - 12/31/16
Non-represented	Department directors, elected officials, part-time employees including police and fire	14 full-time 40 part-time	N/A
Total		**110 full-time 41 part-time**	

City employees receive different kinds of compensation beyond their base salaries. Employees receive additional cash compensation depending on their tenure, work schedules, assignments, skills and other factors. They receive medical, prescription drug, dental and vision insurance, and police officers and firefighters keep that coverage when they retire until they become eligible for Medicare. They receive paid leave. The City has three defined benefit pension plans for its current and retired police officers, firefighters and non-uniformed employees.

The table below shows annual growth in employee compensation by category for 2010 through 2014. Growth in salary and longevity expenditures across all employees (full and part-time) was 2.1 percent annually. Overtime usage increased by 8.4 percent per year, mostly due to staffing changes in the fire department and an increase in reimbursed police overtime. Expenditures for active employee insurance grew by 5.5 percent per year, but a portion of that growth was offset by higher employee contributions toward the cost of health insurance.

Employee Compensation, 2010 - 2014[4]

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Estimate	CAGR
Salaries & Longevity	5,542,551	5,535,507	5,478,522	5,924,134	6,030,511	2.1%
Overtime	426,576	427,282	400,914	507,543	589,355	8.4%
Other cash compensation	415,316	509,242	486,703	489,646	486,339	4.0%

[4] This table does not include the City's pension debt. Active employee insurance includes the City's contributions for federal taxes for social security and Medicare and the payments employees can receive in lieu of health insurance. The 2014 figures are the City's preliminary, non-audited results since that was the only set available for most of the Plan drafting process. The City released the 2014 audited results shortly before the Recovery Plan was released. The Coordinator reviewed those results and they show salary expenditures finishing less than one percent higher than shown here.

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Estimate	CAGR
Active employee insurance	1,610,906	1,699,341	1,723,026	1,862,044	1,995,952	5.5%
Retired employee insurance	358,642	358,435	353,892	363,355	410,495	3.4%
Workers' comp & unemployment	483,885	1,101,830	437,464	381,649	423,955	-3.3%
General fund subtotal	**8,837,876**	**9,631,636**	**8,880,521**	**9,528,372**	**9,936,608**	***3.0%***
Pension contribution	1,205,568	1,690,568	1,620,904	1,986,457	2,354,001	18.2%
Total	**10,043,444**	**11,322,204**	**10,501,425**	**11,514,829**	**12,290,609**	**5.2%**

Within the General Fund, total employee compensation grew by 3.0 percent per year. However, as discussed in detail in the 2012 Amended Recovery Plan, the City's contributions to the employee pension plans nearly doubled from $1.21 million in 2010 to $2.35 million in 2014. With pension expenditures included, total annual compensation grew by 5.2 percent per year compared to the 1.6 percent annual growth in revenues within the three major funds.[5]

The next section discusses the major categories of employee compensation and describes the Amended Recovery Plan's baseline projections for them.

Salaries and longevity

The City's 2015 budget allocates $6.3 million for employee salaries, including the wages paid to part-time employees, and longevity.

Full-time employees receive two kinds of salary increases – base increases and step increases. A base increase is an across-the-board increase that all employees in a bargaining unit receive, regardless of tenure. The table below shows the base wage increases that each collective bargaining unit has received since 2007, which was the City's first year under Commonwealth oversight.

Base Salary Increases
(Bold denotes Prior Recovery Plan Provisions)

	FOP	IAFF	Laborers (Clerical & DPW)	Code
2007	3.5%	0.0%	3.0%	3.3%
2008	**0.0%**	3.0 - 5.1% (Varied by rank)	0.0%	0.0%
2009	**2.0%**	2.0%	2.0%	2.0%

[5] Please see the Revenue Chapter for more information on the 1.6 percent compound annual growth rate.

	FOP	IAFF	Laborers (Clerical & DPW)	Code
2010	**2.0%**	2.0%	2.0%	2.0%
2011	**2.0%**	3.0%	3.0%	3.0%
2012	**3.0%**	4.4%	**0.0%**	**0.0%**
2013	**0.0%**	2.0%	**2.0%**	**2.0%**
2014	**2.0%**	***0.0%****	**2.0%**	**2.0%**
2015	**2.0%**	***0.0%** (One-time bonus)***	**3.0%**	**3.0%**
Compound total	**17.7%**	**17.5 - 19.9%**	**18.3%**	**18.6%**

*** The IAFF wage increases shown here for 2014 and 2015 reflect the pattern recommended in the 2012 Amended Recovery Plan. Those increases are part of the ongoing arbitration process.*

The provisions of the original Recovery Plan adopted by the City in 2007 and the first Amended Plan adopted in 2012 were not applied to all the bargaining units simultaneously. Shortly before the Secretary of Pennsylvania's Department of Community and Economic Development (DCED) declared the City distressed and subject to Act 47 oversight, the prior Mayor reached agreements with four of the five labor unions that extended their contracts for five years or, in the case of the IAFF, seven years. As described in the original Act 47 Plan, those late 2006 agreements had some provisions to moderate costs but generally did not go as far as the original Recovery Plan did.

The City cannot apply the terms of a Recovery Plan to collective bargaining agreements until the expiration of the agreements already in place. Since the collective bargaining agreements expired in different years, there has been a staggered application of the prior Recovery Plans' provisions.

- The Fraternal Order of Police was the one union that did not receive a contract extension in late 2006. So the FOP was subject to the original Recovery Plan's wage pattern beginning in 2008. While that Plan had a two-year wage freeze, the City and FOP achieved the same savings through negotiating a one-year base freeze in 2008 and three years without step increases in 2008 through 2010. The pattern for 2013 through 2015 was set by the first Amended Recovery Plan, though the arbitration award exchanged the one-time bonus recommended for 2013 and other compensation provisions with step increases for junior officers.

- The International Association of Firefighters' contract expired in 2013 and the 2012 Amended Recovery Plan allocated money to the IAFF using the wage pattern assumption described in that Plan.[6] The City and IAFF are awaiting an arbitration award that would set base salaries through 2016.

[6] See initiative WF06 in the 2012 Recovery Plan.

- All three non-uniformed labor unions had contracts that expired at the end of 2011. Their salary increases through 2016 are governed by the original Recovery Plan adopted in 2007.

Non-represented employees have generally received wage increases as described in the 2007 and 2012 Recovery Plans, though individual employees have had additional freezes not required by those Plans. For example, the current Mayor has not had a salary increase since he took office in 2008 and Council members have not had their stipend increased since at least 2006.

Junior police officers and firefighters also receive step increases, which are tied to their progression through a tenure-based wage scale.[7] The combined impact of step and base increases is significant for individual employees.

For example, a police officer hired in June 2011 would have started with a base salary of $31,836. In January 2012 he would have received an across-the-board base increase of 3.0 percent, taking his salary to $32,791. Then he would have received a second wage increase in June 2012 when he reached his one-year anniversary (step increase), taking him to $34,977. He had a base wage freeze in 2013, but still received the step increase when he hit his second year anniversary in June 2013, taking him to $36,617. Then he received two wage increases (base plus step) in 2014 and 2015. By the end of this period, the officer's salary increased by 41.1 percent, which is equal to a 9.0 percent annual increase compounded over four years.

Rank	2011	2012	2013	2014	2015
Patrolman V 4-5 years of service					$44,919
Patrolman IV 3-4 years of service				$41,252	$42,007
Patrolman III 2-3 years of service			$36,617	$37,349	$38,096
Patrolman II 1-2 years of service		$34,977	$34,977	$35,677	$36,391
Patrolman I <1 year of service	$31,836	$32,791	$32,791	$33,447	$34,116

The City also makes longevity payments to more senior employees. Longevity payments are generally calculated by multiplying the number of years of service by a set dollar amount (e.g. $120 per year of service for police). Longevity payment amounts and eligibility to receive those payments were frozen under the terms of the 2007 Recovery Plan.

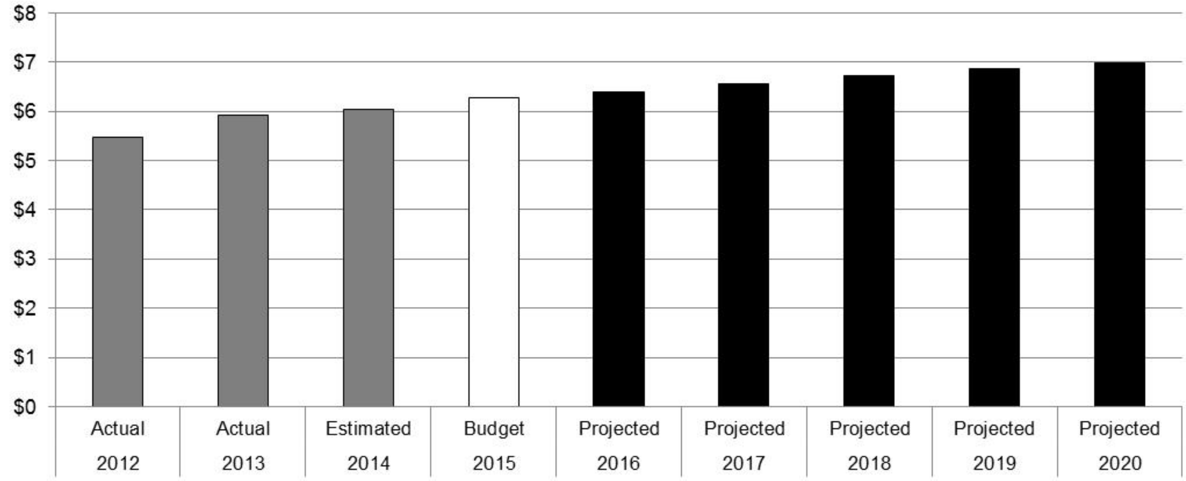
Even with the potential for more rapid salary growth, total salary spending across all employees has been more moderate, growing by 2.1 percent per year since 2010. Savings related to turnover (i.e. no salary expenditures while the City fills an empty position) and attrition (i.e. new employee with a lower base salary replaces a senior employee with a higher base salary) have helped keep expenditure growth at this level.

This Amended Recovery Plan's baseline projection assumes that employees would receive 2.0 percent annual base wage increases through 2020 once their current collective bargaining agreements expire. The baseline also includes any applicable step increases over that period. No

[7] The non-uniformed collective bargaining units agreed to eliminate step increases as part of the last round of negotiations, so they are only eligible for across-the-board increases.

changes in headcount are assumed through layoffs, new hires or vacant position cuts. Longevity payment amounts and eligibility for longevity are frozen as provided in the original Recovery Plan.

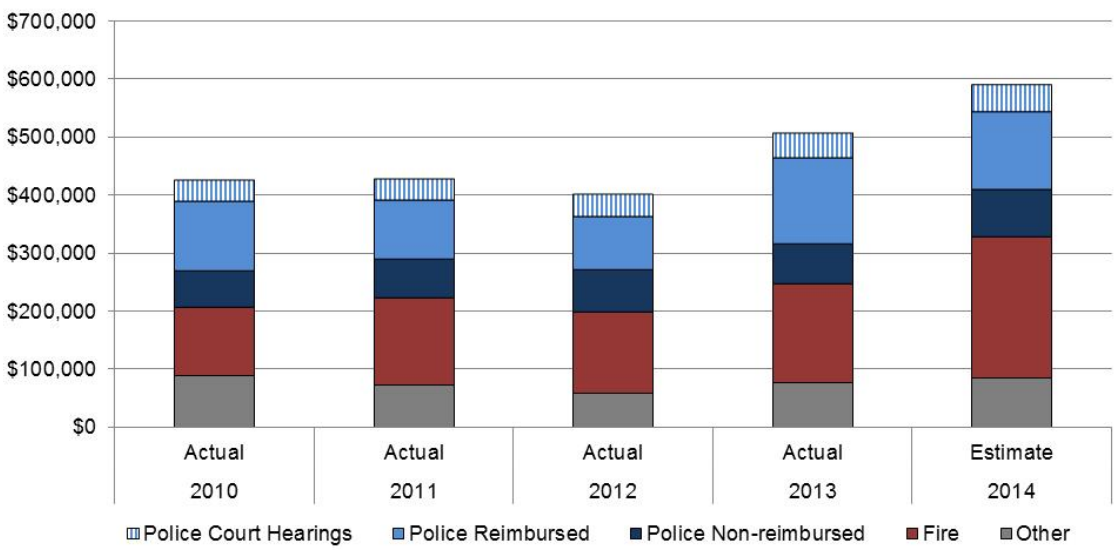
Baseline Projection - Salaries and Longevity ($ Millions)



Overtime

The City's overtime expenditures across all employees increased by $163,000 (or 38.2 percent) from 2010 to 2014. The graph below presents those expenditures by category.

Overtime and Court Hearing Expenditures, 2010 – 2014



The Fire Department accounted for most of the growth in overtime expenditures over this period. NCFD overtime expenditures more than doubled from 2010 to 2014 with an increase of $126,000. As discussed in the Fire Department chapter, that increase was mostly the result of staffing changes and minimum manning provisions in the IAFF collective bargaining agreement. The 2014 budget replaced three full-time firefighters who retired in 2013 with casual (or part-time) firefighters.[8] The collective bargaining agreement requires that "the minimum manpower level of on-duty Firefighters does not fall below five."[9] The casual firefighters have not counted toward the five-person minimum. So, if a full-time firefighter is not available because he is on vacation, sick or injured, and if that absence drops the staffing level below five people on duty, the City often fills the open slot by recalling a full-time firefighter on overtime.

The City spent $47,000 (or 3.3 percent) less on firefighter salaries and longevity in 2014 compared to 2013, but the increased overtime spending offset those savings. Overall the City's spending on firefighter compensation was 2.2 percent higher in 2014 than in 2013.[10]

Police overtime is separated into three categories – reimbursed, regular (or non-reimbursed) and court hearing payments. The New Castle Police Department works with other levels of government on task forces targeting certain types of crime (federal Drug Enforcement Administration, County District Attorney). The cost of that activity is usually reimbursed by the lead government agency. The City also previously provided additional police coverage to the Crestview Gardens apartment complex, though that arrangement is no longer in place.[11]

According to the collective bargaining agreement, police officers receive a minimum of two hours of overtime for appearances at court hearings when they are off duty, which is recorded as court hearing pay. Setting aside the reimbursed amount, police overtime expenditures grew by 5.5 percent per year from 2010 to 2014.

All overtime spent by other departments is grouped in one category in the graph above. Most of that amount is charged by the Public Works staff in Streets and Bridges, who handle snow plowing.

The Amended Recovery Plan baseline uses the City's 2015 budget allocations as a starting point for overtime projections, though the Coordinator notes that the City's allocation for fire department overtime ($175,000) is less than three-quarters of what the City spent in 2014 ($244,000). Through June the City has spent a little more on Fire Department overtime in 2015 ($119,000) than in 2014 ($115,000). The City anticipates it will achieve some savings in overtime through the ongoing arbitration process. The Coordinator reserves the right to revise the baseline for this item and others impacted by firefighter compensation when the arbitration award is released.

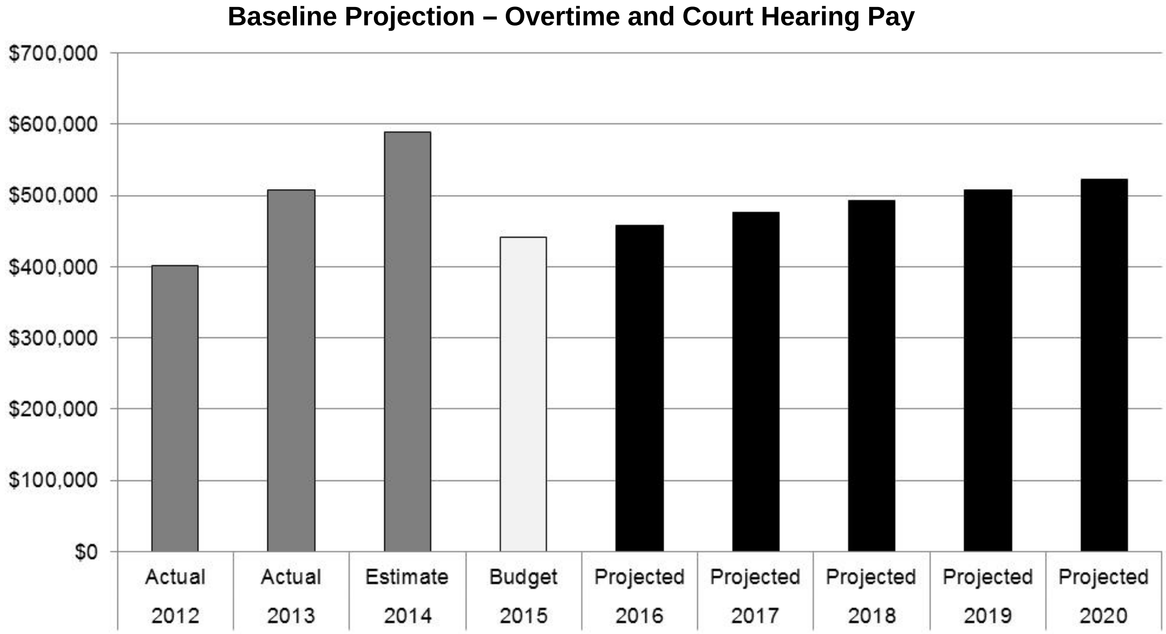
The 2015 budget allocates $55,000 less than the City spent on reimbursed police overtime in 2014, mostly because of the expiration of the Crestview Gardens agreement. The Plan's baseline projection assumes overtime spending grows at the same rate as base wages.

[8] The City budgeted 25 full-time firefighters with no part-time firefighters in 2013. The 2014 budget had 22 full-time firefighters and six part-time firefighters.

[9] Article IV, Section 1.

[10] This includes health insurance costs for retired firefighters, but does not include the City's pension costs.

[11] Please see the Police Chapter for more information.



Other cash compensation

The City's collective bargaining agreements and ordinances for non-represented employees establish other forms of cash compensation including the following:

- **Holiday pay:** Each police officer receives a lump sum payment equal to the daily rate of pay for 10 holidays. Officers hired before 2008 also receive a $500 holiday bonus payment. Firefighters have a similar arrangement. Those hired before 2003 receive their hourly rate of pay plus $4.50 an hour multiplied by 112 hours for the holidays. Firefighters hired after 2007 receive 84 hours of extra pay at their hourly rate for the first two years and then receive the same incentive as more senior firefighters. Firefighters with more than four years of service receive an additional $500 per year.

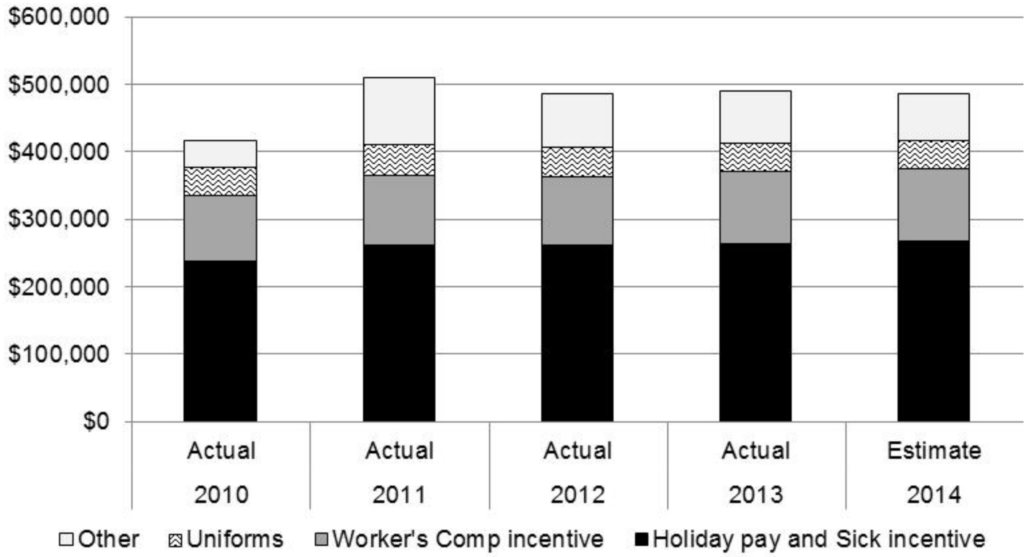
- **Sick incentive:** The City provides additional pay or time off to employees in all five collective bargaining units based on the number of sick days they use. Police officers hired after 2007 are no longer eligible for this bonus.

- **Uniform allowance:** Police officers receive $700 a year for clothing, uniforms and equipment and firefighters receive $600 a year.

- **Separation or termination payouts**: Employees are eligible to convert a portion of their unused sick leave into cash upon retirement.

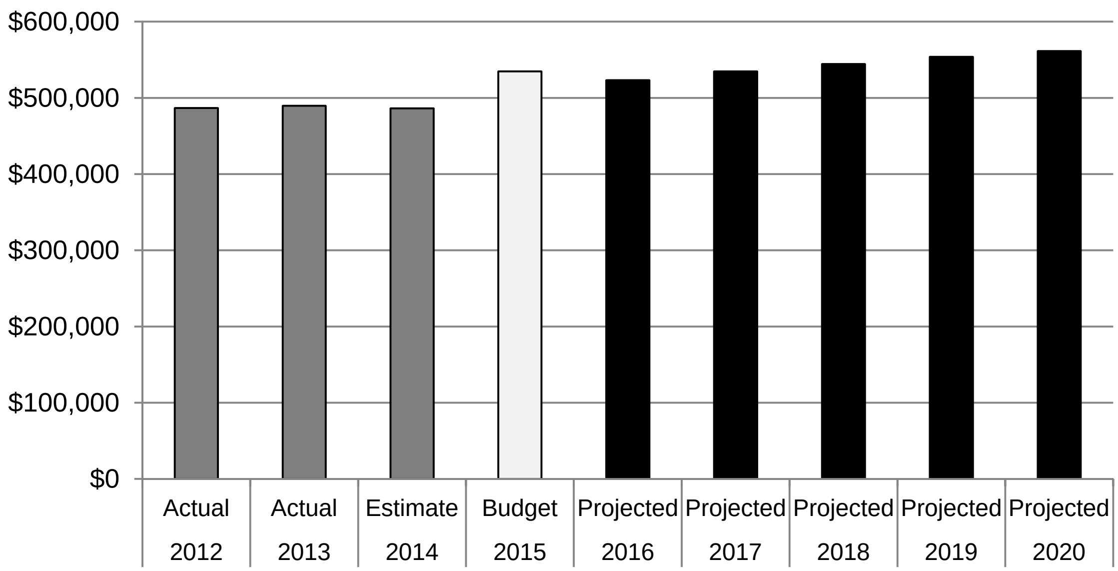
While the amounts paid to individual employees for each stipend is not large, the amount paid to all employees for all premiums is significant. In 2014 the City spent $486,000 on these premiums across all departments.

Other Premium Payment Expenditures, 2010 - 2014



The Amended Recovery Plan baseline projects these items to grow at the same rate as base salaries or remain constant at the 2015 budgeted levels depending on whether the premium is indexed to base salary or a fixed dollar amount. The City's 2015 budget allocates $535,000 for these other forms of cash compensation, or 9.9 percent more than the City spent in 2014. The difference is because of $44,000 in "termination pay," which is unused vacation and sick leave that can be converted to cash by non-uniformed employees at retirement. Seven employees are expected to be eligible for termination pay from 2016 through 2020 at an average cost of $22,000 each, which converts to $31,000 per year depending on when each employee retires.[12] The Plan incorporates that expenditure in the baseline projection.

Baseline Projection – Other Cash Compensation



[12] The City expects to spend $44,000 in 2015 for two employees, or $22,000 each. Multiplying the $22,000 by seven employees and dividing by five years gives $30,800.

Health insurance

Employees in the clerical and public works bargaining units are covered by the Laborers' District Council of Western Pennsylvania Welfare Plan. The code enforcement employees represented by the Teamsters are covered under a Highmark Plan provided through the Teamsters Welfare Fund. As of August 2015, all other employees were also covered by that same Teamsters Plan, though the City intends to change coverage as discussed in the initiative section.

The City also provides dental and vision coverage through the primary medical insurance or a supplemental provider. Active employees who elect not to use City health insurance coverage can receive a payment of $2,500 or $3,000 "in lieu of" coverage.[13] The City has spent $29,000 per year on average for these "in lieu" payments.

Coverage for retired employees varies by bargaining unit.

- Retired non-uniformed employees do not receive health insurance coverage.

- Police officers hired before 2008 and their spouses receive medical, dental, vision and prescription drug coverage until they are eligible for Medicare. They may have copayments for office visits and prescription drugs but did not contribute to the premium costs. Officers who retired before 1977 and those hired after 2008 do not receive retiree health insurance.

- Firefighters who retire after 1977 and their spouses receive medical, dental, vision and prescription drug coverage until they are eligible for Medicare. As of August 2015 employees who retired after 2006 made the same premium contribution as active employees. Employees who retired before 1977 do not receive retiree health insurance.[14]

Active employee contributions toward the cost of health insurance also vary by bargaining unit according to the expiration dates for the collective bargaining agreements.

- The FOP's last collective bargaining agreement expired in 2012 so its contributions were structured according to the 2012 Amended Recovery Plan. As described in that Plan[15], the City has a maximum amount that it contributes toward all forms of health insurance and the employees cover any difference above that amount. The City's maximum amount varies by the type of coverage (i.e. the City contributes more for family than single coverage) and grows by five percent per year.

- The IAFF's collective bargaining agreement expired in 2013, so its contributions would be structured according to the 2012 Amended Recovery Plan, pending completion of the arbitration process. When the agreement expired, the firefighters contributed five percent of the total premium cost up to a maximum of $50 per month.

- The last set of collective bargaining agreements for the three non-uniformed employee unions expired in 2011, and their contributions have been structured according to the original Recovery Plan adopted in 2007. They have contributed 10 percent of the monthly

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[13] Teamsters receive $3,000. All other employees receive $2,500.

[14] The 2012 Amended Recovery Plan required the elimination of retiree health insurance for firefighters hired after 2013. That provision is part of the ongoing arbitration process, and the City has not hired any full-time firefighters during that period.

[15] Please see initiative WF03, pages 48-49 of the 2012 Recovery Plan.

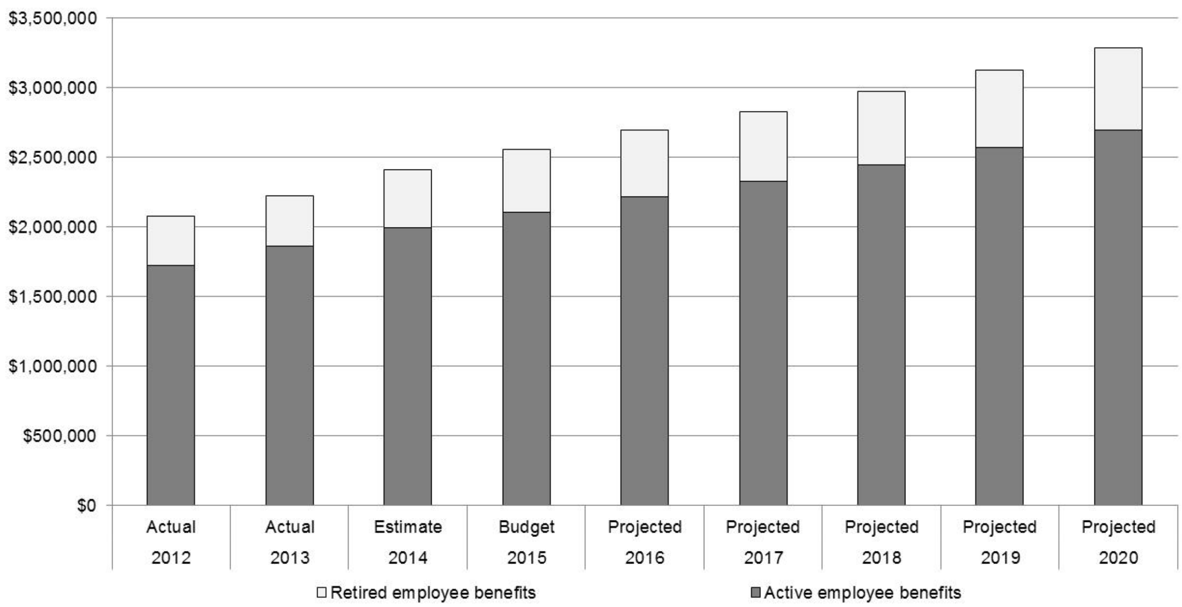
premium costs for their coverage since 2013, up to a maximum amount set in the labor contracts. The employee's share of premiums will increase to 15 percent in 2016 subject to the caps in the contracts.

Non-represented employees are subject to the cost sharing provision as police officers according to the 2012 Amended Recovery Plan.

Nationally most employees contribute to the cost of their health insurance by paying a portion of the monthly premium.[16] In 2014, among firms with less than 200 employees, 68 percent of the employees with single coverage and 86 percent of those with family coverage contributed to the premium cost. On average employees in those firms contributed $902 annually for single coverage ($75 per month), or 15.6 percent of the total. Employees contributed $5,508 annually for family coverage ($459 per month), or 34.8 percent of the total. Among public employers this size, employees contributed 11 percent of the premium for single coverage and 24 percent of the premium for family coverage.

The 2014 Kaiser survey shows that the total average annual premium for family coverage increased from $9,950 in 2004 to $16,834 in 2014. That translates to a compound annual growth rate of 5.4 percent, which is close to the 5.7 percent annual growth that New Castle experienced for total health insurance costs from 2010 to 2014. The Amended Recovery Plan baseline projection therefore assumes total health insurance costs will increase by 5.5 percent per year. Adding to the City's projected costs for the "in lieu payments" and the federal payroll taxes to the active employee benefit totals yields the following projections.

Baseline Projection – Gross Health Insurance Expenditures[17]



The Plan baseline assumes the premium cost sharing provisions in place as of January 1, 2015 would continue through 2020, though a recent agreement between the City, FOP and IAFF will

[16] The statistics in this paragraph come from the 2014 Annual Survey on employer health benefits published by the Kaiser Family Foundation and Health Research and Educational Trust.

[17] This follows the City's budgeting convention, which shows total costs as expenditures and employee contributions as revenue.

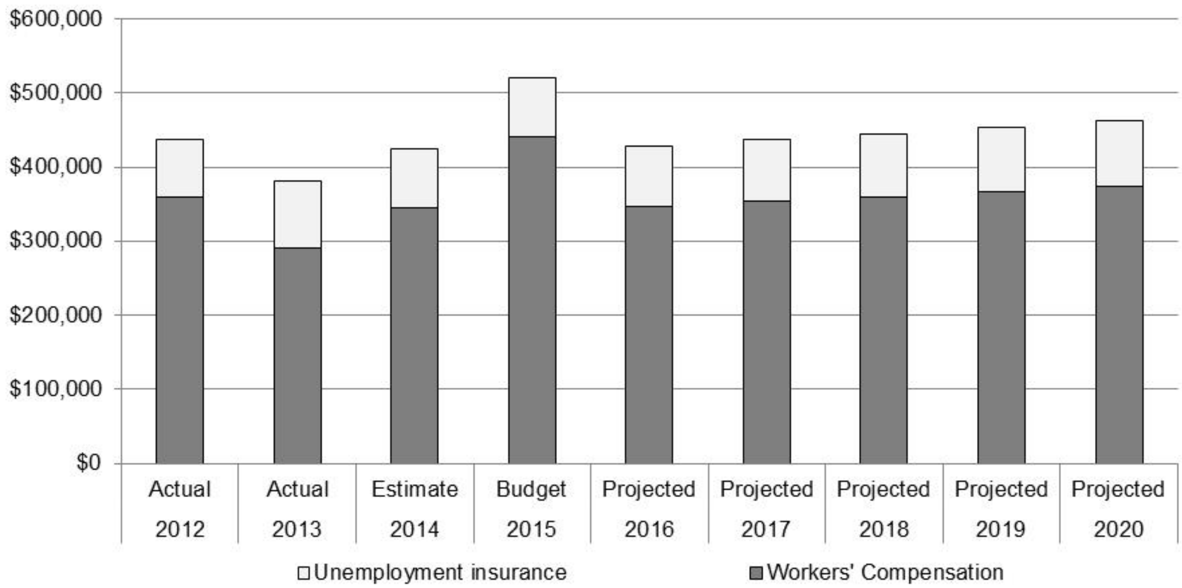
change that arrangement significantly. The Initiative section of this chapter describes that change more fully and applies it to the other bargaining units.

Workers' Compensation and Unemployment

The City is self-insured for workers' compensation, meaning it covers the full costs of an injured employee's medical bills and wages until an incident costs $250,000. Any medical or salary costs above that amount are covered by the City's workers' compensation insurance policy. The City uses a private company to manage the medical care portion of those claims.

As noted earlier, the City pays most of its employees an annual Workers' Compensation incentive if they do not miss more than one day of work due injury in a calendar year. The City paid $107,000 for that incentive across all employees in 2014.[18] Setting the incentive aside, the City's spending on workers' compensation claims and insurance has averaged $331,000 per year since 2012. The City budgeted $400,000 for workers compensation insurance in 2015, but the Amended Recovery Plan reduces that amount to $305,000 in 2016, which is close the $304,000 spent in 2014 and closer to the historical average. The City budgets $80,000 for unemployment insurance in 2015, which is close to the average annual cost of the policy since 2012.

Baseline Projection – Workers' Compensation and Unemployment



Paid leave

Paid leave is another important component of an employee's compensation package. Most full-time employees can take paid time off for vacation, sick leave, jury duty and personal days. The financial impact of this paid leave is less obvious than the impact of salaries or fringe benefits, but still important.

[18] The historical spending levels on this incentive are shown earlier in the chapter along with other forms of cash compensation. Clerical union employees do not have this provision in their collective bargaining agreement. The provision is called Heart and Lung incentive for firefighters.

For example, the combination of paid leave with minimum manning provisions in the City's collective bargaining agreement with the IAFF has resulted in higher overtime costs as described above.

Employees can also convert unused sick leave to cash payments upon retirement, so their ability to accrue sick leave and then maintain those unused balances throughout their career has a direct financial impact on the City. The collective bargaining agreements cap the maximum amount of sick leave that employees can convert to cash. For police and firefighters, that cash conversion is based on the employee's salary when they retire, not the salary at the point that the leave is earned.[19] So that portion of the sick leave liability grows even after the employee reaches the maximum number of days. According to the City's 2013 audit, the City had a $986,391 liability for accumulated sick pay at the end of that year.

Pensions

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.[20] 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 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 Commonwealth law.[21]

The chart below shows these components for the MMO payment incorporated in the City's 2015 budget. The City budgets $600,000 in Commonwealth pension aid and the remainder of the $3.1 million liability is funded by the earned income tax designated for that purpose[22] or the City's general tax base.

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[19] The conversion rate for non-uniformed employees is capped at $60 per day.

[20] Please see the Revenue Chapter for more discussion of Commonwealth pension aid.

[21] 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.

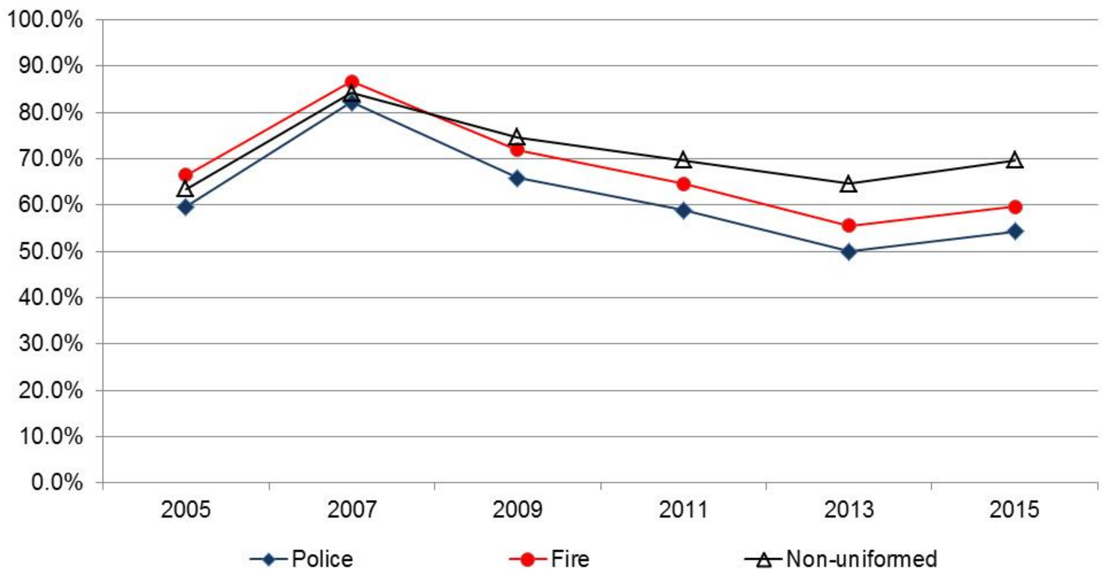
[22] Please see the Revenue Chapter for more discussion of the distressed pension EIT.

	Police	Fire	Civilian	Total
Normal cost (Current year cost)	$340,539	$239,293	$213,281	$793,113
Amortization cost (Past years cost)	$1,121,411	$873,886	$437,082	$2,432,379
Administrative expense	$86,027	$70,887	$60,992	$217,906
Employee contribution	($97,595)	($101,531)	($116,265)	**($315,391)**
Total MMO	**$1,450,382**	**$1,082,535**	**$595,090**	***$3,128,007***

The state's Public Employee Retirement Commission (PERC) determines whether a municipality's pension funds are financially "distressed" and, if so, to what degree using standards set in Pennsylvania Act 205 of 1984. Pension plans with a funded ratio[23] of 70 to 89 percent are considered "minimally distressed." Pension plans with a funded ratio of 50 to 69 percent are considered "moderately distressed" and those below 50 percent are considered "severely distressed."

As discussed in the 2012 Recovery Plan, New Castle's pension plans were first designated as distressed in the mid-1980s, long before the City government was designated financially distressed under Act 47 in 2007. The City's pension plans were "moderately distressed" with a 55 percent aggregate funded ratio across the three plans as of January 1, 2013. The recently released pension valuation reports show that funded ratio improving to 60 percent as of January 1, 2015. The graph below shows the funded ratio for each of the three plans since 2005. The temporary increase in 2007 was related to the City issuing pension bonds in 2005. The ratio has since declined and the debt service on the bonds remains until 2035.[24]

Pension Plan Funded Ratio since 2005



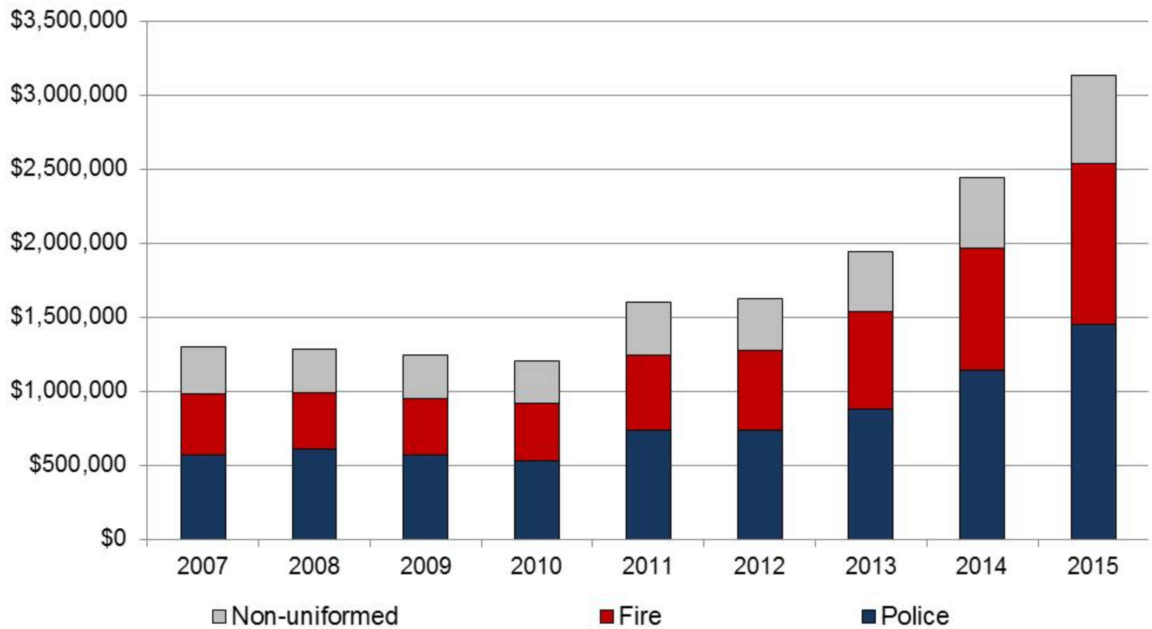
[23] The funded ratio is the actuarial value of the pension plan's assets divided by the actuarial accrued liability.

[24] Please see the Debt chapter for more on the City's pension bonds.

Pennsylvania law requires New Castle to make the MMO payment by December 31st of each year. Failure to do so results in costly penalties as the City experienced before it entered Act 47 oversight. Failure to make the contributions also results in less money available for investment. In 2007 the City owed $1.2 million in past-due MMOs for the years 2005 and 2006, and its ability to pay the 2007 MMO by the statutory deadline was in doubt. To comply with 2007 Recovery Plan, the City completed an unfunded debt borrowing of $5.1 million with $941,000 designated to retire the delinquent pension obligations and associated penalties and pay the 2007 MMO in full before the December 31st deadline. The City has since repaid the unfunded debt borrowing.

The City's MMO payments were stable through 2010 and then started the rapid climb described in detail in the 2012 Amended Recovery Plan. The MMO jumped from $1.2 million in 2010 to $3.1 million in 2015. In 2009 the Commonwealth provided temporary relief to New Castle and other municipalities with "moderately distressed" pension plans. Act 44 of 2009 allowed municipalities to pay 75 percent of the amortization component of the MMO for up to four years, and New Castle used that provision from 2011 through 2014. The remaining 25 percent did not cease to be a City obligation. The delayed payment was factored into the City's pension liability and added to the MMO in later years.

Budgeted City Pension Contributions, 2007 - 2015



Since the original Recovery Plan was approved in 2007, progress has been made in the following regards:

- Before entering Act 47 oversight, the City struggled to make its MMO contributions in full and on time, leading to the costly penalty payments noted above. Since 2007 the City has made the minimum required contribution in full before the December 31 deadline.

- At the actuary's recommendation, the City lowered the interest earnings assumption from 8.0 percent to 7.5 percent. In the short term, the lower interest earnings assumption means the City has to make a higher MMO payment than it would have without this change. Over time, though, the higher contributions will make more money available for investment and reduce the likelihood of actual investment performance falling below the assumed standard. If the City outperforms the 7.5 percent earnings assumption in any year, the additional earnings will help lower future MMO payments. If the City underperforms the 7.5 percent earnings assumption in any year, then the difference between the actual and projected performance will be less than it would have been with the 8.0 percent assumption.

- Under the provisions of the original Recovery Plan, the City's collective bargaining agreement with the FOP reduced the retirement benefit from 75 to 50 percent of final average salary for police officers hired after 2008 and extended the vesting period from 10 to 12 years of service. Under the provisions of the 2012 Amended Recovery Plan, holiday pay is excluded from the pension benefit calculation for police officers hired after 2012; the benefit will be calculated using the officer's average salary over the highest five years; and the officers contribute 5 percent of their base salary instead of the 4.5 percent contributed by most police officers.

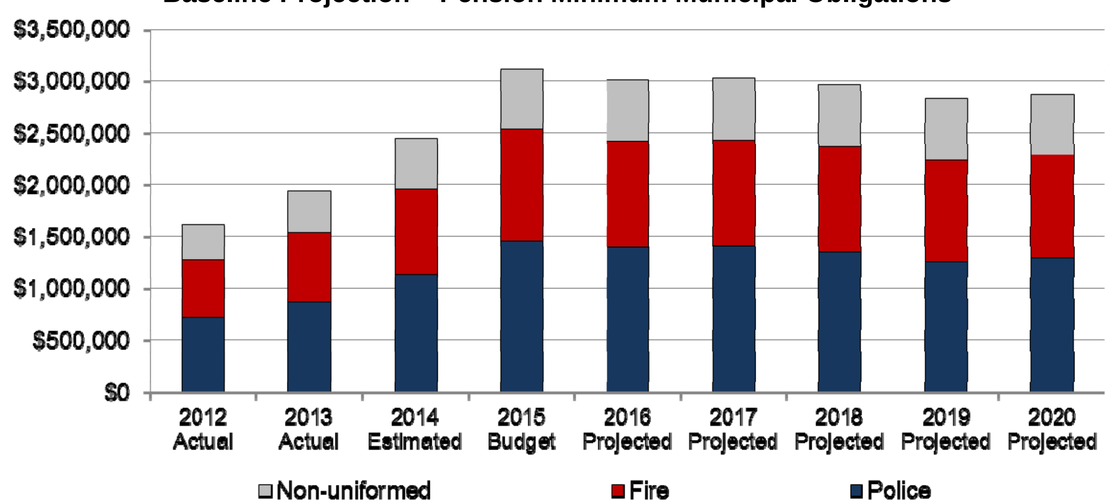
- In 2012 the City completed negotiations on new collective bargaining agreements with the three unions representing non-uniformed employees. Each of these contracts contains a re-opener provision to negotiate pension changes for employees hired on or after the effective date of the change, including establishing a defined contribution plan for those hires. That concept is addressed further in the initiative section.

The 2012 Amended Recovery Plan also required that the City establish a revised pension plan for IAFF members hired on or after January 1, 2014 with a normal cost which is at least 20 percent lower than the plan applicable to employees hired on or after January 1, 2007. That provision is part of the ongoing arbitration proceeding.

Projection

The Coordinator requested that the City's actuary provide a projection of the City's MMO payments through 2020. In July 2015 the actuary provided the projections shown in the graph and table below using the pension valuation as of January 1, 2015.[25]

Baseline Projection – Pension Minimum Municipal Obligations



[25] The actuary subsequently provided an updated MMO calculation for 2016 that is not materially different from the projection shown here. The updated MMO is less than $20,000 lower than the projection.

This projection has good news and bad news for City government finances. On the positive side, the actuary projects that the City's required payments will level off and could slightly decrease in later years. The 2020 projection ($2.87 million) is 8.3 percent lower than the $3.13 million budgeted this year. That trend is a welcome change from the rapid annual increases the City has shouldered since 2010.

On the down side, the MMO payments are leveling off at a much higher amount than the City paid even three years ago. The Coordinator also notes that the projected marginal decreases in pension contributions are based on information available at this time while the actual MMO payments in those years will be based on future pension valuation reports. There could be many changes in investment performance, retirement or mortality patterns and other factors that change that marginal decrease.

Initiatives

Act 47 provides that a Recovery Plan may set "limits on projected expenditures for individual collective bargaining units that may not be exceeded by the distressed municipality..." The initiatives in this section set such limits in the form of maximum annual allocations for employee compensation for each of the five bargaining units, plus the full-time non-represented employees.

The City and each union have flexibility to negotiate a different pattern of compensation from the one suggested in this Plan, provided the total employee compensation does not exceed the maximum annual allocations 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 allocations for that bargaining unit unless they are found 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.[26]

This is New Castle's second experience with the structure established under Act 133 of 2012. The first Amended Recovery Plan adopted in 2012 provided maximum annual allocations for FOP and IAFF employee compensation. The City and FOP received an arbitration award in January 2014 that complied with the first Amended Recovery Plan and the arbitration process between the City and IAFF is ongoing.

To understand how the Coordinator set the maximum annual allocations, the reader has to consider the City's broader financial picture. New Castle has to eliminate the portion of the resident and non-resident earned income tax that is tied its Act 47 status to comply with the statutory deadline for exiting Act 47. As described in the Revenue Chapter, that mandatory reduction will cost the City millions of dollars from its largest and most robust source of revenue. The Amended Recovery Plan's baseline projection shows a large deficit in 2019, the same year in which the Coordinator has to determine whether the City is financially stable enough to leave Act 47 oversight and make a recommendation to the Commonwealth officials who administer this program.

Although New Castle already has the highest real estate taxes in Lawrence County and a tax base that is slowly shrinking, the City needs additional tax revenue to compensate for the anticipated loss of EIT revenue. The initiative section in the Revenue Chapter anticipates real estate tax increases each of the next four years.

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

As was the case with the original Recovery Plan in 2007 and the first Amended Recovery Plan in 2012, this Amended Recovery Plan does not rely solely on higher revenues to close the projected deficit. Revenue initiatives increase the amount of money the City has to meet its obligations while the expenditure initiatives decrease those obligations, or keep their growth below the levels projected in the baseline.

Like other local governments, most of New Castle's expenditures are for employee compensation. So reducing or controlling the growth of expenditures means reducing or controlling the growth of employee compensation.

The Coordinator recognizes that the City's employees have already contributed to the City's successful efforts to balance annual expenditures against available revenue each year since 2009. Since the City entered Act 47 oversight in 2007, most City employees had at least two years without wage increases and have increased their contributions toward the cost of their health insurance coverage. Those difficult actions were necessary to reverse the trend of recurring annual operating deficits and limit the growth in current employee compensation so the City can make larger contributions to those employees' pension plans. Controlling the cost per employee also allowed the City to achieve those two objectives without resorting to large scale layoffs.

While the City needs to bring expenditures below the levels projected in the Amended Recovery Plan baseline to give itself a chance to exit Act 47 oversight at the end of 2019, the Coordinator's preference is that the City and employees achieve that objective without wage freezes beyond those described in the 2012 Amended Recovery Plan.[27]

The City's capacity to provide regular wage increases through 2019 is predicated in part on its ability to control the growth in spending on other forms of compensation, like health insurance and pension benefits. In July 2015, the City, FOP and IAFF reached an agreement to change health insurance plans in a way that could generate significant savings for the City for active and retired employee health insurance. The actual level of savings the City will receive depends on how much the City's costs grow under this new health insurance plan, which is difficult to predict at this point. To ensure the City achieves and maintains those savings, initiative WF02 takes the cost-sharing structure established in the 2012 Amended Recovery Plan, including the five percent cap on growth in the City's share of those costs, and applies it to the new health insurance plan starting in 2017.

While total compensation paid to active employees has generally grown at a manageable rate since 2010, the City's contributions to the employee pension plans nearly doubled from $1.21 million in 2010 to $2.35 million in 2014, and will increase again to $3.1 million this year. The City is taking steps under the 2012 Amended Recovery Plan to help address this liability, but higher pension contributions will consume a large portion of the City's budget for the foreseeable future.

For the City to afford regular wage increases and to give itself a chance to exit Act 47 oversight successfully at the end of 2019, it must keep its pension costs at least at the level projected above. Therefore this Plan continues the prohibition on improvements to the pension or retiree medical benefits for current, future or retired employees. New Castle's leaders should also follow through on the opportunity to establish a lower cost, defined contribution plan for new civilian employees, as recommended in prior Recovery Plans.

[27] The 2012 Amended Recovery Plan recommended a one-year base wage freeze and one-time bonus, which the FOP and non-represented employees took in 2013 and the IAFF would receive in 2015, pending its arbitration process. This Plan incorporates that wage freeze/one-time bonus in the maximum annual allocations for the three non-uniformed unions in 2017. Those unions are receiving this wage freeze later than the other City employees because of the staggered expiration of the collective bargaining agreements.

Finally, the City needs to bring overtime spending growth back into line with salary growth, particularly in the Fire Department. The City's ability to do so depends on the pending IAFF arbitration award. The Coordinator is waiting for that award to calculate the maximum annual allocations for firefighter compensation for 2017 through 2019. The Coordinator will track the savings associated with the firefighters' agreement to change health insurance plans and provide the IAFF allocations through 2019 in a subsequent Plan amendment.

WF01.	**Ensure future collective bargaining agreements remain compliant with the Amended Recovery Plan**	
	Target outcome:	Improved management capacity
	Financial Impact:	N/A
	Responsible party:	Administration, Solicitor

In 2007-2008 the City retained the support of professional external public employment labor counsel for its negotiations with the FOP. That process resulted in a negotiated collective bargaining agreement that complied with the original Recovery Plan. In 2012-2013 the City again retained external labor counsel and eventually received an interest arbitration award that complied with the 2012 Amended Recovery Plan.

In 2011-2012 the City Solicitor negotiated new collective bargaining agreements with the employees represented by the Laborers, Local No. 964 and the code enforcement employees represented by the Teamsters. Those agreements also complied with the original Recovery Plan.

In view of those successes, the City Solicitor shall secure the external support of professional public employment labor counsel for the negotiations and any arbitration proceedings involving the FOP and the IAFF. Unlike the civilian contracts that the Solicitor handled successfully without outside legal counsel, the FOP and IAFF bargaining units are subject to binding arbitration under Pennsylvania Act 111. Binding arbitration requires a specialized set of skills and experience that external legal counsel can provide. The external counsel shall work closely with the City Solicitor and, at the Solicitor's direction, the Business Administrator and other City employees.

With the support of its labor counsel, the City shall make a good faith effort to achieve negotiated labor agreements consistent with this Amended Recovery 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 continue in effect past the stated expiration date of any current labor agreement the wages, benefits or other terms and conditions of the existing labor agreement if such wages, benefits or conditions are inconsistent with initiatives made herein.

Furthermore, no collective bargaining agreement, reached through negotiations or interest arbitration, shall extend past 2019.

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:	$2.8 million
	Responsible party:	Business Administrator, City Solicitor

While the Coordinator was drafting this Amended Recovery Plan, the City reached an agreement with the Fraternal Order of Police and the International Association of Firefighters on a significant change to the City's health insurance plans. Previously employees in those bargaining units and employees who are not represented by a union were covered under a Highmark Plan provided through the Teamsters Welfare Fund. The parties agreed to move to a United Healthcare plan provided through TEC Benefits beginning in the second half of 2015.

Under the Highmark plan, the City and its employees shared the cost of monthly premiums; employees made copayments when they received medical care; and there was no deductible. The United Healthcare plan has lower monthly premiums and higher copayments than the Highmark plan and it has a deductible ($3,000 for single coverage and $6,000 for all other levels of coverage).

The City and unions agreed that the City will pay the full cost of the premium for the rest of 2015 and split the deductible, with the City paying up to two-thirds ($2,000 for single coverage and $4,000 for all other levels of coverage) and the employees paying the rest. That switch complies with the 2012 Amended Recovery Plan's provisions for health insurance cost sharing.

Even with the City paying the entire monthly premium and two-thirds of the deductible, the City's costs will be lower under the United Healthcare plan in 2015 and early 2016 because the premiums are much lower. Changing plans will also lower the monthly premium contributions by active police officers, increasing their net earnings. Each officer's total contribution will depend on how much of the deductible the officer uses. But even if the officer uses the full deductible, they will stay pay less on average per month than they do under the Highmark Plan.[28]

The active firefighters agreed to make this change while arbitration on the 2014 – 2016 collective bargaining agreement continues. The change will result in lower costs for the City once the transition is complete and lower monthly premium contributions by firefighters than would have been required if they remained on the Highmark Plan. The City should also receive savings when the retired police officers and firefighters move to the United Healthcare plan because of the lower premiums.

Compared to the Amended Recovery Plan's baseline projection that assumes continuation of the coverage and the cost sharing provisions in place at the beginning of 2015, the City should receive significant savings from this shift through the first half of 2016. In subsequent years the City's premium rates would change effective September 1 when the City enters its next enrollment year. [29]

[28] This does not account for the differences in costs related to copayments.

[29] This assumes that the City completes the transition from the Highmark to the United Healthcare plan effective September 1, 2015. In subsequent years the new health insurance enrollment year would be September 1 – August 31st.

Based on correspondence with TEC Benefits, it is difficult to predict how much the premiums will increase. The City needs stability in its health insurance rates given the projected deficits. So this Amended Recovery Plan continues the 5 percent “cap” structure from the 2012 Amended Recovery Plan. That cap will help preserve the City’s projected savings from the health insurance plan change while still giving the employees flexibility to change the plan design, move to a different plan or pay any additional costs above the 5 percent cap in the future.

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. 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 and 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.[30]

Maximum City Monthly Contributions[31]

	2017	2018	2019
Single	$480	$504	$529
Employee/child	$957	$1,005	$1,055
Employee/spouse	$1,011	$1,062	$1,115
Family	$1,251	$1,314	$1,380

The 2017 maximum contributions are based on the rates provided by TEC Benefits for 2015 – 2016, increased by 5.0 percent in accordance with the growth cap described above, plus the projected cost of dental and vision coverage and the administrative fee.[32] The 2018 and 2019 contribution amounts are approximately 5 percent higher than the prior year.

The Coordinator projects savings by employee group through 2019 as noted below. No savings are shown for the non-uniformed collective bargaining units in 2016 since this initiative cannot be applied until after their current agreements expire at the end of 2016. There should be additional savings-to-budget in 2015 for the police officers, firefighters and non-represented employees depending on when the employees move to the new health care coverage. The estimates below

[30] 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.” Please see the next initiative.

[31] The 2012 Amended Recovery Plan establishes the City’s maximum contributions for 2016. Please see page 48.

[32] The City’s share of the deductible is $2,000 for single coverage and $4,000 for all other levels of coverage according to the recent agreements with the FOP and IAFF. These amounts are incorporated in the maximum contributions by dividing them over 12 months. The cost of dental coverage is based on the regular, non-premium coverage that all FOP and most IAFF members receive. The cost of dental and vision coverages are assumed to grow by 5.5 percent in 2016 and 2017. The administrative cost is projected at $20 per member based on information provided by TEC Benefits in July 2015.

do not include any savings that the employees receive, which would be reflected in the City's budget as a reduction in "employee contribution" revenue.

Projected Savings by Employee Group

Employee group	2016	2017	2018	2019
FOP, Lodge 21	$71,000	$83,000	$87,000	$94,000
Retired police officers	$124,000	$134,000	$144,000	$155,000
IAFF, Local 160	$171,000	$190,000	$202,000	$217,000
Retired firefighters	$79,000	$86,000	$93,000	$101,000
Laborers	N/A	$108,000	$118,000	$128,000
Clerical	N/A	$37,000	$41,000	$44,000
Teamsters	N/A	$22,000	$24,000	$27,000
Non-Represented	$52,000	$54,000	$57,000	$61,000
Total	**$497,000**	**$714,000**	**$767,000**	**$827,000**

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

One provision in the Affordable Care Act is a 40 percent excise tax on the value of health insurance benefits exceeding a certain threshold, sometimes referred to as the "Cadillac tax." While there has been much discussion about Congress eliminating or amending the tax, as of this moment, the tax is due to go into effect January 1, 2018, 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 2018.

Due to these uncertainties, the Amended Recovery 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 Amended Recovery 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 this Plan Amendment Initiative 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.

WF04.	**Fraternal Order of Police employee compensation allocation**	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	$335,000
	Responsible party:	Business Administrator, City Solicitor

The Amended Recovery Plan allocates the following maximum amounts for employee compensation for active members of the Fraternal Order of Police, Lodge No. 21. This allocation does not include compensation for the Police Chief, part-time police officers, or other police department employees not represented by the Fraternal Order of Police.

2016	2017	2018	2019
$2,822,000	$2,921,000	$3,022,000	$3,116,000

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 2015 budget allocates approximately $2.8 million for active FOP members' compensation. The Amended Recovery 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 2019.

- Employees who receive longevity pay would continue to do so at the current rate for the duration of this Amended Recovery 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[33], 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 2015 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 2015 budgeted amount, adjusted to account for future salary growth. If the City and union do not make any changes to the factors that determine these payments, the City shall be deemed in compliance with the Recovery Plan, even if the actual amounts paid are higher than projected. If the City and union do make changes through negotiation or an arbitration award 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 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 union can control. If the City and union do not make any changes that would impact overtime or court hearing compensation expenditures, the City shall be deemed in compliance with the Recovery Plan allocation, even if overtime and court hearing compensation are higher than projected because of other factors. If the City and union do make changes through negotiation or an arbitration award that impact overtime or court hearing compensation, 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 union make any changes to health insurance coverage outside of that initiative through negotiation or an arbitration award, 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 employee compensation costs for police officers. If the City secures such funding from a source other than those already included in the Amended Recovery Plan's baseline projections, the compensation costs that are supported by that external funding source will not count toward the Amended Recovery Plan's maximum annual allocations so long as the external funding meets the following conditions:

- The funding covers the full compensation costs of the officer(s) supported by it; and

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

- The City is not required to maintain a specific staffing level after the expiration of the grant or external funding source.

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 Amended Recovery Plan maximum annual allocations. Should the City and FOP negotiate such a package, they shall conduct a full cost analysis of those changes for each year through 2019 to determine and assure 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.

The table below shows the estimated financial impact of these maximum annual allocations, with the estimated savings generated by the health insurance changes described in initiative WF02. While the Plan provisions cover the period through 2019, Act 47 requires that the Coordinator provide projections through 2020, which are incorporated in the summary projections in the Plan appendices.

Estimated Financial Impact

	2016	2017	2018	2019
Baseline	$2,893,000	$3,004,000	$3,109,000	$3,210,000
Maximum allocation	$2,822,000	$2,921,000	$3,022,000	$3,116,000
Estimated savings	**$71,000**	**$83,000**	**$87,000**	**$94,000**

WF05.	**Clerical bargaining unit employee compensation allocation**	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	$137,000
	Responsible party:	Business Administrator, City Solicitor

The Amended Recovery Plan allocates the following maximum amounts for compensating the clerical employees represented by the Laborer's District Council of Western Pennsylvania, Local No. 964. The collective bargaining agreement for those employees expires at the end of 2016, so the allocations begin in 2017.

2017	2018	2019
$552,000	$554,000	$569,000

This allocation includes the maximum amounts the City shall pay all active employees 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 2015 budget allocates approximately $552,000 for compensating the employees in this bargaining unit. The Amended Recovery Plan allocation incorporates the 3.0 percent base salary increase in the current collective bargaining agreement for 2016 and then makes the following assumed adjustments:

- In 2017 each employee would receive a one-time bonus of $1,000. Base salaries and wages would not increase in 2017. This is the one-year wage freeze/bonus that was recommended under the 2012 Amended Recovery for FOP members in 2013 and the IAFF members in 2015. The application of that provision to this bargaining unit was delayed until 2017 because of the staggered expiration of the collective bargaining agreements.[34]
- In 2018 and 2019 employees would receive two percent annual base wage increases
- 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 2015 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 2015 budgeted amount, adjusted to account for future salary growth. If the City and union do not make any changes to the factors that determine these payments, the City shall be deemed in compliance with the Amended Recovery Plan, even if the actual amounts paid are higher than projected. If the City and union do 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

[34] Please see initiatives WF05 and WF06 in the 2012 Amended Recovery Plan for reference. The FOP arbitration award provided a wage freeze without the one-time bonus in 2013. The IAFF arbitration award is pending.

compensation. The 2015 budget allocates $500 for overtime for all 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 Amended Recovery Plan's baseline projections, the compensation costs that are supported by that external funding source will not count toward the Amended Recovery Plan's maximum annual allocations so long as the external funding meets the following conditions:

- The funding covers the full compensation costs of the employee(s) supported by it; and
- 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 Amended Recovery Plan maximum annual allocations. Should the City and union negotiate such a package, they shall conduct a full cost analysis of those changes for each year through 2019 to determine and assure 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.

The table below shows the estimated financial impact of these maximum annual allocations with most of the savings generated by the health insurance changes described in initiative WF02. While the Plan provisions cover the period through 2019, Act 47 requires that the Coordinator provide projections through 2020, which are incorporated in the summary projections in the Plan appendices.

Estimated Financial Impact

	2017	2018	2019
Baseline	$586,000	$604,000	$622,000
Maximum allocation	$552,000	$554,000	$569,000
Estimated savings	**$34,000**	**$50,000**	**$53,000**

WF06.	Public works and recreation bargaining unit employee compensation allocation	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	$397,000
	Responsible party:	Business Administrator, City Solicitor

The Amended Recovery 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. The collective bargaining agreement for those employees expires at the end of 2016, so the allocations begin in 2017.

2017	2018	2019
$1,497,000	$1,507,000	$1,545,000

This allocation includes the maximum amounts the City shall pay all active employees 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 2015 budget allocates approximately $1.5 million for compensating the employees in this bargaining unit. The Amended Recovery Plan allocation incorporates the 3.0 percent base salary increase in the current collective bargaining agreement for 2016 and then makes the following assumed adjustments:

- In 2017 each employee would receive a one-time bonus of $1,000. Base salaries and wages would not increase in 2017. This is the one-year wage freeze/bonus that was recommended under the 2012 Amended Recovery for FOP members in 2013 and IAFF members in 2015. The application of that provision to this bargaining unit was delayed until 2017 because of the staggered expiration of the collective bargaining agreements.[35]
- In 2018 and 2019 employees would receive two percent annual base wage increases.

[35] Please see initiatives WF05 and WF06 in the 2012 Amended Recovery Plan for reference. The FOP arbitration award provided a wage freeze without the one-time bonus in 2013. The IAFF arbitration award is pending.

- 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 2015 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 2015 budgeted amount, adjusted to account for future salary growth. If the City and union do not make any changes to the factors that determine these payments, the City shall be deemed in compliance with the Amended Recovery Plan, even if the actual amounts paid are higher than projected. If the City and union do 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 Amended Recovery Plan allocation, even if overtime is higher than projected because of other factors. If the City and union do 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 Amended Recovery Plan's baseline projections, the compensation costs that are supported by that external funding source will not count toward the Amended Recovery Plan's maximum annual allocations so long as the external funding meets the following conditions:

- The funding covers the full compensation costs of the employee(s) supported by it; and

- 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 Amended Recovery Plan maximum annual allocations. Should the City and union negotiate such a package, they shall conduct a full cost analysis of those changes for each year through 2019 to determine and assure 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.

The table below shows the estimated financial impact of these maximum annual allocations with most of the savings generated by the health insurance changes described in initiative WF02. While the Plan provisions cover the period through 2019, Act 47 requires that the Coordinator provide projections through 2020, which are incorporated in the summary projections in the Plan appendices.

Estimated Financial Impact

	2017	2018	2019
Baseline	$1,601,000	$1,648,000	$1,697,000
Maximum allocation	$1,497,000	$1,507,000	$1,545,000
Estimated savings	**$104,000**	**$141,000**	**$152,000**

WF07.	**Teamsters employee compensation allocation**	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	$239,000
	Responsible party:	Business Administrator, City Solicitor

The Amended Recovery Plan allocates the following maximum amounts for compensating the employees represented by the Teamsters, Local No. 261. The collective bargaining agreement for those employees expires at the end of 2016, so the allocations begin in 2017.

2017	2018	2019
$265,000	$266,000	$273,000

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

- Salaries, longevity 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 2015 budget allocates approximately $318,000 for compensating the employees in this bargaining unit. The City plans to eliminate a vacant code officer position and create a new non-represented position related to code enforcement. The Amended Recovery Plan allocation accounts for associated compensation costs shifting from the Teamsters to the non-represented employees starting in 2016. The Amended Recovery Plan allocation then incorporates the 3.0 percent base salary increase in the current collective bargaining agreement for 2016 and then makes the following assumed adjustments:

- In 2017 each full-time employee would receive a one-time bonus of $1,000.[36] Base salaries and wages would not increase in 2017. This is the one-year wage freeze/bonus that was recommended under the 2012 Amended Recovery for FOP members in 2013 and the IAFF members in 2015. The application of that provision to this bargaining unit was delayed until 2017 because of the staggered expiration of the collective bargaining agreements.[37]
- In 2018 and 2019 employees would receive two percent annual base wage increases.
- 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.

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 2015 budgeted amount, adjusted to account for future salary growth. If the City and union do not make any changes to the factors that determine these payments, the City shall be deemed in compliance with the Amended Recovery Plan, even if the actual amounts paid are higher than projected. If the City and union do 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, though the City rarely pays overtime to employees in this bargaining unit.

[36] The health officer would receive $500, as recommended in the 2012 Amended Recovery Plan for employees whose annual salary is less than $25,000.

[37] Please see initiatives WF05 and WF06 in the 2012 Amended Recovery Plan for reference. The FOP arbitration award provided a wage freeze without the one-time bonus in 2013. The IAFF arbitration award is pending.

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 Amended Recovery Plan's baseline projections, the compensation costs that are supported by that external funding source will not count toward the Amended Recovery Plan's maximum annual allocations so long as the external funding meets the following conditions:

- The funding covers the full compensation costs of the employee(s) supported by it; and

- 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 Amended Recovery Plan maximum annual allocations. Should the City and union negotiate such a package, they shall conduct a full cost analysis of those changes for each year through 2019 to determine and assure 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.

The table below shows the estimated financial impact of these maximum annual allocations relative to the baseline projection. While the Plan provisions cover the period through 2019, Act 47 requires that the Coordinator provide projections through 2020, which are incorporated in the summary projections in the Plan appendices.

Estimated Financial Impact

	2017	2018	2019
Baseline	$338,000	$347,000	$357,000
Maximum allocation	$265,000	$266,000	$273,000
Estimated savings	**$73,000**	**$81,000**	**$86,000**

IAFF allocation pending arbitration award

As described in the prior initiatives, the Coordinator calculated the maximum annual allocations for each bargaining unit based in part on the represented employees' compensation levels at the expiration of their last collective bargaining agreement. As of August 31, 2015, the City had not received the arbitration award that will determine portions of the IAFF members' compensation for 2014 through 2016.

For now the Coordinator has used the assumptions applied elsewhere in the Amended Recovery Plan to determine a baseline projection for the New Castle Fire Department's expenditures, which include employee compensation. Once the City receives the pending arbitration award, the Coordinator will provide the maximum annual compensation allocations for the IAFF in a subsequent Plan Amendment.

In addition to the award's importance for planning purposes, there is also a practical need to address the growth in Fire Department overtime spending. The City recently reported that the Department had 4,369 hours of overtime through August 2015. Most of those hours (3,091 or 70.7 percent) were related to the aforementioned interaction between the contractual minimum manning provisions, staffing levels and paid leave usage. Through June 2015, the City had spent a little more on Fire Department overtime this year ($119,000) than last year ($115,000), and last year's overtime spending levels were already much higher than they had been in prior years.

WF08.	**Non-represented employee compensation allocation**	
	Target outcome:	Cost control to facilitate Act 47 exit
	Financial Impact:	($8,000)
	Responsible party:	Business Administrator, City Solicitor

The Amended Recovery 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 Chief, who is generally compensated according to the FOP collective bargaining agreement. It also has a placeholder allocation for the Fire Chief who is generally compensated according to the IAFF collective bargaining agreement and whose allocation will depend on the pending arbitration award.

2016	2017	2018	2019
$1,014,000	$1,033,000	$1,057,000	$1,082,000

This allocation includes the maximum amounts the City shall pay all active employees 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 2015 budget allocates approximately $982,000 for compensating these employees. The Amended Recovery Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases through 2019.

- 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.

The City plans to eliminate a vacant code officer position and create a new non-represented position related to code enforcement. The Amended Recovery Plan allocation accounts for associated compensation costs shifting from the Teamsters to the non-represented employees starting in 2016. Otherwise the Plan allocation is based on the headcount and mix of employees by title in the 2015 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 2015 budgeted amount, adjusted to account for future salary growth. If the City does not make any changes to the factors that determine these payments, the City shall be deemed in compliance with the Amended Recovery 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.

Estimated Financial Impact

	2016	2017	2018	2019
Baseline	$1,006,000	$1,031,000	$1,057,000	$1,084,000
Maximum allocation	$1,014,000	$1,033,000	$1,057,000	$1,082,000
Estimated impact[38]	**($8,000)**	**($2,000)**	**$0**	**$2,000**

The stipend or wages paid to part-time elected officials shall not increase by more than two percent in any year through 2019.

[38] The estimated impact accounts for the City adding one non-represented position with the associated compensation costs covered by eliminating a vacant position represented by the Teamsters. The changes are expected to be cost neutral across all employee groups, though there are additional compensation costs for this particular group.

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 2019.

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 its 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, Lodge 21 who are hired after December 31, 2007, which is continuation of the original Recovery Plan provision. Pending the arbitration process, the City shall not provide retiree healthcare to employees represented by the IAFF, Local No. 160 who are hired after December 31, 2013.

WF10.	Non-uniformed employee pension plan cost reduction	
	Target outcome:	Reduce long-term costs to achieve long-term financial stability
	Financial impact:	N/A
	Responsible party:	City Solicitor, Business Administrator

The following actions shall be taken to reduce the costs associated with maintaining the City Employees' Pension Plan[39]. As part of the contract re-openers for pension changes agreed to in the last round of collective bargaining, the following changes shall be incorporated into the collective bargaining agreements between the City and the three non-uniformed employee collective bargaining units.

With the assistance of its actuary, New Castle shall establish a revised benefit plan for non-uniformed employees hired on or after January 1, 2017, with a normal cost that is at least 20 percent lower than the plan applicable to employees hired on or after January 1, 1994. The

[39] This is the plan that covers all employees except police and firefighters.

revised benefit plan shall be a defined contribution plan; provided, however, that if a defined contribution plan is held to be illegal by an unappealable order of court of competent jurisdiction, then the revised benefit plan shall be a defined benefit plan meeting the above cost criteria.

WF11.	**Make periodic pension contributions during the year**	
	Target outcome:	Increase pension funding levels, decrease annual required contributions
	Financial impact:	Long-term gains
	Responsible party:	Business Administrator

Currently the City waits until the fourth quarter to make most of its annual required contribution to the employee pension plans. In 2014 the City made most of its contribution on December 22. This is not unusual among Pennsylvania cities, and it is understandable since the Commonwealth does not distribute the pension aid that helps fund the cities' contributions until the fall. Last year New Castle received its pension aid on September 25 and made a portion of its contribution a few days later. Other Pennsylvania municipalities wait to make their pension contribution until late in the year for cash flow purposes.

However, there is a cost to this delay. As the actuary notes in its pension valuation reports, "a contribution loss occurs" when "contributions are made later than the beginning of the year." Money that is expected to earn 7.5 percent per year in interest cannot do so if it is held in a lower interest bearing account until the end of the year. This is also true for the distressed pension tax revenue that arrives throughout the year and has limited value for meeting other cash flow needs since it can only be used for pension purposes.

Beginning in 2016, the City shall make a portion of its annual pension contribution earlier in the calendar year. The City shall make quarterly or semiannual contributions to the fund as determined by its Business Administrator.

Fire Department

Fire Department

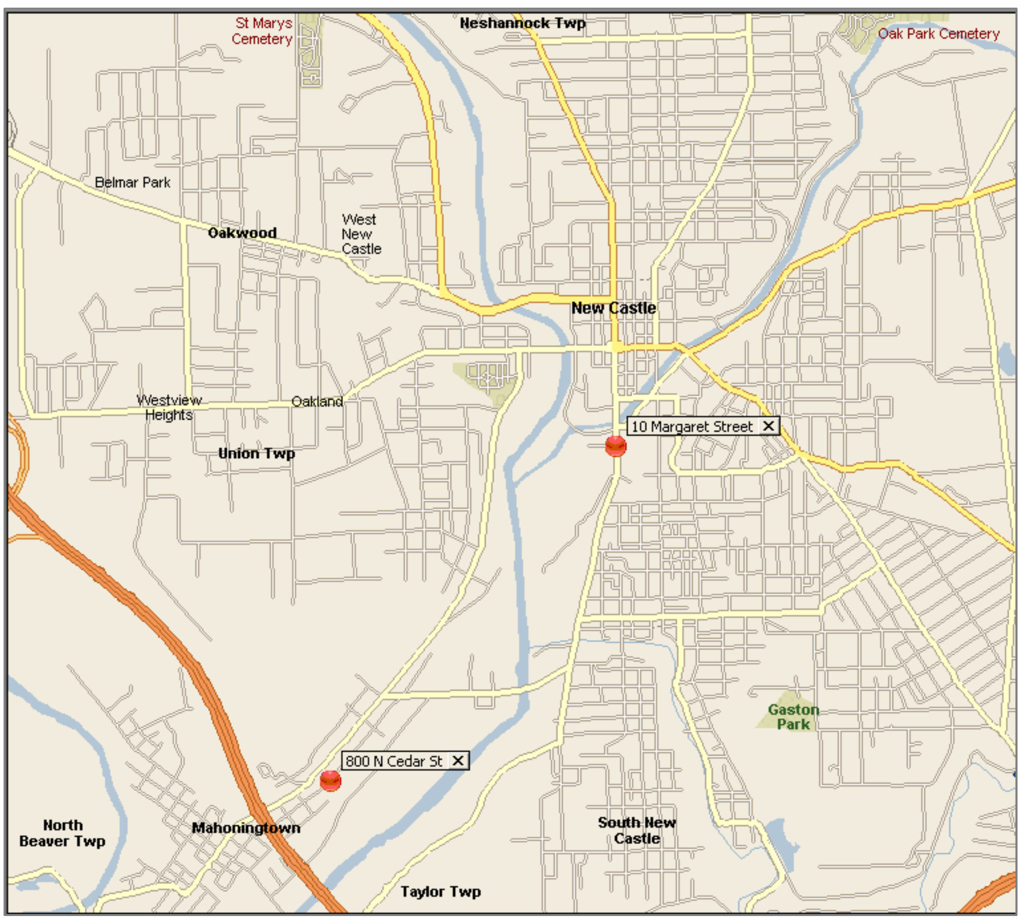
Overview

The New Castle Fire Department (NCFD) is responsible for fire suppression, on-scene treatment at medical emergencies, vehicle extrication, water rescue and rope rescue for a resident population nearing 23,000 spread over approximately 8.6 square miles. In addition to NCFD emergency medical services (EMS), there are two private ambulance companies that provide these services to the City. The Department also seeks to inform and protect its citizens and businesses in advance of an incident through fire prevention programming. The NCFD provides fire and safety classes, in-home fire drill services for residents and commercial properties and fire inspections to ensure the safe use and occupancy of New Castle's properties through the enforcement of the City's fire code.

Facility and Equipment

The Department operates and deploys out of two fire stations located within the boundaries of the City. The City operates two active fire engines, an aerial platform truck (tower/ladder apparatus), and one grass or brush fire truck from the two locations marked on the map below.

NCFD Station Locations



The table below lists all apparatus by station location. The average age of the NCFD's fleet is 16.5 years while the average age of the fire suppression apparatus (engines and ladder) is 19 years.

Station Name	Address	Apparatus/Vehicle	Year	Age	Make / Use
Central Fire Station	10 Margaret Street	Tower/Ladder	1999	16	Sutphen
		Engine	2005	10	International
		Engine	1994	21	Freightliner
		Brush Truck	2005	10	Ford F550
		Chevy SUV	2004	11	Trailblazer
		Ford Truck	2008	7	F250
		Dodge Truck	1987	28	Tow for Air Trailer
#7 Fire Station	907 Cedar Street	Engine	1986	29	Emergency One

In June 2015, the Department received notice that their Federal Emergency Management Agency (FEMA) grant application for an engine replacement was successful. The additional engine will allow the NCFD to use the 1986 engine as either a reserve apparatus (used to replace active apparatus when breakdowns occur or during large-scale events when unscheduled staff are called back to duty), or more likely for parts as needed. Additionally, the NCFD is hoping to use capital improvement plan monies to replace the 1994 engine so it can function as a true reserve. If the City is able to complete those changes, the NCFD's fleet will be in appropriate shape to support current operations.

Staffing

The NCFD has a total 2015 budgeted headcount of 28 positions. The Department is led by a Fire Chief who has four Assistant Chiefs reporting to him on mainly field operations but also budget, training, prevention and education related activities.

All but six of the budgeted NCFD positions are full-time. In 2013 the Department had three retirements at the lieutenant (one position) and driver (two positions) levels and reinstituted six part-time positions. The City had previously used part-time (or "casual") firefighters until 2003 when the part-time position holders were converted to full-time. Similar to the part-time police officer position, the City uses the part-time firefighter position to supplement full-time personnel at a lower cost.

Fire Department Budgeted Headcount, 2012 – 2015

	2012	2013	2014	2015
Fire Chief	1	1	1	1
Assistant Chief	4	4	4	4
Lieutenant	5	5	4	4
Driver	9	9	7	7
Firefighter (All ranks)	6	6	6	6
Part-Time Firefighters	0	0	6	6
Total	**25**	**25**	**28**	**28**

The NCFD uses a 42-hour schedule to staff its operations whereby firefighting personnel work a series of 24 hours on duty followed by 48 hours off duty. One cycle of this schedule is referred to as a "tour." The 24 hours on duty and 48 hours off duty schedule repeats for six tours until the seventh 24-hour shift is worked. After this 24-hour shift, personnel receive nine consecutive days off. The chart below demonstrates how this schedule works.

Sample NCFD Full-Time Schedule, Four-Week Period

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Weekly Total
24	x	x	24	x	x	24	72
x	x	24	x	x	24	x	48
x	24	x	x	24	x	x	48
x	x	x	x	x	x	x	0
Four-week Average							**42**

This schedule results in an average work week of 42 hours over a four-week period, or 2,184 hours scheduled per year not including any paid leave. Department personnel are organized into four turns where members are assigned to regularly work the same scheduled tour of duty together. Each turn consists of six members, including one assistant chief, one lieutenant, three full-time firefighters and one part-time firefighter. In accordance with the IAFF, Local 160 collective bargaining agreement (CBA), the NCFD is required to employ a minimum of 24 firefighters and maintain a minimum staff of five firefighters on-duty at all times. Currently, the Department does not count the part-time firefighters toward the minimum staffing requirement.

Part-time firefighters are used to staff one of the two engine companies on every turn. Each part-time firefighter works one 24-hour shift per week and an eight-hour shift every other Sunday. As an outcome of this schedule, part-time firefighters work an average of 28 hours per week over the course of a year. The table below represents a sample schedule for a part-time firefighter.

Sample NCFD Part-Time Schedule, Four-Week Period

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Weekly Total
x	24	x	x	x	x	x	24
8	x	24	x	x	x	x	32
x	x	x	24	x	x	x	24
8	x	x	x	24	x	x	32
Four-week Average							**28**

The current staffing model results in one engine company being staffed with one lieutenant and three firefighters (one of which is part-time) and the other engine is staffed using two firefighters. The ladder/tower apparatus does not have dedicated staff but is activated when necessary by the staff dedicated to the engine company housed in the same station.

Finances

The NCFD has the third largest budget in the City ($2.7 million in 2015) behind the Police and Public Works Departments if all units within that department are grouped together. Department expenditures grew by 5.6 percent from 2012 to 2014.[1] Please note the table does not include expenses associated with vehicle maintenance, most capital projects or the City's contribution to the employee pension plan. It does include the vehicle lease payments that the City budgets as "equipment" within the Department.

[1] The 2014 estimates are unaudited year-end figures.

NCFD Expenditures, 2012 - 2014

	2012 Actual	2013 Actual	2014 Estimated	% Change
Salaries and longevity	1,380,981	1,402,274	1,355,744	-1.8%
Overtime	138,774	169,239	243,544	75.5%
Other cash compensation	167,294	220,467	202,535	21.1%
Active employee insurance	438,709	433,071	448,006	2.1%
Retired employee insurance	133,682	147,782	175,271	31.1%
Workers' comp and unemployment	0	0	0	N/A
Personnel Subtotal	**2,259,441**	**2,372,833**	**2,425,100**	**7.3%**
Hydrant water	124,606	124,300	125,566	0.8%
Equipment	74,942	32,499	37,172	-50.4%
Other materials and supplies	37,372	63,380	60,015	60.6%
Non-Personnel Subtotal	**236,921**	**220,179**	**222,754**	**-6.0%**
Department Total	**2,496,361**	**2,593,012**	**2,647,854**	**5.6%**

The main drivers in the spending increase were overtime and retiree benefits which rose by $105,000 and $42,000 respectively. Both changes were related to the aforementioned replacement of three full-time employees with six part-time firefighters.

That exchange provided savings in salary and longevity since the part-time firefighters have lower salaries and are not eligible for longevity. Depending on the timing of future retirements, it should also eventually produce savings in other cash compensation. Part-time firefighters are not eligible for premium payments that full-time firefighters receive, like the heart and lung incentive. In the short term, the City's spending on other cash compensation increased by 21.1 percent because the retiring firefighters received $47,000 for converting unused leave to cash in 2013 and $37,000 in 2014.[2]

The savings from having fewer active firefighters on the City's health insurance were offset by increases in the cost of insurance for the remaining firefighters, resulting in 2.1 percent growth.[3] Most retiring firefighters were eligible for retiree health insurance, so the City's costs rose by 31.1 percent.

While exchanging full-time firefighters for part-time firefighters did not bring total General Fund personnel costs in 2014 below 2012 levels, some of the costs associated with the transition will eventually drop out of the City's budget (i.e. separation payments, retiree health insurance once the employee reaches Medicare eligibility). And total compensation for part-time firefighters is lower than it is for active full-time firefighters so the City can potentially achieve savings by making this switch, as suggested in the 2012 Amended Recovery Plan. But the magnitude of that savings depends in part on the City's ability to address the rapid growth in overtime.

[2] This includes separation pay for the former Fire Chief, who was not in the IAFF upon retirement.

[3] The City and IAFF have reached an agreement on changes that will lower these costs. Please see the Workforce Chapter for more information.

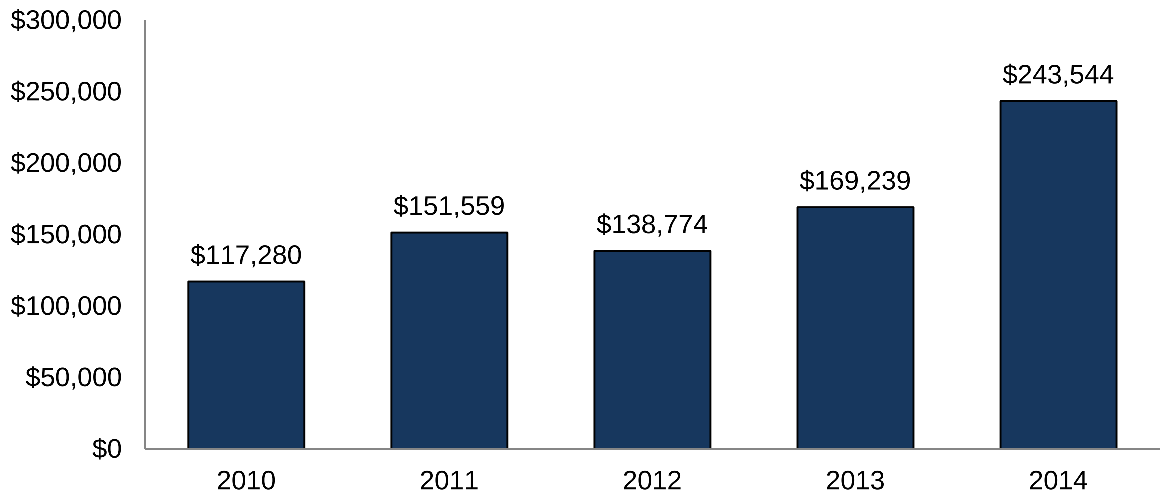
Overtime

From 2012 to 2014 overtime spending increased by 75.5 percent, and the 2014 total was 57.1 percent over budget and almost $100,000 higher than the average for 2010 – 2013 ($144,000).

NCFD Overtime Budget vs. Actual, 2012 – 2014

	2012	2013	2014
Budgeted OT	160,000	155,000	155,000
Actual OT Spending	138,774	169,239	243,544
Difference	(21,226)	14,239	88,544
% Variance	**-13.3%**	**9.2%**	**57.1%**

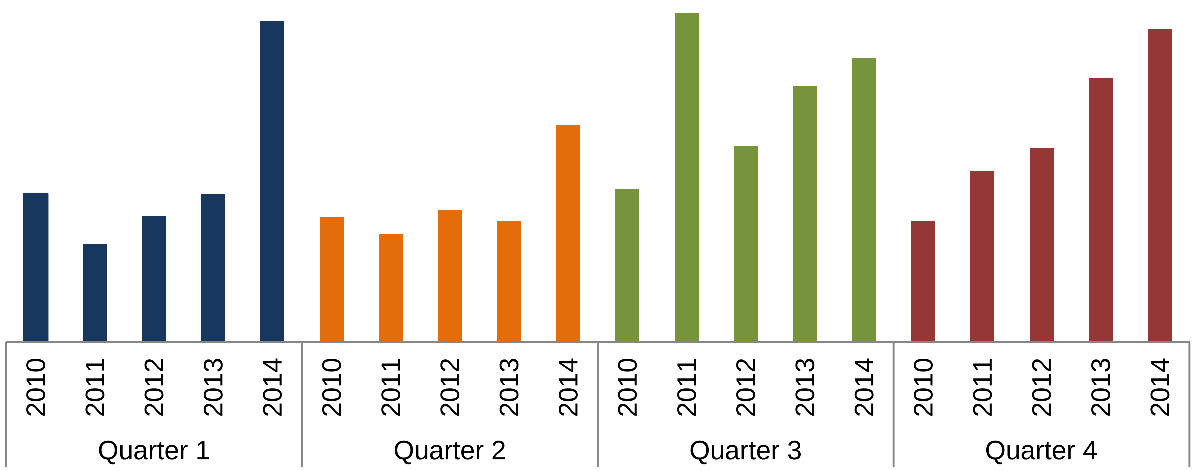
Annual NCFD Overtime



As mentioned above, the collective bargaining agreement between the City and IAFF requires NCFD to maintain a staffing level of five on-duty firefighters at all times. Under current practices, the Department is not able to count part-time firefighters toward that minimum staffing requirement. So when one firefighter uses paid leave, NCFD frequently has to call back another full-time firefighter on overtime to fill the position. This provision is part of an ongoing arbitration process between the City and the IAFF.

Overtime spending also varies by season. Looking at NCFD's overtime spending by quarter, two trends emerge - overtime has generally grown in all four quarters since 2010 and overtime is largely spent in the final two quarters of the calendar year. It is likely that overtime spending coincides with peak vacation periods during the summer and holiday months.

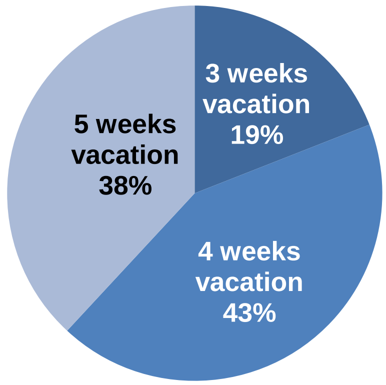
Fire Overtime by Quarter, 2010 - 2014



The current collective bargaining agreement provides two weeks to five weeks of paid vacation depending on years of service and date of hire. In addition to this leave time, firefighters may earn up to 21 additional sick days with access to various other leave such as jury duty, funeral leave, and union business related days off with pay. Firefighters are allowed to accrue an unlimited number of sick leave hours in accordance with the current collective bargaining agreement. At the end of 2014 accrued available sick hours ranged from a low of 786 hours (a member with three years of service) to a high of 5,948 hours (a member with 29 years of service).

Paid leave is a common part of a compensation package, but costly in fire service when combined with minimum staffing requirements that do not allow flexibility in unit staffing models. Vacation leave is automatically earned each year (with few exceptions) and the annual allocation increases when the firefighter reaches certain years of service as determined in the collective bargaining agreement.[4] Additionally, vacation time may not be carried over from year-to-year, so there is an incentive to use the full benefit each year. The average tenure in the Department is 16 years, excluding the Fire Chief, and the majority of members in the Department receive at least four weeks of vacation. The 2014 distribution of staff by the amount of vacation accrual is shown in the below pie chart.

2014 Distribution of Vacation Leave Accrual

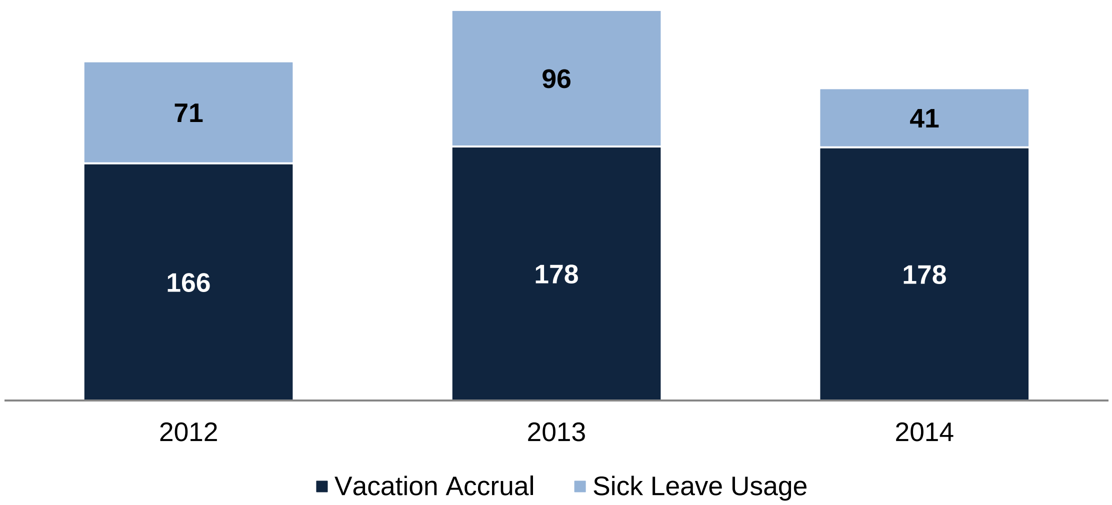


Source: City of New Castle Finance Department

[4] Vacation allotments differ depending on whether the firefighter was hired or promoted to full-time status before or after December 31, 2002

To further emphasize the extent to which minimum staffing impacts overtime spending, the graph below illustrates the average number of vacation hours accrued and sick hours used by all members in the Department over the three-year period from 2012 to 2014.[5] The decline in sick leave usage in 2014 coincides with the loss of three full-time and more senior members of the Department who combined for almost 770 hours of sick leave in 2013. While sick leave usage dropped in 2014, overtime spending increased since there were three less members who count toward the five-person minimum shift requirement.

NCFD Average Leave Usage Per Member (Hours), 2012 - 2014



Source: City of New Castle Finance Department

In the upcoming years more members will receive a higher annual vacation allotment according to the provisions in the collective bargaining agreement. So the combination of leave usage and minimum staffing provisions will continue to exert increasing pressure on the City's finances absent corrective action.

Revenues

The City has service charges related to some of the Department's operations (i.e. fees for fire inspections or incident reports), but the revenue from those charges is very minimal. The 2015 budget has $1,000 for rescue-related revenue and the City booked just $800 to that line in 2014.

The City also has a surcharge on residential and commercial water bills that is described in the budget as the Fire Department's water bill fee. The Coordinator first recommended this fee as part of the 2007 Recovery Plan to offset the cost of hydrant water used in fire suppression.[6] Revenue from that charge averaged $144,000 a year until it spiked to $240,000 last year. The Coordinator recommends that the City re-evaluate the fee levels to make sure they still align with the cost of hydrant water.

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[5] The data shown is based upon vacation accrual rather than actual vacation usage. Year-end vacation usage data is unreliable due to a final pay period that extends into the following year. However, because members must use vacation time by the end of the year or lose it, accrued time is a proxy for actual usage within the year shown. Additionally, one member who was absent for an extended period of time during 2013 was unable to use all 210 hours in 2013 and therefore accrued 322 hours in 2014; for purposes of this analysis the accrual was adjusted to reflect normal accrual of 210 hours in 2013 and 2014. Had the 322 been included, the average would appear higher by five hours (183) in 2013.

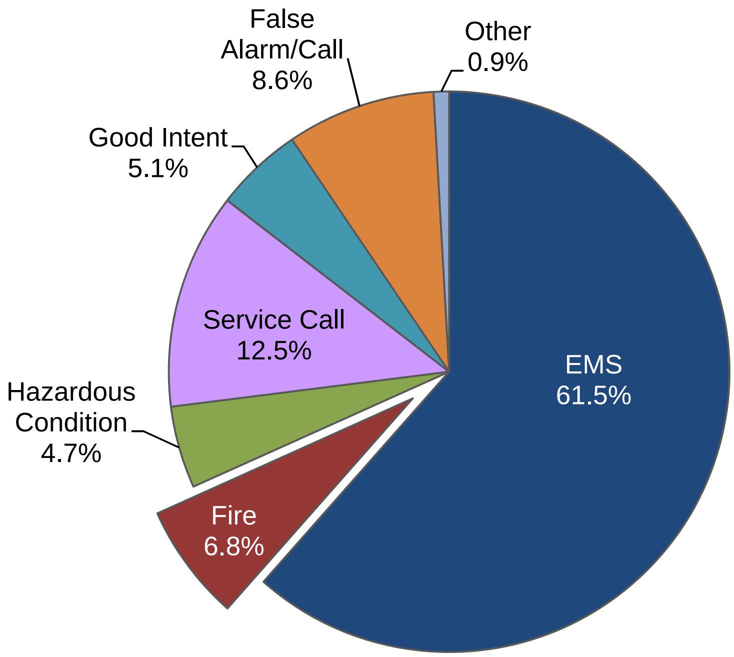
[6] Please see the 2007 Recovery Plan, page 205 for more information.

Operations

The NCFD primarily acts in an emergency response capacity when dispatched through the Lawrence County 911 Communications Center. Incident response data is captured by the National Fire Incident Reporting System (NFIRS) and tracked from year to year by the U.S. Fire Administration. NFIRS is a reporting standard used by fire departments to uniformly report the types of incidents triggering a response, response times and other related information.

In 2014 NCFD responded to 2,375 calls for service, nearly two-thirds of which were for emergency medical services. There were 160 responses to fires, including those that occurred in buildings, rubbish and vehicles, which equates to 6.7 percent of the total call volume. Many of the non-EMS calls were for service calls (295 or 12.4 percent) or false alarms (203 or 8.5 percent). Service calls include responses to events where a person is in distress, a smoke or odor removal issue, assistance to police or other governmental agency, or an unauthorized burning of materials.

2014 Calls for Service by Type



The prevalence of EMS calls relative to fire incidents in 2014 was not unusual for New Castle. Each year from 2008 through 2013, EMS calls accounted for 60.1 to 70.9 percent of total calls while fire incidents accounted for 4.9 to 8.8 percent of total calls.

The prevalence of EMS calls is also common for departments elsewhere. In a recent National Fire Protection Agency (NFPA) report, fires accounted for only four percent of the total calls nationally while 64 percent were EMS related.[7] Fire departments have been able to drastically reduce the number of fires, fire deaths and injuries in the United States through strong and sustained prevention programs that focus on those most at-risk of being involved in a fire, children and seniors. In addition, construction materials, smoke detectors and sprinkler systems have become more widespread and successful in preventing fires and reducing their effects on property and people.

[7] Karter, Jr., Michael J. *Fire Loss In The United States During 2013*. NFPA Research Division, September 2014. Data used is based upon responses for cities with populations between 10,000 and 24,999 people.

Given the prevalence of EMS calls, it is important to understand how emergency medical services are delivered in New Castle and NCFD's role in that system.

Emergency medical services (EMS)

EMS in New Castle is supported by the NCFD but primarily provided by two private ambulance companies – NOGA Ambulance Services and Medevac Ambulance Services. These two companies combined provide EMS to all of Lawrence County 24 hours per day, seven days a week.

EMS includes advanced life support (ALS) and basic life support (BLS). ALS and BLS services are defined by the equipment and training or certification levels of the medical staff performing them. For example, a paramedic-level certification is required on an ALS unit and personnel may provide invasive procedures such as an intubation, whereas an Emergency Medical Technician on a BLS unit may not be trained nor have the medical supplies to perform an intubation. Both types of units are used to respond to 911 calls in New Castle, but for the majority of the time, it is an all ALS system.

In Lawrence County, EMS responses are categorized based on a prioritization of a patient's condition and the type of medical intervention required on-scene. To prioritize the responses, a County Communications Center dispatcher asks a series of questions allowing them to categorize the call by "chief compliant" (e.g. heavy chest pain) and then dispatches an appropriate medical professional response. The County's 911 system uses a mainstream letter categorization system called Medical Priority Dispatch that moves through the alphabet in accordance with the severity of the patient's condition – **"A"** indicates a minor complaint (referred to as Alpha) and then the system progresses to the letter **"E"** signifying an immediately life threatening situation (referred to as Echo).

In many instances this categorization implies a corresponding dispatch. For instance, an Echo call type would dictate an ALS response using all lights and sirens on the responding vehicle and may also include the dispatch of a closer positioned fire apparatus with EMT or Quick Response Service (QRS) certified firefighters.

NCFD members are certified by the Commonwealth of Pennsylvania as QRS firefighters. As a secondary partner in EMS, NCFD is dispatched regularly for C, D and E level incidents that require more immediate medical responses. Previously the NCFD was also dispatched to the less serious A and B calls. The County has since changed its dispatch protocol as discussed in the 2012 Amended Recovery Plan.[8]

However, the Department's ability to provide meaningful medical treatment is limited by their QRS medical training level and available equipment (i.e. they cannot transport a patient on a fire engine). With this level of training, Department personnel are able to help stabilize a patient until additional medical support arrives.

The County currently dispatches the NCFD in addition to the ambulance company regularly, meaning two apparatus are sent to the same medical emergency scene. The County does this to ensure a responder is on-scene as quickly as possible, but also because it lacks the technology to pinpoint the location of its ambulances and direct the most appropriate and closest responder to the medical scene.

Presently, the County dispatchers locate the closest available unit through radio communications which is more time consuming than a global positioning satellite (GPS)-based system where a locational signal is displayed on a map in comparison to the location of the incident. To compensate for the delay and to better ensure medical services arrive on time, the ambulance and NCFD personnel are dispatched almost simultaneously. This creates a redundant response system which is good for the patient but not an efficient use of EMS resources.

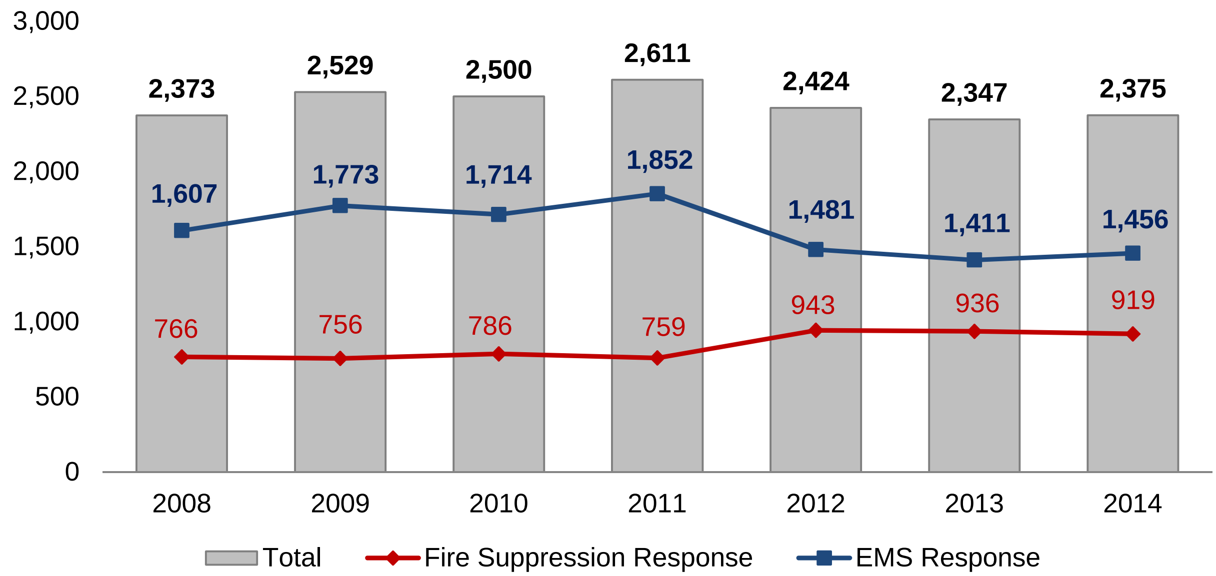
[8] Please see initiative FR02, pages 79-80.

The County is working to change its overall dispatching approach to avoid the redundancy and plans to install GPS-enabled technology on the ambulances, allowing them to see an ambulance's proximity to a response location in real time. This should speed up the dispatching system and could reduce the NCFD's volume of EMS related responses.

Changes in call volume

The graph below illustrates the NCFD's total number of responses (bars) and the annual distribution by fire suppression or EMS responses (lines) from 2008 through 2014.[9] Please note that the fire suppression category includes any calls that are not designated EMS, including service calls, false alarms/calls, etc. Fires account for a relatively small number of the total calls within the fire suppression category (i.e. 160 of the 919 calls in 2014).

Distribution of NCFD Emergency Responses, 2007-2014



Source: NFIRS data

As noted in the 2012 Amended Recovery Plan, the number of responses increased from 2008 through 2011 because NCFD was responding to more medical calls. When Lawrence County changed its dispatch protocol as noted above, the number of NCFD responses to EMS calls dropped by 20.0 percent in 2012 and it has remained close to that level since then. Meanwhile the number of calls in the fire suppression category increased in 2012, mostly because the number of service calls increased from 156 in 2011 to 277 in 2012. The total volume of calls in 2014 was very close to the total level in 2008.

Response times

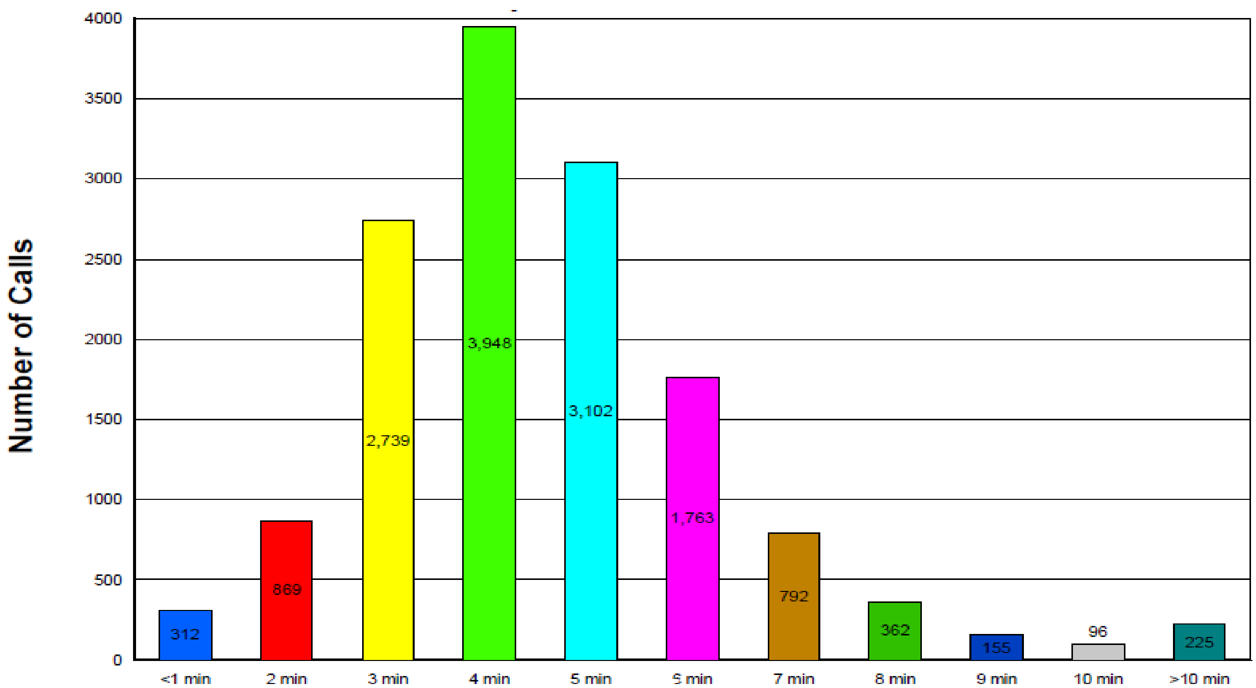
The primary performance measure in the fire service industry is response time – time measured from the alarm sounding (dispatch received) to the first responding unit's on-scene arrival time. The NFPA's suggested response time is five minutes and 20 seconds (including a "turnout" time of one minute and 20

[9] Fire suppression response includes all calls not considered an emergency medical services response including fires, overpressure ruptures/explosions/overheat (no fire), hazardous condition, service call, good intent call, false alarm & false call, special incidents, severe weather and other.

seconds).[10] From 2009 to 2014, the Department's average response time was four minutes and 10 seconds – over one minute faster than the suggested standard.[11]

Another way to examine the response time data is to review the dispatch-to-on-scene response time distribution (i.e. how many calls are responded to within different time intervals such as one, two, or ten minutes). Although the average response time is an important measurement, the distribution helps to account for the impact of outliers on the system's average. The graph below illustrates the five-year distribution of response times in one minute intervals. As depicted, the majority of calls are responded to within the three to six minute intervals (shown by the higher bars concentrated in those time intervals).

NCFD Response Time Distribution, 2009 – 2014 [12]



Source: Lawrence County Department of Public Safety

The NCFD is also using technology to inform and improve its operations. The Chief was recently able to secure City funds to purchase mobile data terminals (MDTs) in the Department's apparatus and officer vehicles. Currently the NCFD is testing and documenting the functionality of hydrants throughout the City. Once this data is gathered, the MDTs will allow members to view active hydrant locations prior to arriving on-scene at a structural fire. This improves the efficiency of the firefighting operations. Additionally, these MDTs will store property-based pre-plans which capture information regarding hazardous material contents located within a property. Advanced notice of hazardous materials while in route to an emergency scene allows the incident commander and the firefighting team time to prepare accordingly, and avoid dangers associated with the contents of the materials. New technology located on the apparatus will also provide NCFD officers with an ability to view all apparatus locations in real-time. The Department has a year-end deadline for installing and implementing this technology in the field.

[10] Turnout time measures the time it takes for a unit to leave the station

[11] Response time information was provided by the Lawrence County Department of Public Safety

[12] Data shown includes all NCFD responses (fire suppression, medical, other) where valid time status intervals were provided. There are incidents when proper time stamps went uncaptured; in these instances, the data is excluded.

Initiatives

As of August 31, 2015, the City and IAFF were awaiting an interest arbitration award that would set the terms of employment for firefighters in 2014 through 2016. That award is expected to address elements of employee compensation (i.e. salaries, premium payments, health insurance) and operational issues such as those raised in this chapter (minimum manning, deployment of part-time firefighters).

Once that award is finalized, the Coordinator will incorporate the financial impact of any operational changes into this Amended Recovery Plan's baseline projection and determine whether further initiatives are necessary. A subsequent Plan Amendment will be necessary to set the maximum annual allocations for IAFF member compensation in 2017 – 2019, and the Coordinator may use that amendment process for any additional operational initiatives.

Police Department

Police Department

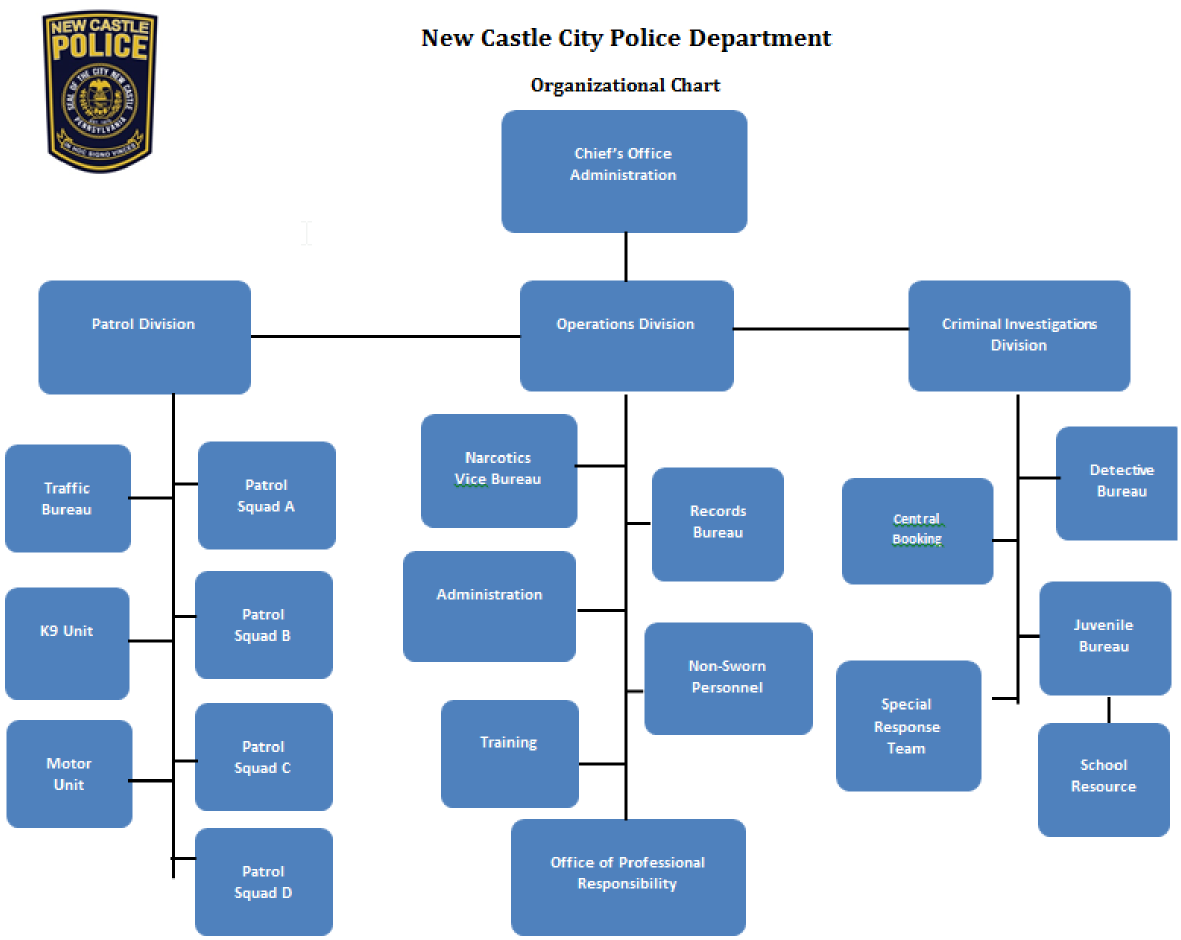
Overview

The New Castle Police Department (NCPD) is responsible for providing 24-hours a day, seven days a week law enforcement and emergency services to citizens and visitors of the City. These services include police patrol, criminal investigation and crime prevention activities throughout the City's 8.6 square miles. The NCPD also provides its services to Taylor Township in exchange for an annual payment ($25,750 budgeted in 2015). The NCPD responds to an average of 25,000 emergency calls per year and provides a critical and essential public safety service funded primarily by City taxpayers. As is common in other cities, the NCPD is the largest City operating department, comprising 23.6 percent of the City's 2015 total General Fund budgeted expenses.

The NCPD is guided by the following mission:

> *The New Castle City Police Department is committed to protect, preserve, and safeguard the constitutional and civil rights of all citizens through impartial and courteous law enforcement with integrity and professionalism. We shall ensure public safety and provide quality service in partnership with our communities.*

To manage the various functions of the NCPD, the Department is divided into three divisions: Administration/Operations, Patrol and Criminal Investigation. Each division is led by a Lieutenant who reports directly to the Police Chief. The below organizational chart provides further details regarding the various units that fall under each division's responsibilities.



In 2012, the NCPD moved from a previous City Hall location to a retrofitted building located at 303 E. North Street. This building better supports the 24-hour operations of the Department and the citizens who require police assistance. All police resources are now deployed and managed from this location.

To date, the new space has served as a morale booster for staff and has provided for a higher quality and more efficient public experience. An additional benefit is the excess space available in the building. The Department has leveraged this additional space by leasing it to a private construction company for a 12-month term, thereby generating additional revenue for the Department. Upon expiration of this lease, the NCPD plans to find ongoing occupants for this surplus space until needed by the Department.

In order to perform its duties the NCPD has a fleet of 29 vehicles; all of which are actively deployed, leaving no vehicles to replace active vehicles when maintenance is required. The NCPD's fleet is in reasonable condition considering the City's limited resources for replacing vehicles,[1] but requires continuous monitoring. The average known age of the NCPD's fleet is just 5.7 years but approximately one-quarter of the fleet's odometers exceed 100,000 miles (the average mileage is 75,314 miles).

The Department is heavily dependent upon a Justice Assistance Grant (JAG) under the U.S. Department of Justice or forfeiture funds to purchase new vehicles. Only the most recently purchased Interceptor SUV (2015) was purchased through the City's capital improvement plan. Typically, funding has allowed the Department to purchase one vehicle per year; the City pays an additional amount to purchase and retrofit the vehicle to meet operational standards (approximately $6,000 to $10,000). These vehicles are often driven 24 hours a day, seven days a week which makes the lack of a vehicle replacement plan or reserve vehicles a significant challenge for managing the Department's fleet.

Staffing

The Department is led by a Police Chief who has three Lieutenants reporting to him on field operations, budget and finance, personnel management, training, and other activities.

The NCPD uses a 12-hour schedule to staff its field operations and administrative duties whereby each officer works a 12-hour shift (beginning or ending at either 8am or 8pm) on one of the four platoons working in field positions. This results in an officer working 2,080 hours on average per year. Part-time officers are also used to fill out the NCPD staffing complement. These officers typically work an estimated 32.5 hours per week or approximately 1,690 hours on average annually. In the future, part-time officer hours will need to be reduced to an average of 29 hours per week for the City to avoid paying penalties associated with the Federal Affordable Care Act (ACA).[2]

In 2015, the NCPD has a total budgeted headcount of 52 positions, or more than a third of all General Fund positions. Most positions are sworn officers, except for the part-time Animal Warden and three Clerks, one of whom is part-time and supports the central booking function.

The 2015 budget maintains the number of full-time sworn officers at 36, the staffing level in place since 2012. The Department also has access to additional support through partnerships with the Federal government, including the Department of Justice's (DOJ) Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF). These officers are employed by the DOJ but are becoming more active and involved with the NCPD as it relates to their focus areas.

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[1] Please see the Capital Improvement Program chapter for more discussion of vehicle replacement.

[2] Under the United States Code, Title 26 of the internal Revenue Code, Subtitle D, Chapter 43, Section 4980H – Shared Responsibility for Employers Regarding Health Coverage, an employee working an average work week of 30 hours or more is considered full-time. Because the City employees 50 or more full-time employees the City would be required to either provide the minimum level of government-defined health coverage to those employees or pay a penalty per employee for each month it does not offer coverage.

NCPD Budgeted Headcount, 2012 – 2015

	2012	2013	2014	2015
Police Chief	1	1	1	1
Lieutenant	2	3	3	3
Sergeant	8	8	7	7
Corporal	2	5	6	6
Patrol Officers	23	19	19	19
Full-time sworn	***36***	***36***	***36***	***36***
Part-time Officers	4	12	12	12
Part-time sworn	***4***	***12***	***12***	***12***
Animal Warden	1	1	1	1
Records Clerk (Clerk II)	1	1	1	1
Clerk 1	1	1	1	1
Central Booking Clerk (Part-time)	0	0	0	1
Non-Uniform Subtotal	***3***	***3***	***3***	***4***
Total	**43**	**51**	**51**	**52**

As the table above shows, headcount growth since 2012 is driven by adding part-time positions. As required in the 2007 Recovery Plan, the City established a part-time patrol officer position to give the City more flexibility in responding to the community's public safety needs at a lower cost. The deployment of part-time officers has enabled the City to establish a Street Crimes Unit (SCU) that conducts concentrated patrols targeting quality-of-life issues (e.g. prostitution, narcotics, and vandalism) as part of a larger, prioritized strategy to reduce crime in these areas.

The City increased the number of part-time officers from four to 12 following the December 2012 shooting at the Sandy Hook Elementary School in Newtown, Connecticut. In response to that event, the City placed part-time officers in New Castle Area School District schools and the Lawrence County Career and Technical Center (LCCTC). The New Castle Area School District, which already pays the City for one School Resource Officer, increased its payment to account for the additional part-time officers. In 2015 the School District reduced its payment from $100,000 (2014 budget) to $60,000. The City decided to keep the additional part-time officers to support its patrol functions, alleviate pressure to use full-time officers on overtime and provide a potential source to fill vacancies caused by officer retirements or attrition.

Overall the use of part-time officers in the NCPD has been successful, providing much needed resources in field operations. However, retention issues for part-time officers create administrative, training and logistical challenges for the Department. The below table describes the retention experience for the NCPD from 2012 through 2015. The bottom row calculates an annual "quit rate" which is the percent of sworn officers that resign (or quit) in a given year. The number of resignations increased from one in 2013 to five in 2014 bringing the "quit rate" to 10.4 percent in 2014. As noted by the NCPD, these resignations are almost entirely comprised of part-time officers, including four of the five resignations in 2014. The other personnel losses include two retirements which to some degree are anticipated annually, and one termination.

According to data provided by the City, the NCPD does not show signs of a retention issue among the full-time officers, but the uptick in resignations in 2014 for part-time employees is presents challenges.

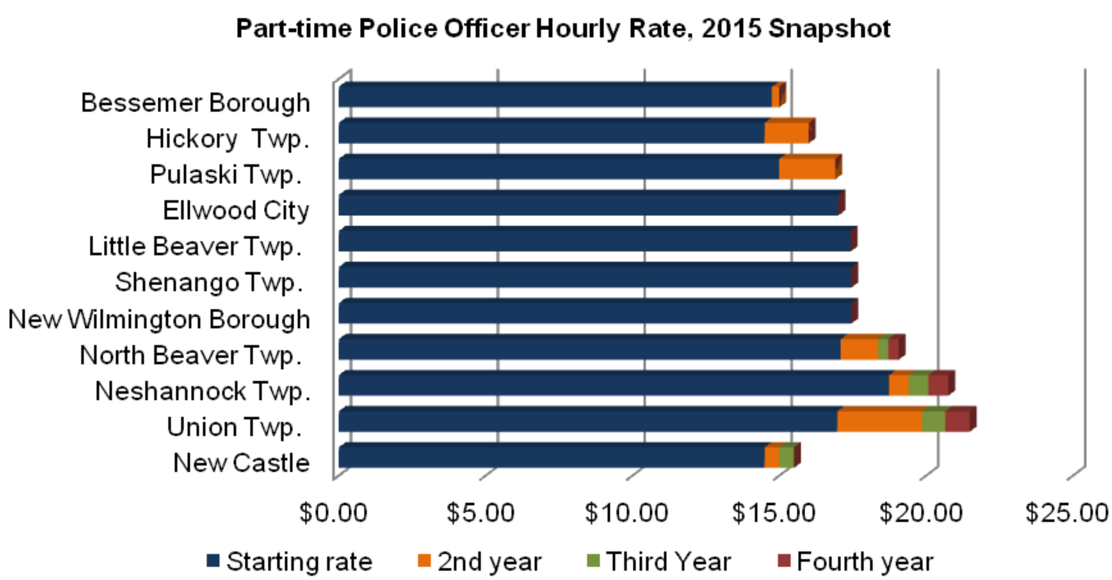
Part-time officers are often difficult to retain by virtue of the job - they are not able to earn a full-time salary and when faced with an opportunity for full-time work, they are more likely to leave than those already in full-time positions. Department leadership also reports difficulty building a candidate list to keep the 12 part-time positions filled.

NCPD Retention, 2012 – 2015 [3]

	2012	2013	2014	2015
Total officers	40	48	48	48
Part-time Officers	*4*	*12*	*12*	*12*
Separations				
Retirements	1	0	2	0
Resignations (Quits)	0	1	5	2
Terminations	0	0	1	0
Total Separations	1	1	8	2
Quit Rate	**0%**	**2.1%**	**10.4%**	**4.2%**

According to Departmental exit interviews the leading reason for part-time officer resignations was to pursue part-time or full-time position opportunities in other jurisdictions. Holding onto part-time officers will always be a challenge for the NCPD for a number of reasons; the most significant of which is that full-time work is more desirable and part-time officers have little opportunity to step into full-time positions with the NCPD. The other explanation for loss of part-time officers is wages, which in New Castle are lower than surrounding jurisdictions.

The graph below is a representation of the hourly rates for part-time officers in 11 Lawrence County municipalities showing rates in the first, second, third and fourth years of service.[4]



[3] 2015 data shown includes separation information through May 27, 2015; All separation data was provided by the New Castle Police Department

[4] In New Wilmington it is assumed that part-time officers do not achieve the 2,080 hours required to receive an increase until after the fourth year based upon average annual hours of 200 per year; North Beaver annual increase of 1.9 percent is based upon the average annual increases granted from 2011 to 2015.

The disparity in hourly rates begins in the initial year with New Castle paying the lowest rate of $14.50 and Neshannock Township paying the highest rate at $18.74 (the average rate is $16.45 and the median rate is $17.01). New Castle remains below the average and median rates for the remaining three years, achieving the maximum hourly rate of $15.50 in a member's third year of service while some of the other jurisdictions continue to increase rates through the fourth year of service. By the fourth year, New Castle is $2.14 behind the average rate and $1.93 behind the median hourly rate.

Although hourly rates vary from place to place, it is important to note that higher hourly rates do not necessarily translate into higher earnings for part-time officers in other jurisdictions. A part-time officer in the NCPD may still earn more money annually due to the number of hours they work on a regular basis. For example, in New Wilmington, officers generally work less than 250 hours annually, earning approximately $4,400 per year on average - well below what part-time officers in New Castle earn. While hourly rates paid regionally are a piece of the part-time officer retention story for New Castle, it is not the entire story. As noted above, full-time positions will almost always appeal to part-time officers and as such, the NCPD will continue to be challenged by retention issues among these employees.

Finances

NCPD consistently has the largest department budget in the City's General Fund at $3.9 million in 2015. As shown in the chart below, NCPD expenditures grew by 17.9 percent over the previous three-year period.[5] Please note the table does not include expenses associated with vehicle maintenance, facility maintenance, capital projects or the City's contribution to the employee pension plan.

NCPD Expenditures, 2012 – 2014[6]

	2012 Actual	2013 Actual	2014 Estimated	% Change
Salaries and longevity	1,900,263	2,185,680	2,299,555	21.0%
Overtime and court hearings	202,531	260,789	260,234	28.5%
Other cash compensation	225,564	183,516	195,363	-13.4%
Active employee insurance	457,513	518,467	579,320	26.6%
Retired employee insurance	220,210	215,573	235,224	6.8%
Workers' comp and unemployment	16,273	17,622	16,273	0.0%
Personnel Subtotal	**3,022,354**	**3,381,647**	**3,585,969**	**18.7%**
General Contracted Services	35,579	44,477	39,934	12.2%
Gasoline	88,086	96,319	89,194	1.3%
Other Materials and Supplies	25,469	36,759	20,066	-21.2%
Non-Personnel Subtotal	**149,134**	**177,556**	**149,194**	**0.0%**
Department Total	**3,171,489**	**3,559,202**	**3,735,164**	**17.8%**

[5] The 2014 estimates are unaudited year-end figures.

[6] The salaries and longevity category also includes shift differential. Active employee insurance also includes federal payroll taxes and payments to officers in lieu of hospitalization.

Most expenditures are related to employee compensation. From 2012 to 2014, spending on salaries and longevity grew by 21.0 percent (or $400,000). This growth was the combination of adding part-time patrol officers and wage increases for full-time patrol officers. As discussed more fully in the Workforce Chapter, patrol officers received a two percent base wage increase in 2014 and step increases as applicable in 2013 and 2014.

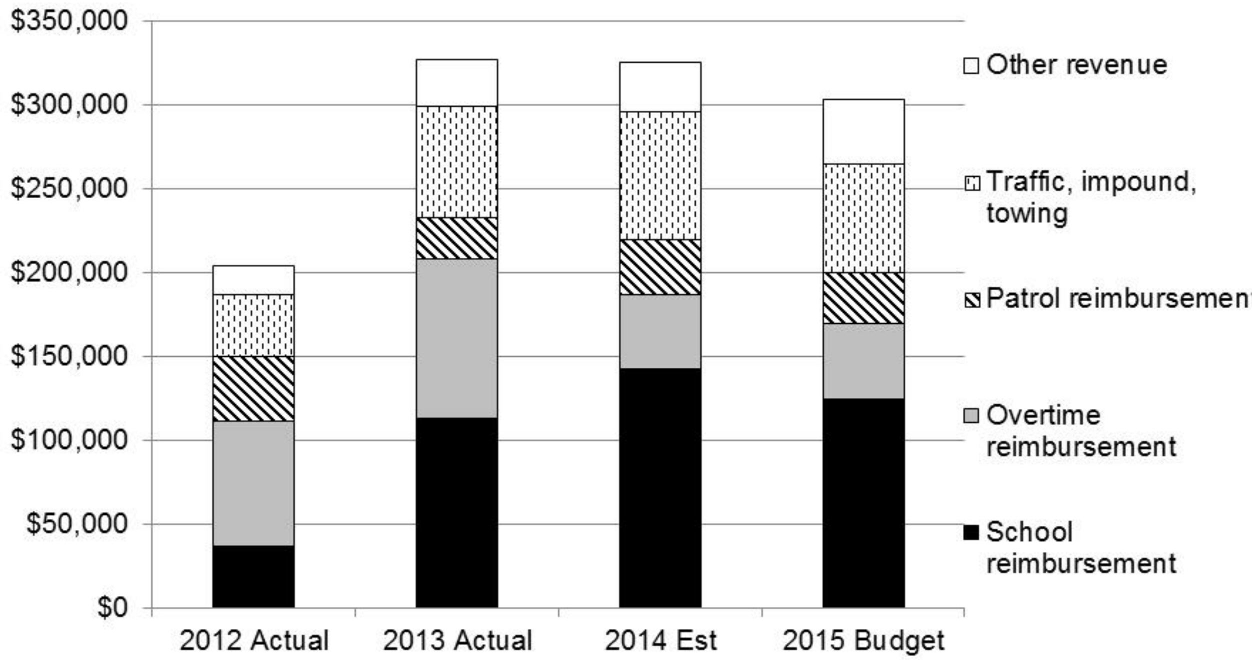
Overtime expenditures also increased from 2012 to 2014 by 28.5 percent or $58,000. Much of this growth was due to increased policing hours for the Drug Task Force and security at the Crestview Gardens apartment complex. The former were partially reimbursed by the Commonwealth and federal governments and the latter were reimbursed by Crestview's previous owners.

The costs for active employee benefits (primarily health insurance, prescription drug, dental and vision coverage) increased by 26.6 percent or $122,000 over this period. The net increase in costs to the City was lower because employees covered part of the budgeted increase through higher contributions toward the cost of health insurance. The City records the total health insurance expenditures in the department budget and then budgets the employee contributions separately as revenue.

Revenues

In 2014 NCPD generated $326,000 through reimbursements from entities that receive additional patrol coverage, traffic-related charges and other revenues.

NCPD Revenues, 2012 - 2015



NCPD increased its revenues by $121,000 (or 59.3 percent) since 2012. Most of that increase is the larger payment from the New Castle Area School District and LCCTC for the additional part-time patrol officer coverage described above. School reimbursements rose from $37,000 in 2012 to $143,000 in 2014.

The Department set up a vehicle impound lot in 2013 which added $26,000 per year to the traffic, impound and towing related revenues. Within the "other revenue" category, the City has received a contribution from the Downtown Business Association ranging from $12,000 to $21,000 to support the Police Department.

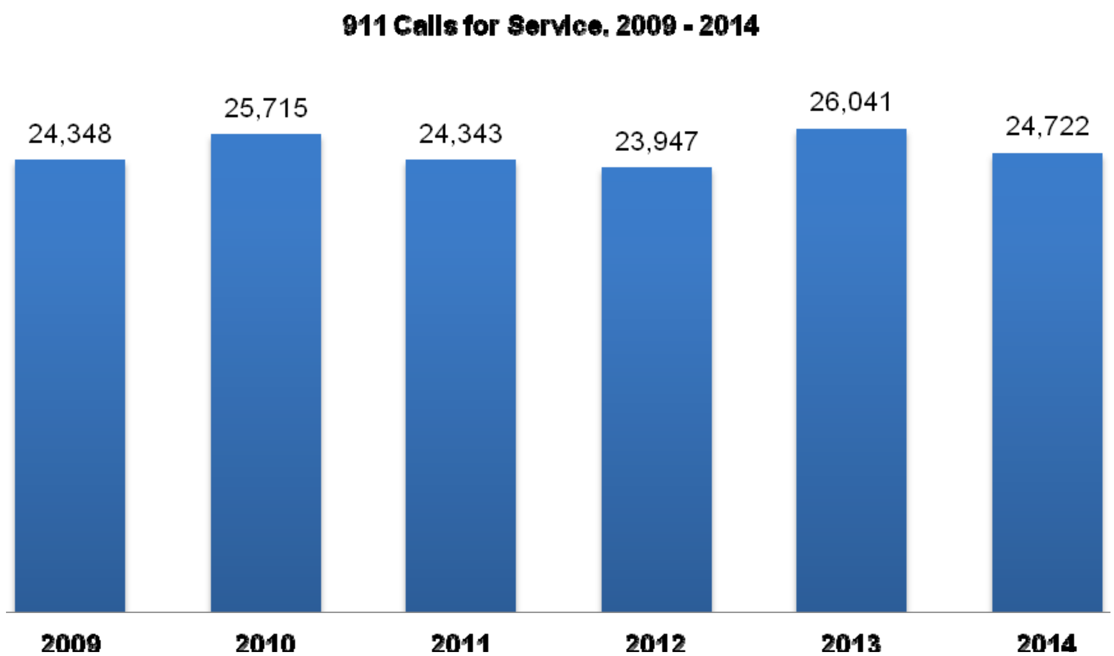
Reimbursements for overtime dropped after 2013 because of changes at Crestview Gardens. Before 2014, the multi-family apartment complex paid the City for the additional overtime hours associated with security coverage. The complex changed ownership in 2014 and hired a private security company to replace NCPD security. Associated revenue dropped from a high of $50,000 in 2013 to $0 in 2015. This reduction in revenue was partially offset by lower overtime expenditures.

The NCPD also receives additional grant assistance recorded outside the General Fund from the U.S. Department of Justice through a Justice Assistance Grant (JAG), typically averaging around $24,000 annually. Also not shown are the forfeiture funds collected primarily from narcotic related cases. Both accounts were predominately used for Departmental vehicle purchases.

Activity levels

The NCPD primarily responds to 911 calls for service dispatched from the Lawrence County 911 Communications Center which serves as the recipient of all 911 calls in the County. The NCPD also responds to incidents reported directly at the police station or those which arise while out on patrol. The NCPD responds to thousands of calls for service each year and has averaged approximately 25,000 calls over the past six years. Calls for service include general policing responses such as traffic stops or may include less common calls for service such as emergency medical service (EMS) calls – NCPD staff are trained in first aid and cardiopulmonary resuscitation (CPR).[7]

The chart below illustrates the NCPD's 911 call volume over a six-year period, from 2009 through 2014.[8] The Department's total volume of 911 calls has remained stable with a 1.5 percent increase between 2009 and 2014.



[7] The New Castle Fire Department and two private EMS companies are the primary responders for EMS related calls in the City

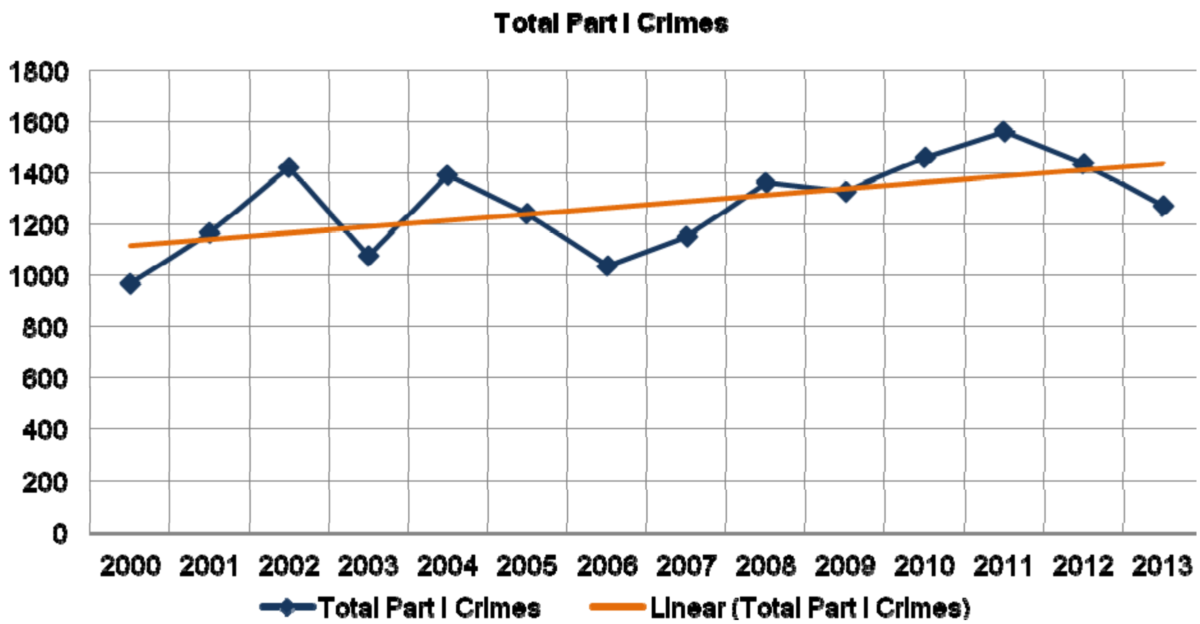
[8] Unless otherwise noted, all 911 call data was provided by the Lawrence County Department of Public Safety

Crime Rates

Although 911 calls for service are an important factor to measure NCPD activity, a view of crime trends over a longer period of time is more telling of the City's public safety experience.

The Federal Bureau of Investigation captures national crime related data through its Unified Crime Reports (UCR) Program and categorizes crimes into Part I and Part II crimes. Part I crimes include both violent and property related crimes. Violent crimes are defined by those offenses involving the use of force or the threat of force -- murder, rape, robbery, and aggravated assault. Part I property crimes include burglary, larceny, auto theft, and arson. Part II crimes include vandalism, disorderly conduct, simple assaults, narcotics and other crimes.[9]

From 2000 to 2013, Part I crimes in New Castle increased by 2.1 percent per year.[10] As the graph below demonstrates, that does not mean that Part I crime levels increased every year – they actually dropped in 2012 and 2013 -- but the linear trend line is rising.

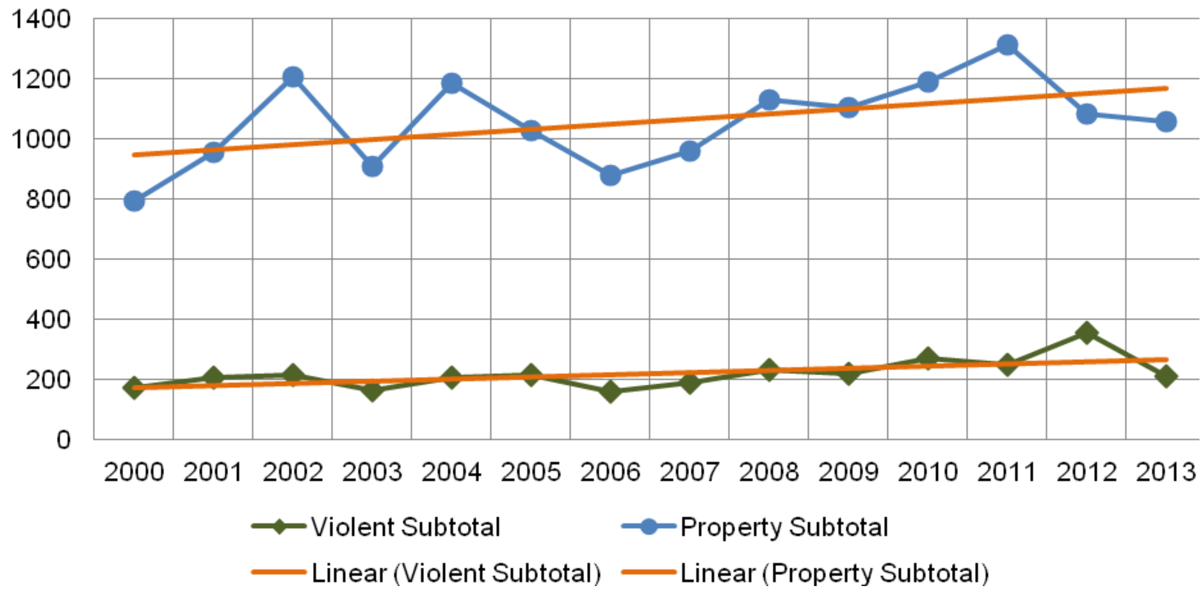


Separating the violent crimes from the property crimes shows more fluctuations and faster growth in property crimes. Within that category, burglary and larceny accounted for most of the incidents (96 percent in 2013) and burglary had the fastest annual growth rate (4.1 percent).

[9] "Other" offenses include forgery, fraud, embezzlement, stolen property, prostitution, sex offenses, gambling, offenses against the family & children, driving under the influence, liquor law violations, drunkenness, or vagrancy.

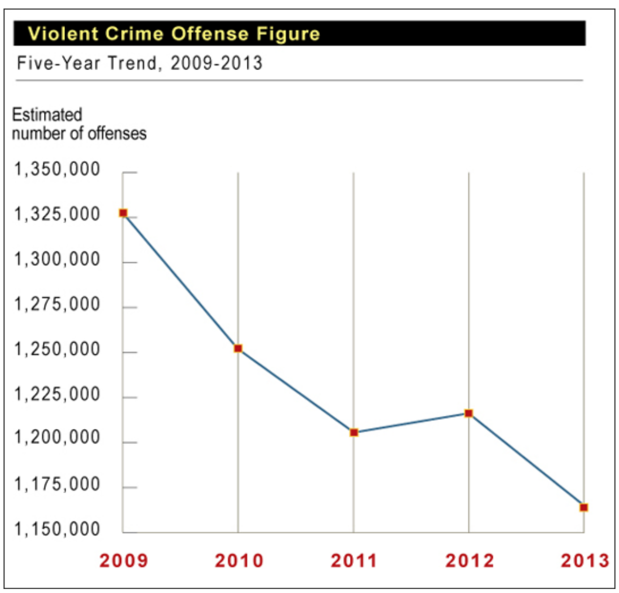
[10] Unless otherwise noted, all crime statistics throughout this chapter are collected from the Federal Bureau of Investigation's Uniform Crime Reports. At the time of publication, the most recent available data was for 2013.

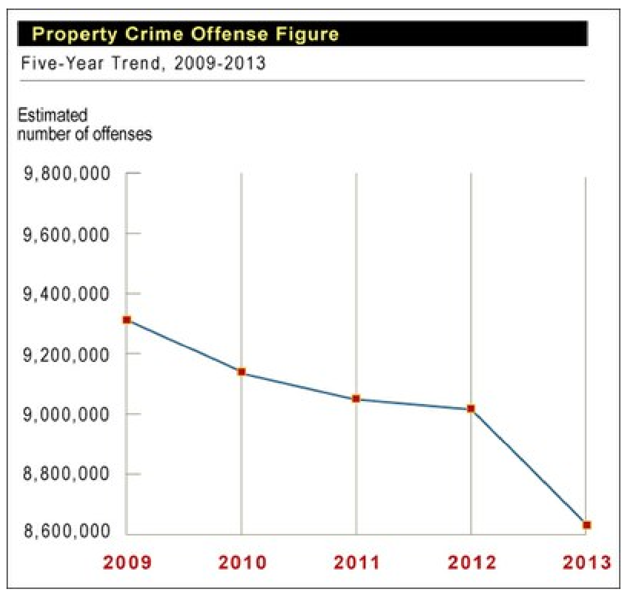
Part I Crimes: Violent vs. Property, 2000 - 2013



Nationally the number of Part I crimes generally dropped each year from 2009 through 2013, a pattern that holds for violent and property crimes (see graphs below). New Castle also had a reduction in violent and property crimes over this period, but not by as much or with as frequent year-over-year reductions.[11]

Part I Crimes, 2009 - 2013



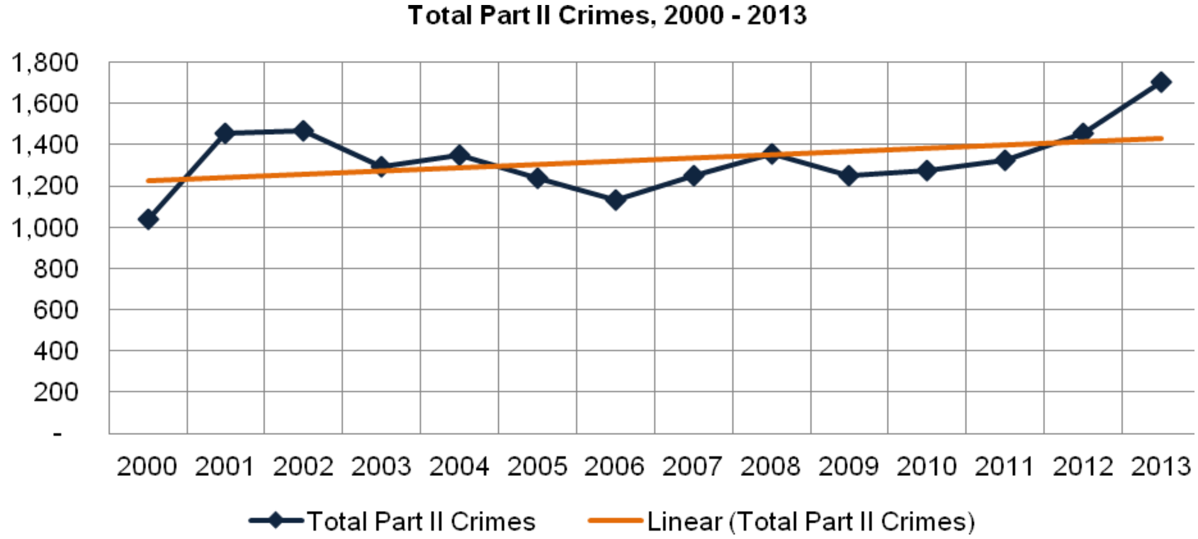


Source: FBI report "Crime in the United States, 2013"

Part II crimes such as vandalism, disorderly conduct, simple assaults and narcotic related incidents are also trending upwards in New Castle. They increased each year from 2009 through 2013 with narcotics

[11] The increase in violent Part I Crimes in 2012 was driven by changes in the documentation of aggravated assaults in the UCR system. Previously, many of these cases were documented as simple assaults which were considered Part II Crimes.

related offenses rising from 86 in 2009 to 209 in 2013. NCPD leadership attributes this to its changes in narcotic related policing strategies.



In response to the rise in narcotics related crimes, the NCPD has cooperative policing efforts with the Lawrence County Drug Task Force and assigned an additional officer to the City's Narcotics Bureau. Drug violations, in conjunction with the associated violations (violence, theft and burglary), have been identified by the Department as the most prevalent and destructive offenses in the City. The City also deployed a Special Response Unit to execute more search and arrest warrants, particularly those that are high risk. The long term goal of these strategies is to reduce Part II crimes, but the effects of these efforts will take time.

In the past few years the NCPD has also focused on opportunities to prevent crime. The Lieutenant responsible for the Juvenile Bureau in the Criminal Investigation Division is also accountable for the new Police Leading Active Youth (PLAY) program which seeks to involve young children (particularly at-risk youth) in sports and mentoring activities outside of the classroom and home. The program is currently funded by local businesses and non-profit organizations and thus far has generated positive feedback from program participants and the community.

Initiatives

Most of the NCPD's expenditures are related to employee compensation, which is discussed in detail in the Workforce chapter. That chapter also has the maximum annual allocations for employee compensation that govern collective bargaining with the Fraternal Order of Police.

PD01.	**Comply with federal ACA guidelines to avoid costs**	
	Target outcome:	Cost avoidance
	Five year financial impact:	See below
	Responsible party:	Business Administrator, Police Chief

New Castle's part-time police officers currently work an average of 32.5 hours a week. Under the section of the federal internal revenue code relevant to the Affordable Care Act (ACA), employees who work at least 30 hours per week are considered full-time and employers with at least 50 full-time employees are required to offer those employees health insurance coverage or pay a penalty per employee for each month it does not do so.

Given the financial limitations described throughout this Plan and the intention to use part-time officers as a cost-effective supplement to full-time officers, the City cannot afford to provide health insurance to part-time officers or pay the associated penalty for not doing so. Therefore the City shall make whatever changes are necessary to the scheduling and deployment of part-time officers so that they do not work more than 30 hours per week.

There a couple options for complying with this initiative. The City could reduce the number of hours that each officer works to fit below the 30-hour threshold and keep the wages and number of part-time officers constant, though this would result in less hours of police coverage provided. The City could reduce the hours each officer works, reduce the hourly wage rate and then hire more officers to maintain the same number of police hours. Or the City could reduce the hours each officer works, keep the wage rate at the current level, hire more part-time officers and reduce the Department's expenditures in another area by the marginal amount needed to cover the difference. The table below shows possible combinations that comply with this initiative.

Scenarios (Based on 2015 Salary Levels)

Scenario	Headcount	Avg Hours Per Week	Total Hours	Wage cost	Hourly wage
Current	12	32.0 (Not compliant)	19,968	$303,680	$15.21
Scenario 1	12	27.5	17,160	$261,004	$15.21
Scenario 2	14	27.5	20,020	$302,302	$15.10
Scenario 3	14	27.5	20,020	$304,504	$15.21

PD02.	**Crime trend monitoring and management**	
	Target outcome:	Improve efficiency
	Five year financial impact:	N/A
	Responsible party:	Police Chief, Lieutenants

The NCPD tracks all violent and property crimes through appropriate Federal and State systems; however, the Department does not use this information to monitor the impact of current policing strategies in any formal manner. NCPD leadership is aware of recent crime statistics and makes decisions based upon this knowledge, but its ability to connect trends to law enforcement strategies (programs, partnerships and unit staffing priorities) is limited by its access to technology and data in real-time. The Department does have regular meetings to discuss field related issues but does not have regular formal "comp-stat" type meetings with personnel to discuss current priorities and district crime trends based on sophisticated data tools, nor does it evaluate whether current efforts or strategies have an impact on the prioritized issues.

There are limited analytical resources to assist with this initiative, making it difficult for leadership to use information in real-time, but field patrol officers and lieutenants can speak to the crime trends in their policing districts. Additionally, the Lawrence County Department of Public Safety has a strong working relationship with the NCPD and also has geographical information system (GIS) capabilities and staff who could potentially help NCPD to understand locational trends in its crime statistics. This location-based crime information can be used to develop a more direct approach to law enforcement operations by recognizing concentrations or patterns of particular crimes and then making adjustments to policing strategies accordingly. For instance, should there be an influx of drug related activity in a particular police sector (or neighborhood block) the NCPD may direct sworn personnel to this area for a period of time. Tracking the locational shifts in narcotics cases, or the intelligence gathered from field units can be useful tools in reducing crime.

The NCPD leadership and sworn personnel should begin by engaging the County and requesting data analytics assistance, in addition to expanding the internal field meetings to include discussions centered on real-time crime trends and field intelligence. Upon building a formal knowledge base, operations and especially deployment of resources, may become more strategic in nature.

PD03.	**Youth crime reduction programming**	
	Target outcome:	Improve efficiency
	Five year financial impact:	N/A
	Responsible party:	Police Chief, Lieutenants

The NCPD has already established the PLAY program to focus on the City's youth, but a more targeted approach to identifying program participants may create longer-term, measurable outcomes associated with the NCPD's broader goal of crime reduction and prevention. Rather than enlisting participants on a voluntary basis, the NCPD should use existing relationships with the social service agencies or the legal system to help identify at-risk youth to participate in this program. Targets could include youth who have been associated with a crime or whose siblings or parents were engaged in criminal activity since those youth are more likely to be a victim of a crime or involved in one themselves.
The following criteria have been used elsewhere in Pennsylvania to identify at-risk population and could be used by the NCPD for recruiting PLAY participants.

Risk Factors:

- Exposure to firearms
- Alcohol or drug use/dealing
- Illegal gun ownership
- Violent victimization
- Delinquent siblings
- Behavior problems/criminal involvement
- Family violence (child maltreatment, partner or parental violence)
- Frequent truancy/absences/suspensions as school; dropping out of school
- Poor school performance with little to no attachments or commitment to the school (teachers or mentors)
- Living in high drug trafficking area
- Living in a high-crime neighborhood
- Association with anti-social, aggressive or delinquent peers
- Association with gang-involved peers or relatives

Although participation in PLAY is not the only factor that will determine whether a participant engages in criminal activity, the NCPD should track participants through 21 years of age to better understand the program's impact. That would help the NCPD to measure the programs' value in preventing crime and improving community safety so it can either commit more resources to PLAY and similar programs or re-allocate its resources elsewhere.

Public Works

Public Works and Recreation

The New Castle Public Works Department is responsible for several public facing services, including the City's parks and recreation system; street, building and bridge maintenance; and refuse collection. The Department also maintains and repairs the City's fleet of vehicles.

The Department is organized into eight separate divisions as follows:

- **Public Works Administration** is responsible for the overall management of the Department's budget and personnel;
- **Public Building** provides custodial services for the City's municipal buildings;
- **Refuse Collection** collects refuse from public spaces and provides residential curbside collection of refuse and recyclable materials;
- **Sewer Maintenance** maintains the City's sewer inlets and manholes, including storm water basins and public spaces surrounding these areas;
- **Municipal Garage** services all City vehicles and self-propelled equipment (e.g., lawn mower) with the exception of some fire apparatus;
- **Streets and Bridges** maintains City bridges and road surfaces, including road grading, patching, street cleaning, snow removal and traffic signage;
- **Electrical Maintenance** handles electrical work as needed in City buildings and public spaces (e.g. traffic signal maintenance);
- **Parks and Recreation** is responsible for maintaining City-owned parks, playgrounds and other recreational facilities.

The Department also manages the City's contract with a private engineering firm. The City-owned golf course at Sylvan Heights is reviewed in a separate chapter.

Staffing

The Department has a total 2015 budgeted headcount of 30 positions spread across eight divisions. Streets and Bridges and Refuse Collection have the greatest number of employees with nine and seven[1] respectively.

Budgeted Headcount, 2012 – 2015

	2012	2013	2014	2015
Public Works Administration	4	4	4	4
Electrical Maintenance	2	2	2	2
Municipal Garage	2	2	2	2
Public Building	1	1	1	1

[1] Two of the seven employees in Refuse Collection are part-time dayworkers. The other 28 positions in the chart below are full time.

	2012	2013	2014	2015
Parks and Recreation	3	4	4	4
Refuse Collection	7	7	7	7
Sewer Maintenance	1	1	1	1
Streets and Bridges	10	9	9	9
Total	**30**	**30**	**30**	**30**

The Department is led by a Director and one Assistant Director who serves as the liaison to the City's golf course. Most of the employees are represented by Laborer's District Council of Western Pennsylvania, Local Union No. 964. Labor contracts and workforce related information are discussed in greater detail in the Workforce chapter.

Finances

If all units under the Public Works Director are counted together, the Department has the second largest budget behind the Police Department ($3.0 million in 2015). The Department's operational expenditures from the General Fund dropped by 1.5 percent from 2012 to 2014.[2] Please note the table does not include most capital projects, street-related expenditures from the Liquid Fuels Fund or the City's contribution to the employee pension plan.

General Fund Operating Expenditures, 2012 - 2014

	2012 Actual	2013 Actual	2014 Estimated	% Change
Administration - Personnel subtotal	278,198	287,059	288,818	3.8%
Administration - Non-personnel subtotal	166,002	156,290	149,737	-9.8%
PW Administration total	444,200	443,349	438,555	-1.3%
Streets - Personnel subtotal	609,610	575,321	561,351	-7.9%
Streets - Non-personnel subtotal	21,622	30,685	29,326	35.6%
Streets & Bridges total	631,232	606,005	590,677	-6.4%
Refuse Collection - Personnel subtotal	294,000	297,165	297,080	1.0%
Refuse Collection - Non-personnel subtotal	295,181	248,659	258,629	-12.4%
Refuse Collection total	589,181	545,824	555,709	-5.7%
Municipal Garage - Personnel subtotal	131,907	133,741	135,733	2.9%
Municipal Garage - Non-personnel subtotal	283,586	242,084	222,674	-21.5%
Municipal Garage total	415,492	375,825	358,407	-13.7%
Parks & Rec - Personnel subtotal	222,954	275,865	291,016	30.5%
Parks & Rec - Non-personnel subtotal	22,440	30,589	18,521	-17.5%
Parks and Recreation total	245,394	306,454	309,537	26.1%

[2] The 2014 estimates are unaudited year-end figures.

	2012 Actual	2013 Actual	2014 Estimated	% Change
Electrical - Personnel subtotal	126,293	128,971	127,317	0.8%
Electrical - Non-personnel subtotal	8,034	10,794	6,249	-22.2%
Electrical Maintenance total	134,326	139,765	133,566	-0.6%
Public Bldg. - Personnel subtotal	48,630	38,502	35,952	-26.1%
Public Bldg. - Non - personnel subtotal	50,520	65,093	90,062	78.3%
Public Building total	99,150	103,595	126,014	27.1%
Sewer Maintenance - Personnel subtotal	72,386	77,215	79,512	9.8%
Sewer Maintenance - Non-personnel	3,956	4,468	3,767	-4.8%
Sewer Maintenance total	76,342	81,683	83,280	9.1%
Street Lighting total*	374,073	362,283	297,985	-20.3%
Engineering Contract Services total*	113,976	61,666	74,047	-35.0%
Personnel subtotal	*1,783,978*	*1,813,839*	*1,816,778*	*1.8%*
Non-personnel subtotal	*1,339,390*	*1,212,610*	*1,150,999*	*-8.5%*
Total	**3,123,368**	**3,026,449**	**2,967,777**	**-1.5%**

** Personnel expenditures are not associated with the noted expenditure*

The drop in total spending was largely due to reductions in non-personnel spending. The City's spending on street lighting electricity dropped by $76,000 and its spending on engineering services dropped by $40,000. The City also reduced its spending on garbage trucks when it moved from a rental arrangement to the current lease arrangement.

Personnel expenditures from the General Fund grew by 1.8 percent over this period and were basically flat from 2013 to 2014. The large percentage changes within individual divisions are often related to employees moving between divisions within Public Works or junior employees with lower salaries replacing senior employees who retire or leave City employment.

Fleet

The Department is responsible for maintaining and repairing all City vehicles except for some work on fire apparatus. The Department itself has 40 vehicles, three-quarters of which are at least 10 years old.[3] After years of very limited vehicle replacement budgets, the City has been able to replace some vehicles in Public Works, including two new refuse trucks and five pick-up trucks. Department leadership plans on spending approximately $304,000 on vehicle replacements through 2017, which should replace another eight vehicles (seven pick-up trucks and one 10-ton dump truck). As discussed in the Capital Improvement Program Chapter, there are many competing needs for the City's limited capital improvement funds, including the Public Works garage itself which needs repair or replacement and the many miles of streets in need of paving.

Fleet maintenance is an essential "internal" service that Public Works provides to other City departments so they can serve the City's residents, businesses and visitors. In New Castle it also a process that is mostly managed and tracked on paper, rather than electronically. The Department has discussed moving to an electronic fleet management system, but has not done so to date. As a result, there is limited data available on fleet performance and vehicle acquisition/replacement decisions are made generally at the

[3] Based on a vehicle inventory as of April 2015

department level for police and fire, which have successfully secured external funding to meet some of their vehicle needs (police forfeiture funds, federal fire vehicle grants). Until an electronic process is implemented, fleet management will continue to be limited by its paper-based administrative and management practices.

Initiatives

Several important initiatives related to Public Works functions are located in other chapters. The Coordinator encourages the reader to review the Capital Improvement Plan chapter in particular since that discusses the infrastructure and public facilities that Public Works maintains.

Noteworthy initiatives outside this chapter include the following:

- City leaders have expressed their preference for using fees and service charges that assign the cost of providing a service to the service recipient, instead of using the City's limited tax base to fund them. The largest source of fee revenue in the City's budget is the blue bag program where residents pay a per-bag fee for refuse collection services. Blue bag fee revenue has historically covered the cost of providing this service, but that cost recovery is slipping as revenue drops and expenditures rise. The ***Revenue Chapter*** has an initiative requiring the City to regularly review the total cost of service and adjust bag fee levels accordingly.

- The City needs a more robust program for repairing, replacing and maintaining the pipes and inlets that carry storm water through the sewer system. While there is a cost associated with these activities, there is also an economic, public safety and quality-of-life cost associated with not addressing these needs.

  For several years the City has been using proceeds from a bond issued before 2007 to handle the highest priority repairs. Those proceeds will soon be exhausted. While the City was able to use part of its Rainy Day Reserve to repair the road, park and inlet damage caused by flooding in June 2015, that is not a recurring source of money for dealing with a set of problems that is likely to recur, especially if the City cannot afford preventative maintenance and repair work. The ***Capital Improvement Plan*** chapter has an initiative for addressing these needs, including a recommendation to establish a fee that would fund this critical work. That chapter also has initiatives related to the City's Public Works Garage and other infrastructure maintained by Public Works staff, like roads, bridges and public buildings,

Most of the Department's operating expenditures are related to employee compensation, including the City's contributions toward the cost of health insurance and pensions. The ***Workforce Chapter*** discusses those expenditures in more detail and provides the maximum annual allocations for employee compensation that will govern the next round of collective bargaining with department employees.

PW01.	**Commission a study of the parks and recreation system**	
	Target outcome:	Improved management of limited resources
	Five year financial impact:	Grant funding requested
	Responsible party:	Public Works Department

As noted in the 2012 Amended Recovery Plan, there has not been a study of the City's park system other than Sylvan Heights and Cascade Parks since the late 1980s. The City has more than 30 other facilities in its 8.6 square miles, including several smaller parks. The 2012 Amended Recovery Plan recommended the City commission a study of the park system.[4] The goal of this analysis is to review all City parks and determine costs of maintenance, level of usage and community engagement or interest in each park. The study should highlight where further investment (or reprioritized investment) may enhance existing community and economic development strategies and highlight areas of opportunity for private investment or converting parks to other uses given the City's very limited resources for maintenance and improvements. As described in the Plan Appendix, the Coordinator has requested Pennsylvania Department of Community and Economic Development grant funding to support this effort.

[4] Please see 2012 Amended Recovery Plan initiative PW05, pages 98-99.

Sylvan Heights Golf Course

Sylvan Heights Golf Course

Among the City's parks and recreational assets is the 18-hole Sylvan Heights golf course generally open from April to November (weather dependent). Sylvan Heights opened in 1929 and is managed and operated by the City. The course offers chipping and putting areas, golf lessons and a golf pro shop for purchasing equipment, apparel and other related items.

The course has an online presence used to book tee times, sign up for seasonal passes and provide information regarding rates, tournaments, events, and other service or facility information. In addition to the online services provided, the course utilizes an electronic point of sale (POS) system to capture information regarding tee times and rounds played which is useful in planning for the course's performance throughout the year.

The course has two full-time employees – a grounds keeper and a superintendent – who work throughout the year, plus there is temporary, seasonal staff that assists with the grounds maintenance and operations when the course is open for play.

Finances

The golf course has a $242,000 budget in 2015, which is 2.0 percent higher than the City spent in 2014. The course's operational expenditures from the General Fund grew by 3.6 percent per year from 2012 to 2014.[1] Please note the table below does not include most capital projects or the City's contribution to the employee pension plan.

Sylvan Heights Golf Course Expenditures, 2012 – 2014

	2012 Actual	2013 Actual	2014 Estimated	% Change
Salaries and longevity	103,103	110,361	116,025	12.5%
Overtime	0	275	0	N/A
Other cash compensation	1,472	1,472	1,502	2.0%
Active employee insurance	15,264	16,560	17,972	17.7%
Personnel Subtotal	**119,838**	**128,667**	**135,498**	**13.1%**
Cart rental	29,628	30,936	31,825	7.4%
Grounds maintenance	11,998	15,244	12,722	6.0%
Gasoline	11,434	14,351	11,983	4.8%
General contracted services	5,995	6,957	7,337	22.4%
Other materials and supplies	42,013	33,077	37,809	-10.0%
Non-Personnel Subtotal	**101,068**	**100,565**	**101,676**	**0.6%**
Department Total	**220,906**	**229,232**	**237,175**	**7.4%**

[1] The 2014 estimates are unaudited year-end figures.

Personnel costs account for the majority of the course's operating expenditures, though more than a third of the salary costs are for part-time or seasonal employees. The course's largest single expenditure outside of personnel was renting golf carts.

One challenge associated with golf course management is the heavy reliance on capital investment dollars to maintain course competitiveness and aesthetics. Golf courses require ongoing maintenance of cart paths, irrigation equipment, clubhouse facilities and general grounds improvements (e.g., movement of tee boxes, tree removals, or water feature modifications). Not only are these types of improvements essential for the general upkeep of the property, but they are also important for maintaining the course's competitiveness in the surrounding market. Since 2013, New Castle has spent nearly $117,000 on capital improvements for the course, including new golf carts, a roof and siding replacement for the golf cart storage shed and dredging of the course's lakes.

According to New Castle's most recent capital improvement plan (CIP), the City intends to spend an additional $564,000 on capital-eligible projects such as cart path repaving, clubhouse renovations to the restrooms and patio, irrigation system replacement and golf cart purchases. The table below shows historical and future capital spending plans for Sylvan Heights Golf Course.[2]

Sylvan Heights Golf Course Capital Spending, 2013 - 2017

	2013 Actual	2014 Estimated	2015 Budgeted	2016 Planned	2017 Planned
Roof/Siding Golf Cart Shed	30,911				
Dredge and treat lakes	31,739				
Purchase golf carts		54,240	42,000		
Cart paths				100,000	
Club house renovations			22,000		
Irrigation system					400,000
Capital Improvement Total	**62,650**	**54,240**	**64,000**	**100,000**	**400,000**

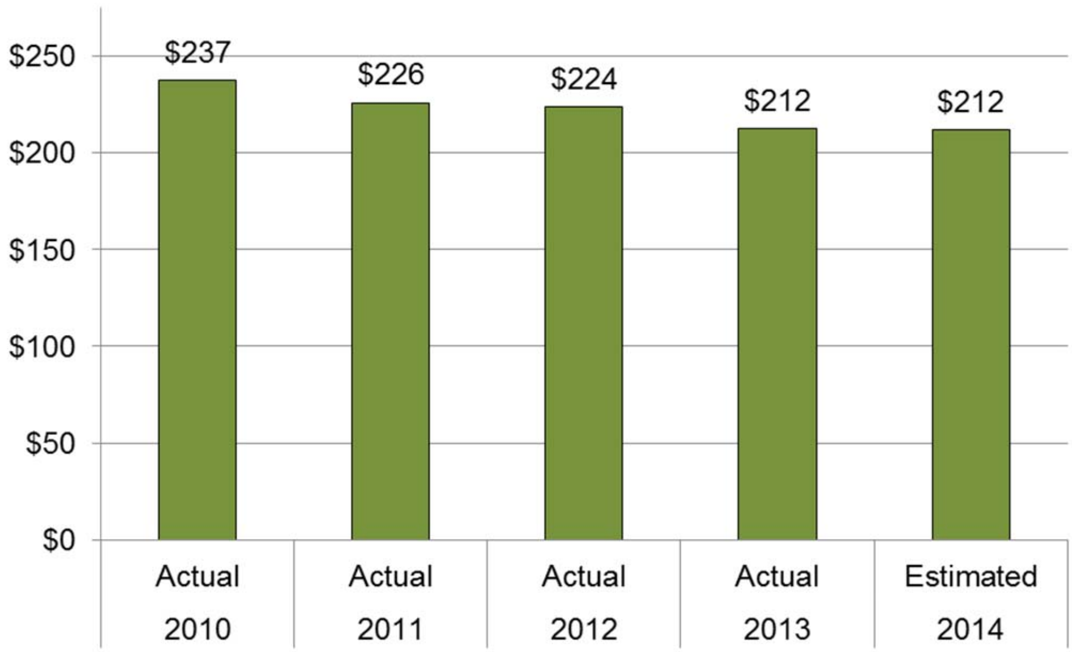
Revenues

Sylvan Heights generates revenue through fees charged per round of golf and golf cart rental. Fees charged at the course are based upon City Ordinance 8069, passed in November of 2013. These charges are based upon whether seasonal golf membership is purchased or an individual pays per round of golf (spending anywhere from $8.25 as a student playing 9 holes during the weekday to $19.00 for the general public to play on weekends or holidays). Additional fees are charged for golf carts, ranging from $450 to $550 for the year depending on membership and $11.50 to $23.50 depending on age of the player and day of the week.

Course revenues in 2014 were estimated to be almost $212,000, which was marginally lower than the course generated in 2013. However, the course's revenues have been slowly declining each year since at least 2010.

[2] Until 2013, capital spending was incorporated into the Sylvan Heights' operating budget, making it difficult to determine spending on capital-eligible expenses before such time. Additionally, markers (marketing opportunities for businesses) were used in prior to raise money for capital projects.

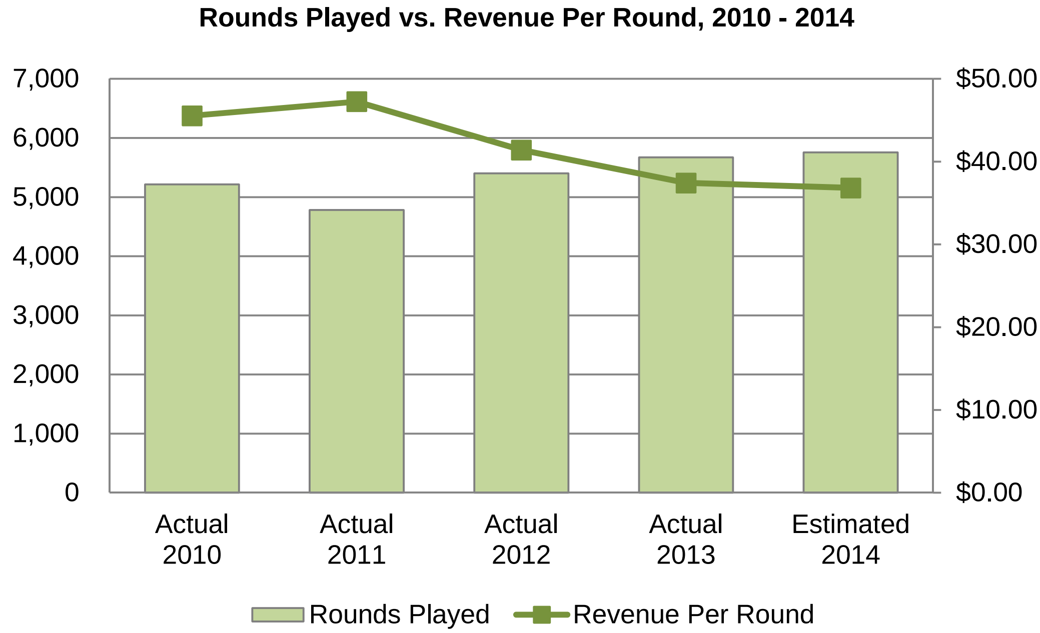
Golf Course Revenue ($000)



Golf course revenues should rise and fall with the number of rounds played per year - as rounds increase, so too should revenue. To better review the relationship between rounds played and revenue generated at the Sylvan Heights Golf Course, an analysis of the data going back as far as 2010 was performed. The data showed that despite rounds increasing from 2012 to 2014 by approximately 10.4 percent, the course experienced a declining revenue stream. Upon further review, the revenue collected per round of golf shows a more telling story – there was a change from $45.54 generated per round of golf on average in 2010 down to $36.82 in 2014 – a drop of 19.1 percent. This means that for every round of golf played in 2014, the course collected $8.72 less than it did in 2010. According to City leadership, there was a reduction in price in 2014 with hopes of capturing more of the region's demand for golf; however the increase in rounds played were not sufficient enough to offset the fee reductions, leading to an overall decline in revenues during this time period. The table and graph below illustrate how the number of rounds played increased while revenue and revenue per round declined from 2010 through 2014.

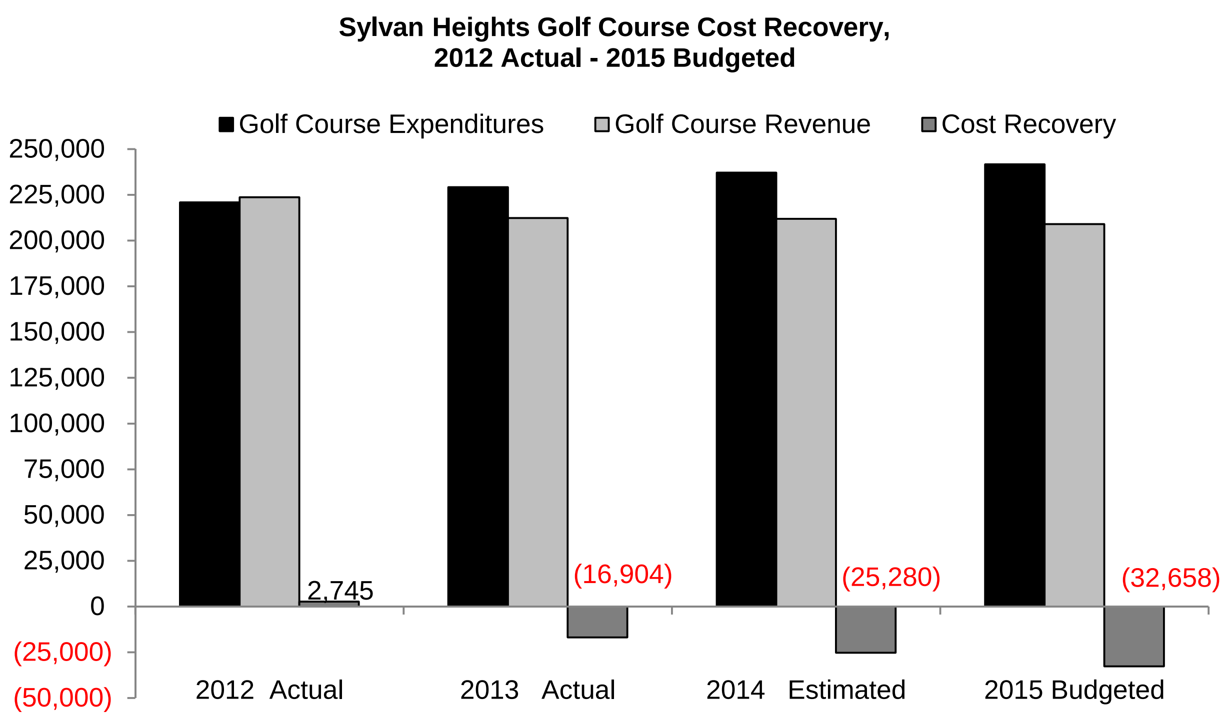
Sylvan Heights Golf Course Rounds and Revenue, 2010 - 2014

	2010	2011	2012	2013	2014	% Change
Rounds Played	5,215	4,782	5,402	5,674	5,755	10.4%
Revenue	237,484	225,916	223,652	212,328	211,895	-10.8%
Revenue Per Round	$45.54	$47.24	$41.40	$37.42	$36.82	-19.1%



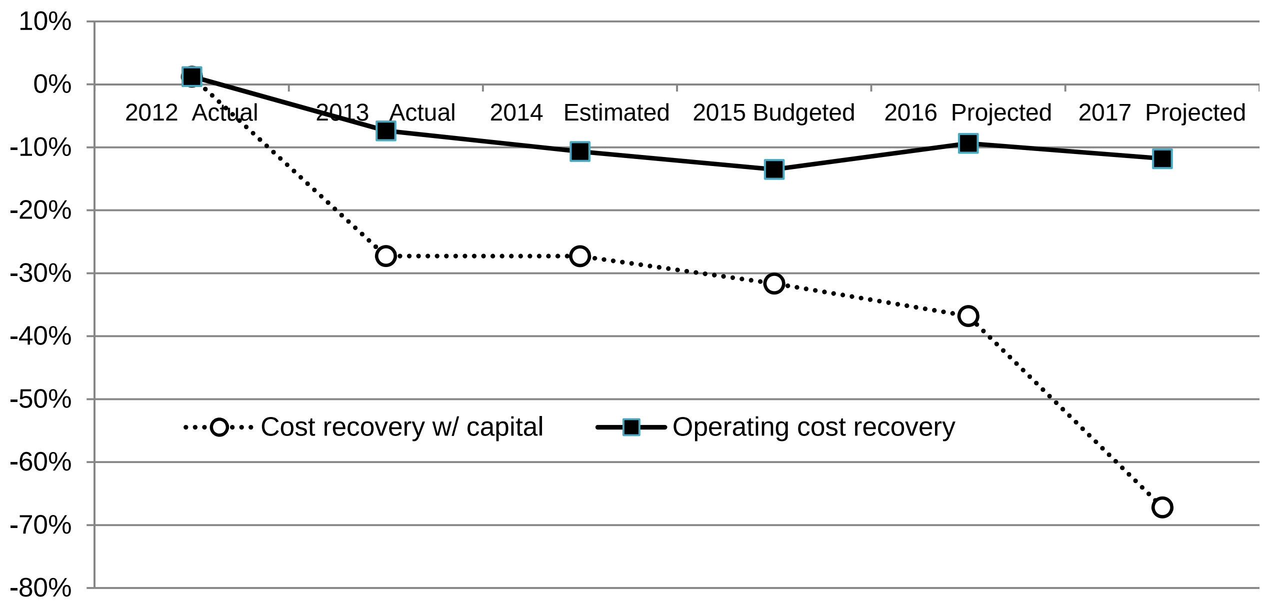
Assessment

The Sylvan Heights Golf Course has recently had negative trends in its revenues and cost recovery. As shown in the below graph, the course operated at a loss the last two years, which means the City tax revenues were subsidizing the course. The 2015 budget anticipates this pattern will continue.



This negative trend understates the course's total financial impact since it does not include the additional capital investments the City has made in the course in recent years. An enterprise that is intended to cover its own costs should do so fully, including the cost of the capital improvements needed to maintain or develop membership. The City has used a portion of its limited capital improvement program dollars to make improvements at the course and plans to continue to do so through 2017. Based on the projected course revenues and the planned capital expenditures, Sylvan Heights cost recovery will continue to drop through at least 2017.

Projected Course Cost Recovery through 2017



The large drop in cost recovery in 2017 is due to the planned $400,000 expenditure on the irrigation system. While it is reasonable to expect that the course wouldn't have enough operating revenue to cover the full cost of a $400,000 capital project in one year, Sylvan Heights is operating at a loss, even without that investment. Postponing the improvement or doing it in phases over several years only helps the deficit on paper; it would not make the course break even, nor would it address the need to make the investment.

Initiative

SH01.	**Issue a golf course management request for proposal (RFP)**	
	Target outcome:	Cost recovery; maintain a community asset
	Financial impact:	$90,000
	Responsible party:	Mayor, City Council, Business Administrator, Golf Course Superintendent

When the City entered Act 47 oversight, Sylvan Heights showed a small positive difference between its revenue and the expenditures. Some of that difference was due to the City's budgeting process[3] but, even after the City improved its budget, the course was able to cover its operating expenditures as recently as 2012.

[3] Course expenditures were understated since the City did not yet allocate employee health insurance, fuel or other costs to each department.

In the past two years that has not been the case. Course revenues have dropped each year since 2010, even with changes in course fees intended to attract more golfers. Course records show that the number of rounds played has increased, but total revenue and revenue per round has dropped. The 2015 budget anticipates the course will need a $33,000 operating subsidy this year.[4] And while the small decline in revenue from 2013 to 2014 suggests the City may have stopped revenue from declining, course expenditures will continue to rise, making the projected deficit larger.

The City has also been investing some of its limited capital improvement dollars in the golf course and plans to continue to do so through 2017. Every dollar that the City spends at Sylvan Heights is a dollar it cannot spend on street paving, bridge maintenance, vehicle replacement, Cascade Park or other competing priorities. Relative to other recreational facilities, golf courses are more costly to maintain, especially in view of the competition Sylvan Heights faces from other golf courses in the region. Postponing or cancelling capital improvements at Sylvan Heights is not a long term solution, though the City's leaders may decide that it is necessary in the short term. Without sufficient investment in the course, it will likely become less competitive in the current market and the financial deficit could grow.

Given all the challenges described throughout this Amended Recovery Plan and the deadline for the City to exit Act 47 oversight successfully by the end of 2019, the City cannot afford for Sylvan Heights to be a continued drain on the budget. The City also likely cannot afford to make the investments in the course that would help it become more profitable. City government needs an external partner to bring Sylvan Heights back into the black.

The City shall develop a request-for-proposals (RFP) soliciting the services of a private golf course management firm to run all aspects of the golf course. The goal of this RFP process is to increase the revenue generating capacity of the golf course so that it at least does not have the operating deficits projected above. Ultimately the course needs to generate enough revenue to cover its full costs, including capital improvements necessary for maintaining a golf course.

The projections below assume the City will need 2016 to evaluate its options and part of 2017 to implement any changes with the full projected deficit eliminated starting in 2018.

Financial Impact

2016	2017	2018	2019
$0	$14,000	$35,000	$41,000

[4] Course expenditures are budgeted at $242,000 while revenues are budgeted at $209,000.

Economic & Community Development

Economic and Community Development

One of City government's biggest financial challenges is the weakness of its tax base. City government receives the majority of its revenues from a tax based on the assessed value of taxable property (real estate tax) and a tax on the earned income of residents (resident earned income tax). While the City has also taxed the earned income of people who work in New Castle but live elsewhere (commuter earned income tax), the statutory deadline for the City to exit Act 47 oversight limits the City's ability to levy that tax going forward.

Nationally the economy has grown since the end of the last recession in June 2009. At the end of 2014 employment levels nationally had rebounded back above pre-recession levels[1] and unemployment had dropped for its fourth consecutive year. The Federal Reserve Bank's most recent Survey of Professional Forecasters projects that the Gross Domestic Product will continue to grow through 2018, though the Q3 2015 growth projections were lower than the prior two quarterly projections in 2015.[2] According to this same source, the national unemployment rate is expected to continue to drop from 5.3 percent in 2015 to 4.7 percent in 2018 and the long-term annual average projection for inflation is 2.0 percent for 2015 through 2019.

The trends are similar for the Commonwealth of Pennsylvania – unemployment rates have generally declined each year since 2010 to 5.6 percent as of June 2015. The number of employed State residents throughout 2015 has been basically even with the number before the recession.

However, closer to New Castle, Lawrence County's economic performance has not been as strong. The unemployment rate for County residents dropped from its peak of 10.9 percent in January 2010 to 6.2 percent in June 2015, but remains higher than for Pennsylvania as a whole.

The number of employed Lawrence County residents has had very minimal growth (0.5 percent compound annual growth from 2010 to 2014) and has remained 3 to 4 percent lower than it was at the same points in 2007 before the recession. Looking farther back, the number of employed residents has been routinely been 3 percent lower than they were in 2005, comparing the same month in each year.[3]

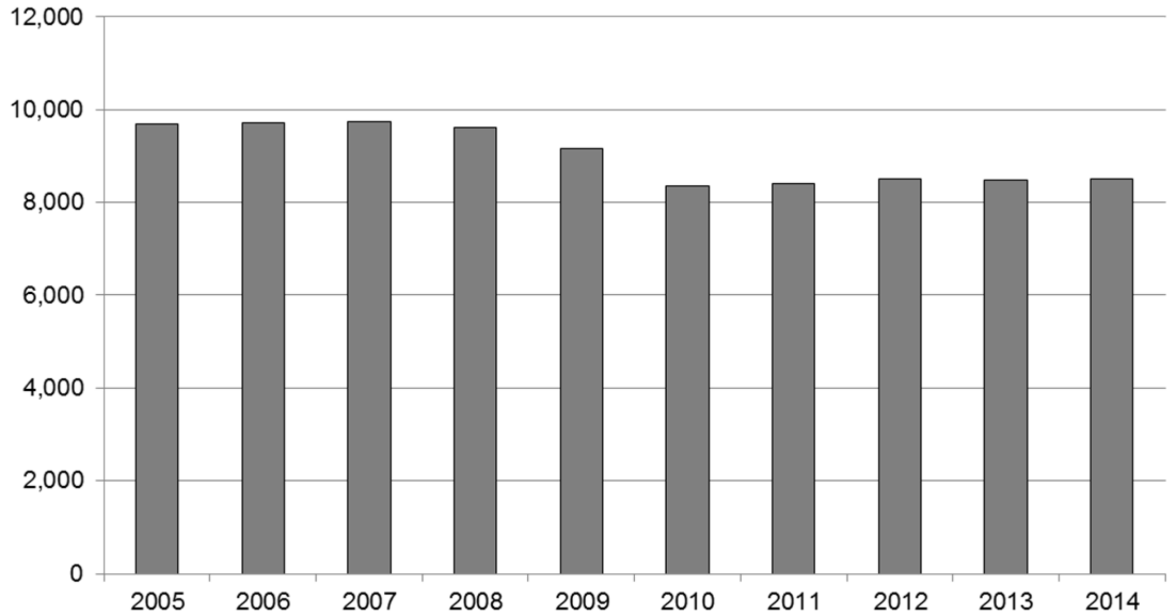
Just as Lawrence County's performance has been weaker relative to Pennsylvania, New Castle's performance has been weaker relative to Lawrence County. Before the national economy entered the last recession, New Castle's unemployment rate was 6.2 percent. The City's unemployment rate peaked at 16.1 percent in January 2010, much higher than Pennsylvania (9.5) or Lawrence County (10.9) at that time. New Castle's unemployment rate (8.2 percent in June 2015) remains above pre-recession levels (6.5 percent in June 2007). And while the number of employed residents has rebounded above pre-recession levels nationally, that has not been the case in New Castle. The number of employed City residents through the first half of 2015 was 11 to 12 percent lower than it was at the same points in 2007 before the national recession. As the graph below shows, the number of employed City residents dropped during the recession and it has not rebounded.

[1] The National Bureau of Economic Research marks the last recession as beginning in December 2007 and ending in June 2009.

[2] Third Quarter 2015 Survey of Professional Forecasters, August 14, 2015

[3] The number of employed residents was 2.9 percent lower in January 2015 than January 2005, 3.1 percent lower in February 2015 than February 2005, etc.

New Castle Residents Annual Employment, 2005 - 2014



Source: US Bureau of Labor Statistics, Local Area Unemployment Statistics

The same pattern holds for worker earnings, though there is less data available at the County level.[4] According to the US Census Bureau's Quarterly Census of Employment and Wages, the average annual pay for people employed in Pennsylvania grew by 17.0 percent from 2007 to 2014, compared to 13.9 percent growth for people employed in Lawrence County. The 10-year compounded annual growth rate in annual average pay was also a little higher for Pennsylvania (2.8 percent from 2004 to 2014) than Lawrence County (2.6 percent from 2004 to 2014).

New Castle's weaker standing relative to the national, state and county economy is not a new development. In the 2000 Decennial Census the City's poverty rate was much higher, its median household income much lower and its median home value much lower than these other comparison points. That was still the case in the 2013 American Community Survey, which is the most recent year available from the US Census Bureau at the time of analysis

Select Economic Indicators, US Census Bureau

	2000 Census	2013 ACS
% of individuals below poverty level		
New Castle	20.8%	25.8%
Lawrence County	12.1%	14.4%
Pennsylvania	11.0%	13.3%
United States	12.4%	15.4%

[4] Please note the QCEW tracks data based on the location of the employer's establishment, not the employee's residency. So the Lawrence County data includes people who live outside the County but are employed somewhere within the County. The most recent QCEW data at the time of analysis was 2014.

	2000 Census	2013 ACS
Median household income		
New Castle	$25,598	$29,559
Lawrence County	$33,152	$43,546
Pennsylvania	$40,106	$52,548
United States	$41,994	$53,046
Median home value		
New Castle	$42,300	$57,800
Lawrence County	$72,200	$96,700
Pennsylvania	$97,000	$164,700
United States	$119,600	$176,700

Source: 2000 Decennial Census; 2009 – 2013 American Community Survey

In fact, the gap between New Castle and these comparison points appears to have widened. In the 2000 Census, New Castle's median household income was 77 percent of the County level and 64 percent of the Pennsylvania level. In 2013 the City's median household income was 68 percent of the County level and 56 percent of the Pennsylvania level. The gap between New Castle's poverty level and the other comparison points is also wider now.

There is, however, some sign of improvement in New Castle's economy, at least as it pertains to the City's earned income tax base. As discussed in detail in the Revenue Chapter, the earned income tax is now the City's largest source of revenue and it will remain a critical revenue source even after the EIT rate is reduced. According to American Community Survey data, median earnings for City residents have increased by more on a dollar and percentage and mean earnings for full-time year round workers have increased more on a percentage basis. experienced among all County, Pennsylvania or United States residents over that same period. New Castle City residents still earn less relative to those comparison points, but their income is growing.

Resident Earnings

	2010 ACS	2013 ACS	$ Change	CAGR
Mean earnings for full-time, year round workers with earnings				
New Castle	$36,423	$39,097	$2,674	2.4%
Lawrence County	$43,741	$46,595	$2,854	2.1%
Pennsylvania	$54,476	$58,345	$3,869	2.3%
United States	$55,370	$58,701	$3,331	2.0%
Median earnings for population age 16 and over with earnings				
New Castle	$21,109	$25,646	$4,537	6.7%
Lawrence County	$24,762	$27,305	$2,543	3.3%
Pennsylvania	$29,618	$31,057	$1,439	1.6%
United States	$29,701	$30,538	$837	0.9%

City government cannot control the national or regional trends in the real estate or the labor markets, nor will City government alone drive growth in the tax base. But City government can help create positive conditions for growth to occur, especially in those areas that are clearly the purview of local government, like code enforcement and zoning. To that end the City has made progress in implementing the Economic and Community Development initiatives described in the 2012 Amended Recovery Plan. The organizational initiatives from that Plan are largely complete and the City's Department of Community and Economic Development is beginning to pursue targeted priorities intended to help facilitate growth in the City's tax base. The next section discusses City government's work in this area.

Staffing and finances

As required in the 2012 Amended Recovery Plan, the City redefined the Director of Community and Economic Development position; filled that position; and merged the code, zoning and planning functions into a new Department of Community and Economic Development under the Director to better coordinate the use of the City's limited resources. The following table tracks budgeted headcount from 2012 to 2015.

Budgeted Headcount, 2012 - 2015

	2012	2013	2014	2015
Director of Community and Economic Development[5]	1	1	1	1
Community Development Coordinator	0	1	1	1
Code Enforcement	7	7	7	7
Planning & Zoning	1	1	1	1
Health	1	1	1	1
Total	**10**	**11**	**11**	**11**

When the City redefined and filled the Director position, it created a new Economic Coordinator position, which accounts for the one-position increase in 2013. Otherwise the City's staffing levels have remained constant. The City has consistently had five code enforcement officers, one of whom serves as the foreman; two records clerks for code enforcement; one zoning officer and one part-time health officer. Though it does not appear in the table above, the City began using part-time employees in Code Enforcement for property maintenance functions in 2014 ($16,000 estimated).

Across the four units that comprise the Department,[6] the 2015 budget allocates $844,000 for these functions. The table below shows the Department's expenditures for the previous three-year period.[7] Please note the table does not include expenses associated with code vehicle maintenance, most capital projects or the City's contribution to the employee pension plan.

[5] Budgeted under administration as Director of Economic Development prior to 2013

[6] Community and Economic Development; Code Enforcement; Planning and Zoning; and Health

[7] The 2014 estimates are unaudited year-end figures.

Department Expenditures, 2012 – 2014[8]

	2012 Actual	2013 Actual	2014 Estimated	% Change
Salaries and longevity	341,285	425,685	477,770	40.0%
Other cash compensation	9,726	10,500	13,116	34.9%
Active employee insurance	107,214	154,219	179,242	67.2%
Personnel subtotal	***458,225***	***590,404***	***670,128***	***46.2%***
PCC Fees	31,187	95,545	127,512	308.9%
Demolition[9]	123,000	75,000	24,449	-80.1%
General contracted services	18,416	16,949	34,149	85.4%
Materials and supplies	12,812	6,723	9,934	-22.5%
Non-personnel subtotal	***185,416***	***194,217***	***196,044***	***5.7%***
Department total	**643,640**	**784,622**	**866,173**	**34.6%**

The apparent rapid growth in personnel expenditures is due to a couple factors:

- The City budgeted compensation for the Department Director position under the Department of Administration in 2012. Moving those expenditures into this new department in 2013 and 2014 skews the growth rate.
- As noted above, the City added one new position to this department, which also carries benefit costs (e.g. hospitalization, FICA).
- Gross health insurance expenditures in Code Enforcement increased by $30,000 over this period. Please see the Workforce Chapter for more discussion of these trends.

The City budgeted a total of $130,000 in 2015 in the General Fund for demolition and neighborhood stabilization efforts. A significant portion of the demolition activity will be concentrated in the lower east side. The Department hopes to demolish 15 of 31 targeted properties in that area according to the strategy described further below. The City uses an external company to handle building plan review and those expenditures are recorded as Pennsylvania Construction Code (PCC) fees. The plan review fees are covered by the building permit revenues shown in the table below.

Department Revenues, 2010 - 2014

	2010 Actuals	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals
Building Permits	67,926	381,597	80,235	258,590	413,101
Code Department Fees	90,060	94,984	90,333	98,422	115,753
Code - Rental Fee	115,277	108,365	57,138	53,813	67,715
Licenses and Permits - Health Department	23,775	29,970	30,350	33,800	29,180
General Fund Revenues	**297,038**	**614,917**	**258,056**	**444,625**	**625,748**

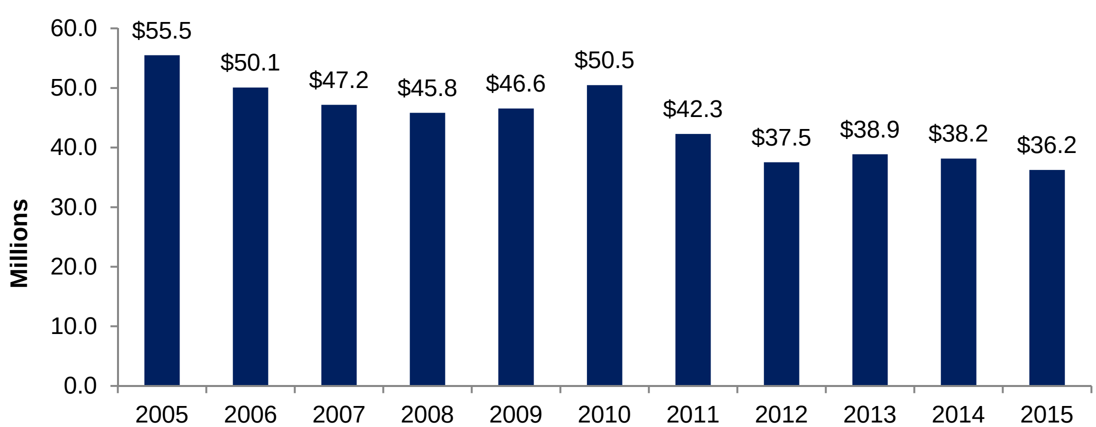
[8] In 2012 the City had $120,000 in reimbursements for prior year salary expenditures that were recorded in the City's accounting system as "negative expenditures." They are not included here since they are not expenditures that the City actually made in 2012. There were similar, smaller items related to the City's former weatherization operations in 2012 and 2013 that are also not included.
[9] The City spent another $48,000 on demolition labeled "neighborhood stabilization" from its capital budget in 2013

Building permit revenues fluctuate depending on the sporadic occurrence of large construction projects. While the Department generates approximately $80,000 annually from regular construction projects, large construction projects at Jameson Hospital (2011), Harry W. Lockley Elementary School (2013) and North American Forgemasters (2014) created one-time in building permit revenue and plan review expenditures.

The Department also generates approximately $200,000 per year in fees. In 2014, the Department collected $116,000 in code departmental fees, which include zoning and planning fees and housing inspection fees, and $68,000 in rental registration fees from property owners who pay a per-unit fee of $15 for every residential unit they rent out.[10] The City also charges additional registration fees for vacant properties.

In addition to these service charge revenues, the City also receives federal and state grants to support community and economic development activities. The largest, recurring source of grant funding is the Community Development Block Grant (CDBG) grant, which the City receives from the federal government via the Commonwealth of Pennsylvania. Because New Castle's population is below 50,000, it cannot receive these funds directly from the federal government. From 2005 to 2015, the CDBG allocation to Pennsylvania dropped by 35 percent from $55.5 million to $36.2 million.

Pennsylvania CDBG Program



Source: U.S. Department of Housing and Urban Development

The City's CDBG allocation has also been dropping, in dollar amounts and as a percentage of the Commonwealth allocation. In 2014 the City used $150,000 of its CDBG funding to support code enforcement functions and the 2015 budget has the same allocation for this year.

New Castle's CDBG Revenues as a Percentage of State CDBG Program

	2010	2011	2012	2013	2014
PA CDBG Program	50,476,616	42,283,867	37,539,123	38,870,107	38,158,835
New Castle CDBG Revenues	502,607	348,494	300,000	300,000	288,311
% of State CDBG	1.00%	0.82%	0.80%	0.77%	0.76%

The City also received $300,000 in 2013 through the federally funded HOME program, which administered locally through a partnership with Lawrence County Community Action. HOME funds are usually used to rehabilitate resident's houses.

[10] The fee increases to $25 if the owner pays the registration fee after March 31 and $30 if the owner pays the fee after May 15.

In 2014 the City secured $23,750 in Pennsylvania Housing Affordability and Rehabilitation Enhancement (PHARE) grants from the Commonwealth. The City plans to use those funds for demolition on the Lower East Side for neighborhood stabilization needs. The City also received a $30,000 Keystone Communities grant in 2014 that is funding an inventory of underutilized parcels in the City. The following table shows the Department's grants from 2010 to 2014.

State and Federal Housing Grants, 2010 - 2014

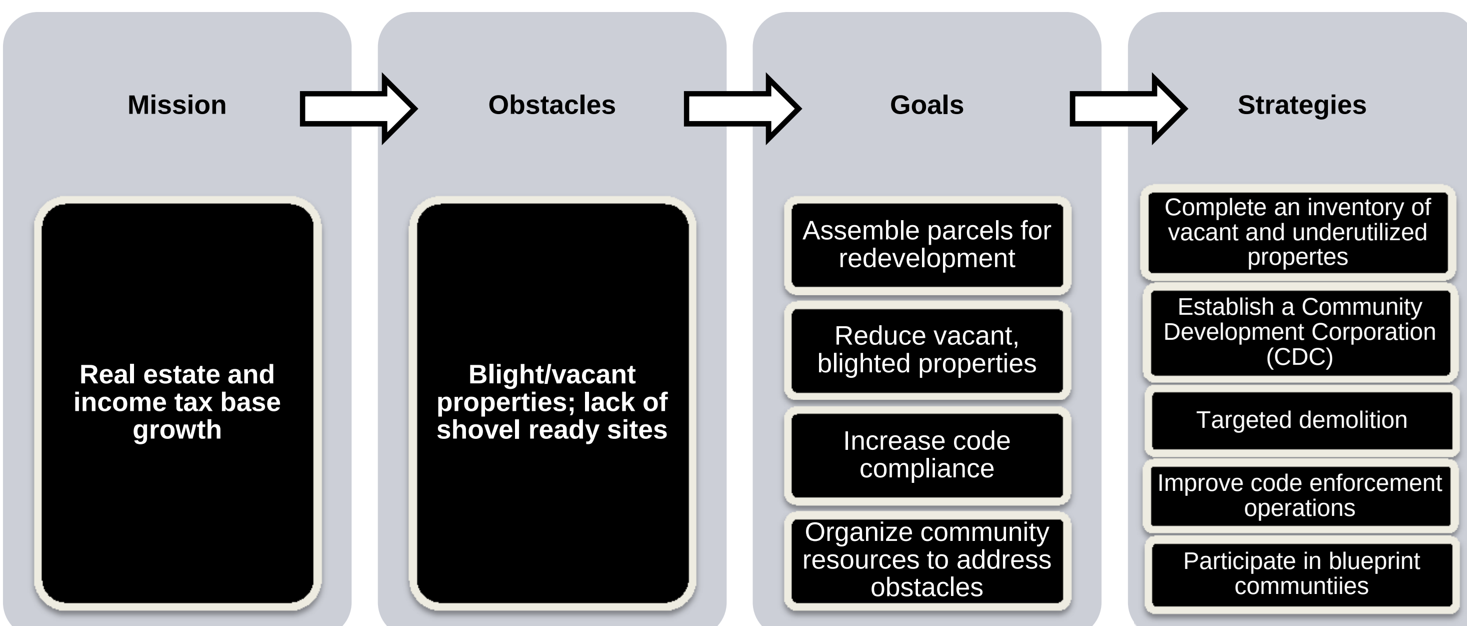
	2010	2011	2012	2013	2014
CDBG	502,607	348,494	300,000	300,000	288,311
PHARE	0	0	0	0	23,750
HOME	0	0	0	300,000	0
Keystone Communities Program	0	0	0	0	30,000
Total Housing Grants	**502,607**	**348,494**	**300,000**	**600,000**	**342,061**

Economic Development Action Plan

The 2012 Amended Recovery Plan required the Department Director to "develop a short-term action plan that specifies how the City will use its limited resources for a three-year period to build the local tax base."[11]

Working with the Coordinator, the Director identified several obstacles to growth in the City's tax base, and decided to focus on those related to blighted and vacant properties and the lack of shovel-ready sites for redevelopment. The Director established goals related to overcoming those obstacles and a limited number of strategies that tie to those goals. The five strategies discussed in the Actin Plan are largely focused on halting and reversing the slow decline in the City's assessed value of taxable property to stabilize and grow the real estate tax base.

Economic Development Action Plan Strategies



[11] Initiative CE04, page 118

These are not the only strategies that the City will pursue to facilitate tax base growth, nor are they a comprehensive list of the department's activities. In some cases, City leaders are evaluating alternative strategies to achieve the same end. For example, the City may be able to use the Redevelopment Authority for some of the same activities that a new Community Development Corporation would have undertaken. The Economic Development Action Plan is intended to help the City's elected and appointed leaders use their limited resources strategically in a way that ties back to the mission of real estate and earned income tax base growth, which would facilitate the City's successful exit from Act 47 oversight.

The Coordinator has encouraged the Mayor and Director to update this Plan and share it with other community leaders and stakeholders to stimulate conversation and develop partnerships around these and other strategies. Undoubtedly there are other strategies that the City could and should pursue as progress is made and circumstances change around the strategies listed above.

The next two sections discuss two of the strategies that are part of the Department's regular operations – code enforcement and housing demolition.

Code enforcement

One of the Department's main responsibilities is to reduce the number of blighted and vacant properties to address health and public safety concerns, improve the quality-of-life for residents, stabilize property values and enhance New Castle's ability to attract and retain residents and businesses. Vacant properties can be a major drag on property values. One study of vacant properties in Philadelphia estimates that they "[reduce property] values by 6.5 percent citywide and by up to 20 percent in some neighborhoods.[12]

A primary tool for blight reduction is the City's code enforcement operation that is responsible for administering the City's property maintenance code. The code sets standards for internal and external maintenance of residential and commercial properties. The City uses a third-party vendor for building plan review and on-site building inspections and its own staff for property maintenance.

The Department performs these functions with four full-time code officers and five part-time employees who are managed by a full-time foreman. Two records clerks assist in handling calls, data management and other administrative functions.

The 2012 Amended Recovery Plan stated that, "Due to the City's paper-based operation, there is a limited amount of data available to benchmark the City's operations relative to other governments or external standards. The manual operation inhibits an accurate tracking of the Department's total number of inspections, re-inspections, properties achieving compliance, total fines levies, fines paid or an identification of high problem areas as defined by data."[13]

Since then, the City has made some progress in using technology to increase its efficiency and performance management capacity. Code Enforcement inspectors began using mobile computers in 2012 as a field tool for recording and tracking inspections. The Department also started producing quarterly performance reports in November 2013. Data reported in the quarterly reports include number of inspections completed, number of properties in compliance, number of citations issued, number of hearings conducted, and revenues collected for each type of inspection and permit issued.

[12] "Vacant Land Management in Philadelphia: The Costs of the Current System and the Benefits of Reform." Econsult Corporation, Penn Institute for Urban Research and May 8 Consulting. November 2010

[13] 2012 Amended Recovery Plan, page 104.

The Department acknowledges that these reports need improvement, particularly regarding accuracy and completeness. These problems are not unusual in the early stages of this kind of effort, particularly when it is applied to a department that has long relied on manual processes. Even now not all code enforcement inspectors use the reporting software which in part makes it performance management more difficult or time intensive. The initiative section of this chapter addresses this issue in more detail.

Demolition

While it is often preferable that a property be brought into compliance with code through inspection, citation and property owner action, in some cases that is not possible and the City needs to demolish the structure to address public safety concerns or prepare the property for more productive use. From 2010 to 2014, the City demolished 223 residential properties and 20 commercial and industrial properties. The following table shows the number of residential demolitions by neighborhood.

Residential Demolitions, 2010 - 2014

	2010	2011	2012	2013	2014	Total
Lower East Side	12	9	10	21	3	**55**
Southside	11	11	7	8	14	**51**
Lower North Hill	8	5	13	7	5	**38**
Upper East Side	7	7	0	8	10	**32**
West Side	6	4	3	3	5	**21**
Upper North Hill	4	5	3	0	2	**14**
Mahoningtown	3	0	1	6	2	**12**
Total	**51**	**41**	**37**	**53**	**41**	**223**

The City concentrated its efforts in the Lower East and South Side of the City since the majority of the City's vacant houses are located in those neighborhoods. In 2015, the City has $50,000 allocated for demolition in the Code Enforcement budget plus another $80,000 labeled as "neighborhood stabilization" in the capital budget. The City anticipates demolishing 30 residential properties and one commercial property. The following table shows the distribution of anticipated demolitions by neighborhood.

2015 Targeted Demolition

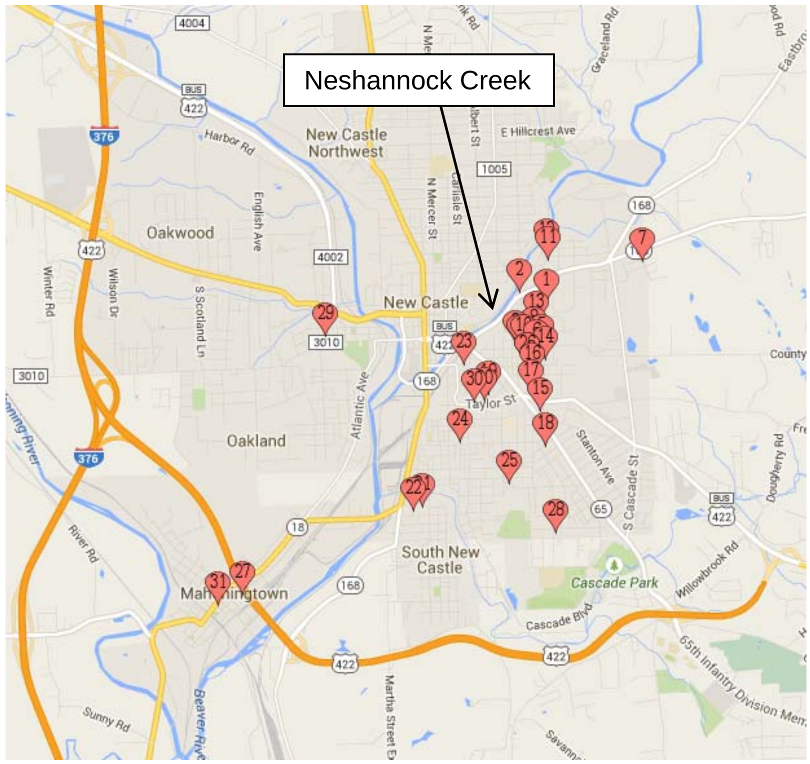
Neighborhood	Number of properties targeted for demolition	Estimated Total Cost	Estimated average cost per property
Southside	5	$53,674	$10,735
Lower East	21	$105,000	$5,000
Mahoningtown	2	$10,000	$5,000
Upper East	2	$11,000	$5,500
West Side	1	$5,000	$5,000
Total	**31**	**$184,674**	**$5,957**

The cost of demolishing a residential property averages approximately $5,000 per property while the cost of demolishing a commercial property is significantly higher, depending on the structure.

The City currently estimates it will cost $34,000 to demolish the commercial property on the South Side.

The following map shows the demolitions planned for 2015. The Lower East Side has the most activity because the City is currently prioritizing demolition there due to the higher number of vacant houses in that neighborhood compared to other areas of the City. In that case demolition is part of a broader strategy to stabilize the neighborhood, reduce crime and improve overall quality of life.

Distribution of Demolitions Planned for in 2015



The City also wants to do targeted demolition on the Lower North Hill. The Lower North Hill has large historic homes and cultural amenities such as the Scottish Rite Cathedral and Hoyt Center of the Arts. The goal of targeting demolition in this area is to increase property values, and bolster one of the communities more stable neighborhoods. Because of limited funds, the City was only able to address the immediate demolition needs in 2015.

Assuming the City follows its stated strategy of focusing on the Lower East Side and Lower North Hill, they will have one neighborhood with a stronger socioeconomic profile than the City as a whole and one with a weaker profile as the census data shows.

Lower North Hill and Lower East Side Demographics Data
(Using Census Tract Data as Proxy)

	Lower North Hill (Census Tract 300)	Lower East Side (Census Tract 600)	City of New Castle
Total Population	4,095	1,317	23,083
% City Population	18%	6%	100%
% with High School Diploma or Above	89.3%	68.0%	83.4%
Median Household Income (2013 Dollars)	78,400	25,996	29,559
Per capita Income (2013 Dollars)	48,698	13,135	17,945
% In Labor Force	53.4%	30.0%	52.4%
% Unemployed	12.5%	24.0%	11.6%
% Vacant Housing	15.4%	17.0%	15.3%
Median Housing Value	185,100	31,100	57,800

Source: 2009 – 2013 American Community Survey

Initiatives

Given the recent release of the Economic Development Action Plan and completion of the code enforcement peer-to-peer evaluation, the initiatives in this section mostly focus on taking actions contained in those documents, with one additional initiative related to the comprehensive plan.

ED01	**Develop a corrective action plan in response to the code enforcement peer-to-peer evaluation**	
	Target outcome:	Improve operations to facilitate tax base growth
	Financial Impact:	N/A
	Responsible party:	Mayor, DCED Director, Code Enforcement Foreman

In 2015 the Pennsylvania Department of Community and Economic Development funded a peer-to-peer review of the City's code enforcement operations. Through that process a subject matter expert from another Pennsylvania local government reviewed New Castle's code enforcement operations, personnel and technology.

The peer-to-peer evaluation noted some areas of strength. For example, it notes that the 2009 International Property Maintenance Code is "adequate to address the current issues the City is facing relative to property maintenance" and that "Code Enforcement personnel overall had a working knowledge of the adopted Property Maintenance Code."

The evaluation also found several areas of weakness ranging from inconsistency in applying the property maintenance code across similar violations, incomplete technology implementation and staff training needs.

The evaluation corroborated some findings from the Coordinator's review of code enforcement in the 2012 Amended Recovery Plan. That Plan highlighted the need for the City to electronically track performance data and use that to inform and manage daily operations.[14] The peer-to-peer evaluator similarly recommends the City change software packages to one that would allow it to track the following:

- Workload Indicators
  - The total number of complaints filed by type and priority including the number of low priority complaints and referrals to other agencies.
  - The number of cases that are in progress in total and by staff members.
  - The number of ongoing and closed cases involving voluntary compliance, citations, fines, etc.
- Efficiency indicators
  - The number of closed cases compared to the total cases opened (e.g. Percentage closure rate) in total and by staff member.

[14] Please see initiative CE03, page 117.

❖ Effectiveness Indicators

- The average number of days that current cases have been open by type of violation in total and by staff member compared to interim target times.

- The average number of days that closed cases were open by type of violation in total and by staff member compared to interim target times.

- The number of cases closed by closure reason (e.g. no violation, voluntarily complied, permit obtained, compliance after citations).

These indicators relate back to the critical questions that the City's leaders need to be able to answer to evaluate the department's performance – how busy is the department in terms of case load and complaints filed; how quickly is the department resolving complaints or its own findings of non-compliance; what's the level of compliance with the City's property maintenance code and how is that changing; etc.

While the Department has started issuing quarterly performance reports, they also acknowledge the reports need improvement. The quarterly data currently reports the number of inspections completed or citations issued, which is useful for measuring activity (i.e. what the department is doing) but not for measuring effectiveness (i.e. what impact the department has). The City needs to start collecting data that can speak to the Department's efficiency and effectiveness, such as the percentage of total properties in compliance with City code or the average number of days it take for cases to be closed.

The City also needs to collect more detailed and accurate data to explain any changes in trends and monitor the Department's performance more rigorously. Part of the reason for the lack of accuracy is because not all code officers use the electronic reporting technology. That reflects back on the training and technological needs cited above. Since the majority of the Department's staff and dollars are invested in code enforcement, the Department's success is tied to the division's effectiveness.

The Mayor and Director shall produce a corrective action plan that outlines the steps for addressing the issues raised in the peer-to-peer evaluation and provide periodic written updates to the Act 47 Coordinator and City Council on their progress in doing so. The format and length of the corrective action plan and the subsequent progress updates are less important than documenting a course of action and tracking progress toward it. This approach is similar to what many municipalities regularly use to correct findings in their annual external financial audit. The Mayor and Director shall produce the first version of this plan by June 30, 2016 so it can inform any changes the City needs to negotiate with the collective bargaining units representing these employees.

While the issues raised in the peer-to-peer evaluation are difficult and interrelated, the City should use the performance indicators listed above as a guide for untangling them. At this point the City can start with the guiding question, "What steps do we need to take so that we can start to report the performance data listed above?"

ED02	**Amend and continue to implement the Economic Development Action Plan**	
	Target outcome:	Tax base growth and increased revenues
	Financial Impact:	N/A
	Responsible party:	Mayor, Director

While the City developed an Economic Development Action Plan as required in the 2012 Amended Recovery Plan, that document will have more value if the City uses it to drive discussions with economic development stakeholders and spur cooperation around the goals articulated in that document. The Action Plan should also be amended periodically to reflect implementation progress, changing circumstances and new opportunities.

The Action Plan should be changed to reflect the City's progress on the Blueprint Communities strategy that helps bring private and public sector resources together around revitalization priorities. The City completed the first phase of that process, including an aspirational vision statement that describes what New Castle should become. Any particular high-ranking priority identified through Blueprint Communities could replace that strategy in the Action Plan, or the Action Plan itself could be merged into a broader document created through Blueprint Communities. The form of these planning documents is less important than how they are used to drive effective action.

Similarly, the Department Director and Solicitor have expressed interest in pursuing a land bank initiative through the Redevelopment Authority instead of establishing a new Community Development Corporation (CDC). The City settled a long-running case involving the former RDA, which clears the way for it to resume its functions, one of which could be operating a land bank through working with real estate developers. The City has the discretion to amend the Economic Development Action Plan to reflect that change in strategy, articulate the next steps to pursue it and then periodically report on their progress.

The City shall periodically update and release Economic Development Action Plan, including posting it on its website and submitting it to City Council. Those updates shall include a description of the City's progress in implementing the strategies and an evaluation of their effectiveness relative to the mission of growing the City's tax base.

ED03	**Update Comprehensive Plan**	
	Target outcome:	Identify efficiencies and process improvements
	Financial Impact:	N/A
	Responsible party:	Mayor, City Council, DCED Director, Code Enforcement

The City developed the "Comprehensive Plan" land use document in 2005 that lays out the City's long-term development policies and addresses housing, transportation and other aspects of urban planning that would stabilize communities and attract businesses. The Comprehensive Plan should be updated to reflect the City's development since 2005 and provide the basis for updating the City's related regulations for zoning, land use and code.

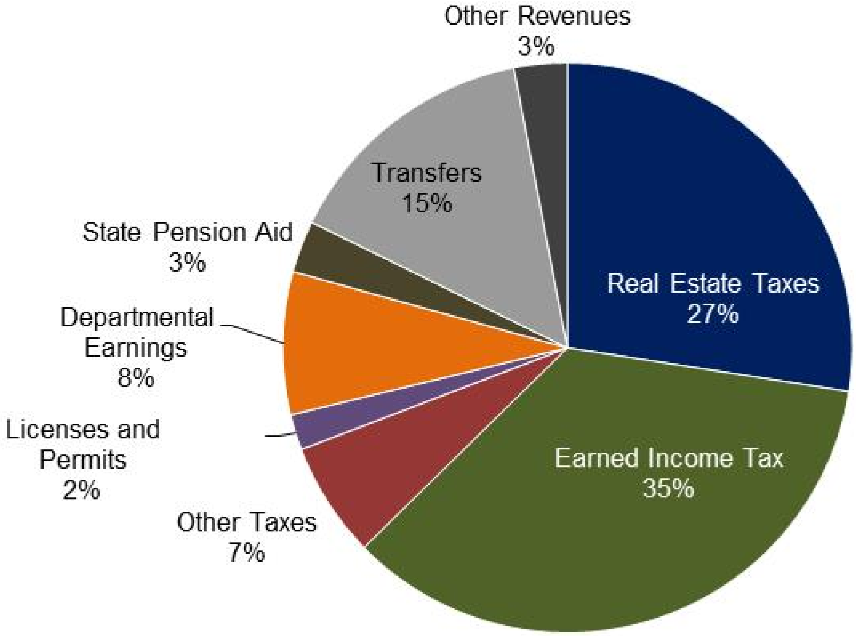
The City shall issue a request-for-proposal (RFP) to contract a planning consulting firm to update it. Due to financial constraints that the City is already experiencing, the Coordinator has requested a grant from the Pennsylvania Department of Community and Economic Development for this purpose as described in the Plan Appendix.

Revenue

Revenue

The City of New Castle uses a mix of revenues to fund the services it provides, compensate its employees and pay its debt and other obligations. Locally generated taxes account for almost 80 percent of the revenue in the General Fund. The chart below shows the major categories for the City's 2015 budgeted General Fund revenues.

2015 General Fund Budget - Revenues by Category



The current year revenue in the Sinking Fund comes from a portion of the real estate tax designated for debt repayment and a portion of the resident and non-resident earned income tax. The Pension Fund[1] receives most of its revenue from Commonwealth pension aid, a portion of the resident and non-resident earned income tax and a General Fund transfer, which is in turn generated by the revenue sources shown above.

The amount of money that New Castle collects from revenues is partly a byproduct of the economy within which City government operates. The levels of unemployment, workers' earnings and business receipts, in and around the City, impact City government's ability to collect enough revenue to fund its operations and meet its obligations. The real estate market also impacts City government, though the real estate tax is less closely tied to the market because of assessment practices.

Those environmental factors are discussed in more detail in the Economic Development chapter that should be reviewed along with this chapter. For now we note the following long term trends:

[1] This is a checking account that the City maintains to pay pension-related administrative costs and hold pension related revenues before they are deposited to the pension plans. It appears as one of the major funds in the City's annual budget. It is not the pension plans themselves.

- New Castle's population has been on a continual decline. From 2010 to 2014, the City's population dropped by 2.8 percent from 23,230 to 22,575[2] and by 14 percent when compared to in 2000.

- Along with the loss of population, the City's labor force and the number of employed residents also decreased. From 2004 to 2014, the City's labor force dropped from 10,620 to 9,233 and the number of employed residents dropped from 9,741 to 8,509, representing a 13 percent decrease.[3]

- Inflation-adjusted median household income[4] dropped by 3.7 percent from 2010 to 2013 and those who were below poverty increased from 21.2 percent to 25.8 percent through the same period.[5]

The City's revenue collections are also a byproduct of non-economic factors. Pennsylvania laws set legal limits on the kinds of taxes and service charges the City can use, whom the City can tax or charge and at what levels. There are timing issues related to when a tax or fee is charged and when the revenue is actually collected and available for use. There are practical challenges related to who collects revenue and how well they do so. Those factors mix with the environment and influence the City's revenue collections.

While taking account for those factors, New Castle's City government must have a reliable, sustainable mix of revenues to fund its operations and meet its obligations. This chapter discusses the City's recent revenue performance, describes the Amended Recovery Plan baseline projection of how much revenue the City will collect absent any changes, and explains the initiatives to increase revenue.

Please note that the historical data presented in this chapter generally comes from the City's audited year-end results and preliminary 2014 year-end results. At the time that this analysis was performed, the 2014 audit was not yet complete.

Much of the analysis produced by the Coordinator since the City entered Act 47, including the 2012 Amended Recovery Plan, presented the City's revenues on a cash basis. This second Amended Recovery Plan shows the City's General Fund revenues on modified accrual basis. While monitoring the City's cash position remains a core component of sound financial management and the Coordinator will still present cash-based results when relevant, this change should make it easier to relate the analysis in this Plan to the figures that the City reports elsewhere.

As shown in the table below, the City's total revenues grew from $18.7 million in 2010 to $19.4 million in 2014, which equates to 3.7 percent growth over the five-year period or a compound annual growth rate (CAGR) of 0.9 percent per year. The growth rate is little better if the $850,000 cash flow borrowing is removed from the 2010 results[6] and the $408,000 transfer from the Marcellus Shale Gas Fund for capital projects is removed from the 2014 results. In that scenario, total revenues grew from $17.8 million to $19.0 million, which is 6.4 percent or 1.6 percent per year.

[2] 2014 Population Estimates, the U.S. Census Bureau
[3] Local Area Unemployment Statistics, the Bureau of Labor Statistics

[4] Inflation-adjusted

[5] American Community Survey, 5-year estimates

[6] The City records this borrowing as a transfer into the General Fund.

City Revenues, 2010 – 2014[7]

	2010 Actuals	2011 Actuals	2012 Actuals	2013 Actuals	2014 Actuals	Growth 2010-14
Real Estate Taxes	5,909,232	5,908,822	6,008,829	6,009,558	5,798,931	-1.9%
Earned Income Tax	6,102,084	6,136,352	6,791,107	7,690,515	7,537,335	23.5%
Business Gross Receipts Taxes	519,165	615,304	581,339	671,781	659,766	27.1%
Local Services Tax	445,585	460,751	423,060	438,767	424,159	-4.8%
Other Taxes	302,736	415,149	376,488	361,740	348,835	15.2%
Licenses and Permits	533,808	739,539	443,569	633,829	779,720	46.1%
Departmental Earnings	1,520,867	1,570,047	1,463,505	1,535,287	1,641,155	7.9%
State Pension Aid	556,393	990,568	618,667	656,457	662,228	19.0%
Transfer from Marcellus Shale Gas Fund	0	0	0	0	408,417	N/A
Other Transfers	1,796,788	387,166	446,856	431,730	481,717	-73.2%
Other Revenues	999,298	1,057,248	764,767	692,182	643,667	-35.6%
Total Revenues	**18,685,957**	**18,280,946**	**17,918,185**	**19,121,845**	**19,385,929**	**3.7%**

The real estate and earned income taxes generate most of the City's revenue and far more than the next largest category, but their trends are very different. Real estate tax revenues were 1.9 percent lower in 2014 than in 2010 while earned income tax revenues grew by 23.5 percent over that period. The EIT now generates more revenue than the real estate tax and last year the EIT accounted for more than one of every three dollars across the three primary funds. As discussed later, a large portion of this revenue comes from the additional taxing authority the City has under Act 47. With that authority now scheduled to end in 2019, the amount of revenue from that source – and the total amount available to fund City operations and meet other obligations – will be much lower by the end of this Plan period absent other changes.

Act 47 as amended in 2014 requires the Recovery Coordinator to provide "projections of revenues and expenditures for the current year and the next five years, both assuming the continuation of present operations and as impacted by the measures in the [Recovery Plan]." The baseline projections focus on the General Fund, Sinking Fund and Pension Fund since they are the primary funds through which the City funds daily operations, pays its debt and makes its annual contribution to the employee pension plans. Transfers between these three funds are removed to avoid double-counting. The table below summarizes the baseline revenue projections.

Baseline Revenue Projections, 2015 – 2020

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Real Estate Taxes	5,586,118	5,722,265	5,756,080	5,754,191	5,721,004	5,721,555
Earned Income Tax	7,166,266	6,472,740	5,298,194	4,021,112	3,072,073	2,908,218
Business Gross Receipts Taxes	650,000	686,250	703,406	720,991	739,016	757,492
Local Services Tax	400,000	430,000	430,000	430,000	430,000	430,000

[7] This includes the revenue in the General, Sinking and Pension Funds. Transfers between those three funds are removed to avoid double counting. It excludes the proceeds related to the bond transactions where the City generally replaces one debt obligation with another one at a lower interest rate. The 2014 figures are the City's preliminary, non-audited results since that was the only set available for most of the Plan drafting process. The City released the 2014 audited results shortly before the Recovery Plan was released. The Coordinator reviewed those results and they show real estate tax revenue finishing $60,000 lower and earned income tax revenue finishing $144,000 lower than shown throughout this Plan.

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Other Taxes	280,000	297,875	290,822	283,842	276,938	270,112
Licenses and Permits	411,055	426,131	436,785	447,704	458,897	470,369
Departmental Earnings	1,646,627	1,671,800	1,720,497	1,731,134	1,743,436	1,757,378
State Pension Aid	600,000	702,558	723,634	745,343	767,704	790,735
Transfer for Capital Projects	1,347,427	1,050,322	0	0	0	0
Transfer from Fund Balance	1,100,000	0	0	0	0	0
Other Transfers	550,486	550,486	550,486	550,486	550,486	550,486
Other Revenues	613,585	730,417	586,385	592,491	598,738	605,131
Total Revenues	**20,351,565**	**18,740,844**	**16,496,289**	**15,277,296**	**14,358,292**	**14,261,477**

The City's adopted 2015 budget is the starting point for the projection period. The Coordinator reviewed historical year-end results, including the preliminary 2014 year-end results that were not available to the City when the budget was compiled in Fall 2014. Any adjustments to compensate for the City budgeting too much or too little generally begin in 2016. This chapter explains the baseline projection including the underlying growth rates for the major revenue items.

At a high level, the City budgets $20.4 million in revenue across these three funds in 2015. Once the $1.1 million from prior year fund balance[8] and $1.3 million in capital-designated monies are removed, the City has $17.9 million in current year revenues budgeted to support operations for this year. Total revenues start to drop as the earned income tax is reduced to meet the statutory deadline for exiting Act 47.

With the City's portion of the resident EIT and the commuter EIT rates cut by more than 50 percent by 2019, EIT revenue drops from $7.2 million budgeted in 2015 to $3.1 in 2019. Other revenues remain flat or grow according to their historical performance and underlying tax base, but the statutory change in the EIT rates is the driving factor in the projected revenue decline.

Real estate taxes

The City's second largest source of revenue is the real estate (or property) tax, which generated 30 percent of all General Fund revenue and almost 40 percent of tax-related revenue in 2014. This category includes prior year real estate tax collections, which accounted for $898,000 or 5.4 percent of General Fund revenues in 2014, and the comparatively small payments-in-lieu-of-taxes.

Distribution	Mills
General Fund	8.969
Debt Service	2.58
Library	0.177
Total City	11.726
School District	17.27
County	6.698
Total Real Estate Tax	**35.694**

The City levies 15.067 mills on the assessed value of taxable land in the City and 7.492 mills on the assessed value of taxable buildings in the City. According to the Lawrence County Assessor's office, there are 1,537 properties owned by tax exempt entities, such as governments, Jameson Hospital and religious institutions that account for $139 million in assessed value (or 22 percent of the total).

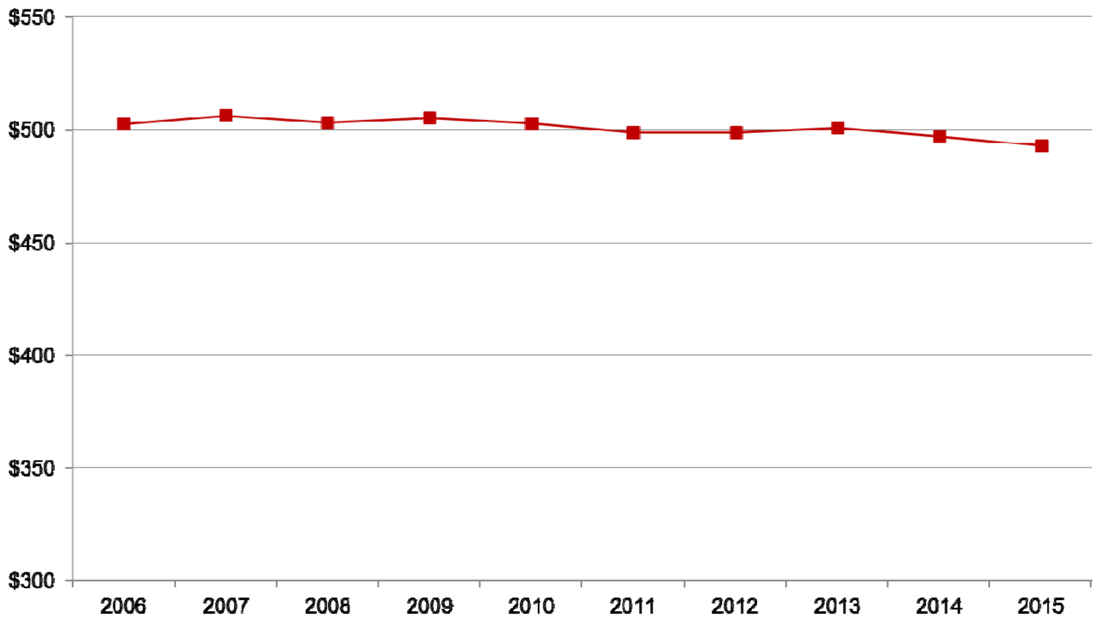
The total blended real estate tax rate in 2015 is 11.726 mills – 8.969 mills are allocated to the General Fund, 2.58 mills to the Sinking Fund for debt service, and 0.177 mills to the Library Fund. As of June 2015, the School District levies an additional 17.27 mills and Lawrence County levies 6.698 mills for a total millage of 35.694 mills

[8] Prior year fund balance is not traditionally treated as revenue but the Plan uses that designation here to match the City's budget.

on properties in the City. The table below shows the distribution of the 35.694 mills of real estate tax paid by New Castle residents.

Total assessed value of property in New Castle has been declining slowly for more than a decade, dropping from $502.5 million in 2006 to $493.0 million in 2015 and the compound annual growth rates over the last five years (-0.3 percent) and three years (-0.8 percent) are also negative.

Total Assessed Value, 2006 – 2015 ($ Millions)

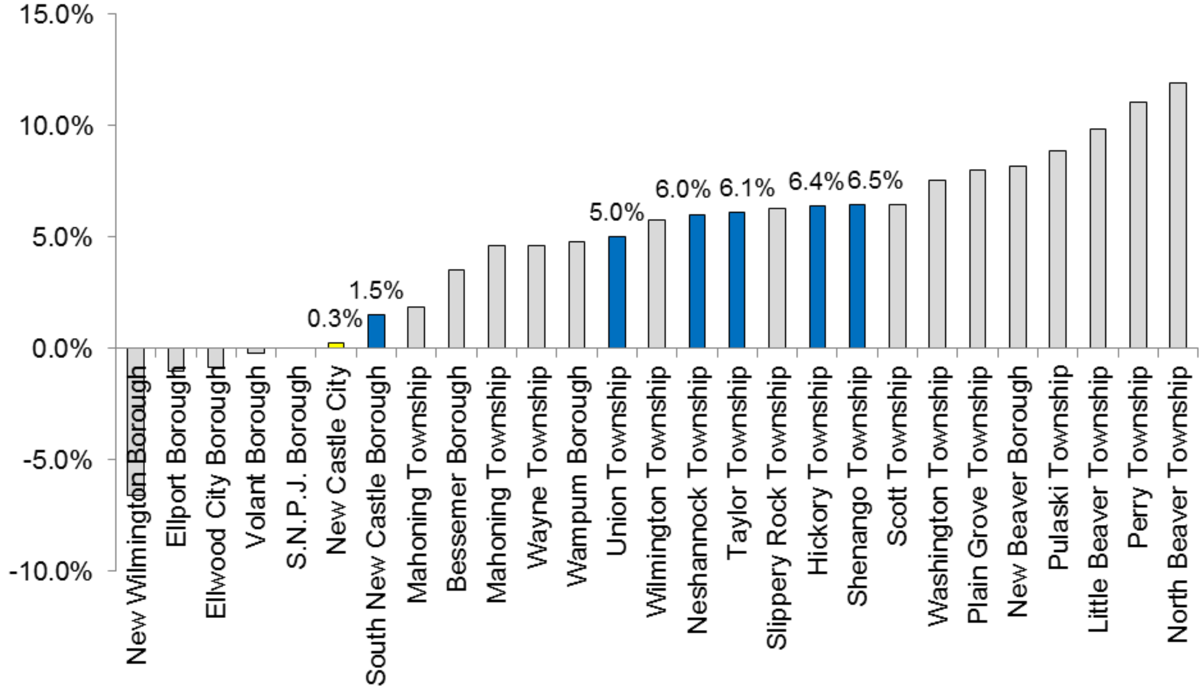


Source: Official statements for 2015 General Obligation Bonds

New Castle's lack of real estate tax base growth compares poorly with most other Lawrence County municipalities, including those that border the City. According to the Pennsylvania State Equalization Board, total assessed value in the City was basically flat from 2006 to 2013[9] while there was 5.0 to 6.5 percent growth over this period for most of the neighboring municipalities.

[9] Last year available as of August 2015.

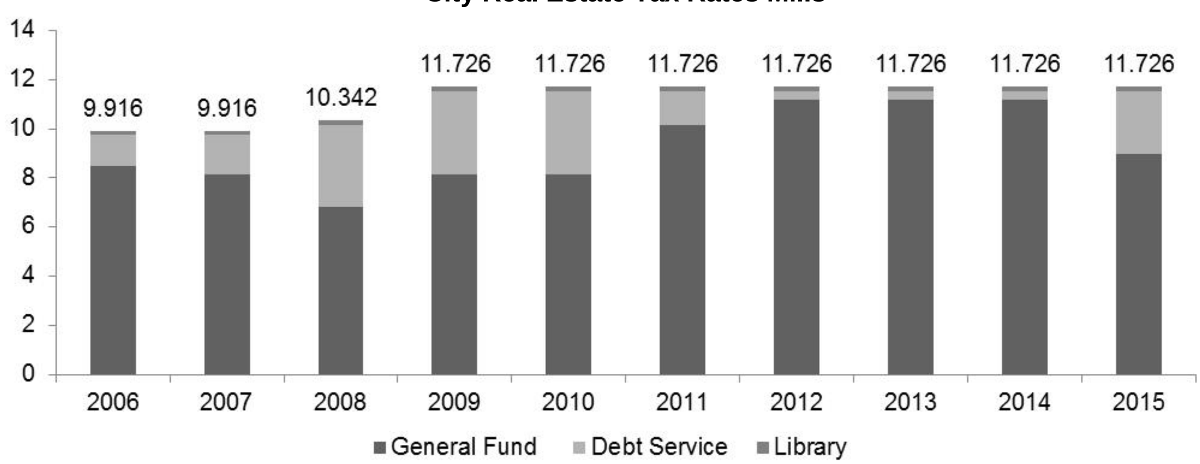
2006 – 2013 Assessed Value Growth, Lawrence County Municipalities (Bordering Municipalities Marked in Blue)



The City uses the real estate tax to fund operations and pay debt service through a millage specifically designated for that purpose. The City also levies a 0.177 mill Library Fund tax, collects the revenue and passes it through to the New Castle Public Library.

Since 2009 the City has generally been able to reduce the portion of the tax needed for debt service and increase the portion used for operations while keeping the total tax rate at 11.726 mills. The City has been able to make this helpful shift because it has refinanced debt, paid it off ahead of schedule and issued very little new debt since entering Act 47 oversight in 2007.[10]

City Real Estate Tax Rates Mills



[10] Please see the Debt chapter for more information.

Collection rates

Another factor in determining the City's current real estate tax revenues is the collection rate. The City Treasurer's Office is responsible for collecting current year tax revenues and then forwards the delinquent accounts to the Lawrence County Tax Claim Bureau.

The prior Recovery Plans have discussed the City's difficulties in collecting real estate taxes in the year in which they are due for payment. The City has implemented process improvements recommended in those Plans, such as accepting credit card payments allowing and installment payments. As part of its Economic Development Action Plan, it is also working on returning City-owned properties to the tax rolls. The City's collection rate has improved in recent years, rising from 80.1 percent in 2011 to 85.6 percent in 2013, with some slippage back to 83.5 percent in 2014 based on preliminary year-end results.

The International City/County Management Association (ICMA) sets a 95 percent benchmark for current year collections. Several Western Pennsylvania cities under Act 47 oversight besides New Castle fall short of this benchmark. For example, Farrell and Johnstown had 84.0 percent collection rates in 2012; Braddock had 79.3 percent in 2015 and Aliquippa had 76.0 percent in 2013.

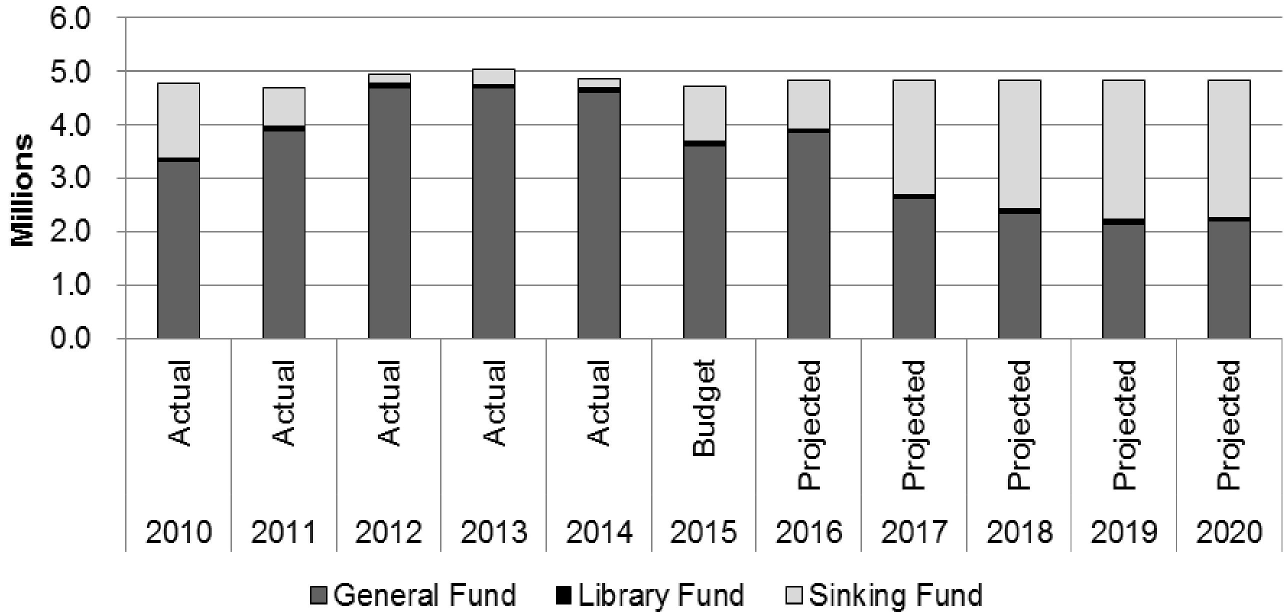
While the Coordinator acknowledges the City's apparent progress and understands the difficulty in making further improvements, the importance of the real estate tax to the City's overall revenue performance requires that the City continue to build on this progress.

Baseline projection

As noted above, the real estate tax base has been slightly declining over the short and long term. The uneven improvements in collection rates have helped total current year revenues remain flat since 2010 when the City collected $4.8 million across all three funds. Given those trends, the baseline projection shows total current year real estate tax revenue across all three funds staying relatively flat at $4.8 million with a collection rate of 83.5 percent, which is also the collection rate for the current real estate tax in all funds in 2014.[11] The $4.8 million projected for 2016 through 2010 is a little lower than the City collected in 2014 ($4.9 million) because the tax base has declined, but higher than the City budgeted for 2015 ($4.7 million). The General Fund portion of the total is expected to fluctuate in tandem with the City's debt service obligations. General Fund revenue drops when more is needed to cover the City's debt payments and increases when the opposite is true, but the total amount remains constant at $4.8 million.

[11] The collection rate of 83.5 percent counts revenues collected through December 31st as current year revenues.

Current Year Real Estate Taxes (All Funds), 2012-2020 (in $ Millions)



	2012 Actual	2013 Actual	2014 Actual	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
General Fund	4.7	4.7	4.6	3.6	3.9	2.6	2.4	2.2	2.2
Library Fund	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sinking Fund	0.2	0.3	0.2	1.0	0.9	2.1	2.4	2.6	2.6
Total Current Real Estate Taxes	**4.9**	**5.0**	**4.9**	**4.7**	**4.8**	**4.8**	**4.8**	**4.8**	**4.8**
% Change	5.6%	1.6%	-3.2%	-3.1%	2.3%	0.0%	0.0%	0.0%	0.0%

Note: Totals do not match in all years due to rounding

Prior year real estate tax

Real estate taxes that are not paid in full by December 31 of the year in which they are levied are considered delinquent. The City forwards the delinquent tax accounts to the Lawrence County Tax Claim Bureau which collects delinquent taxes and penalties for all Lawrence County municipalities. If the property owner does not pay the delinquent taxes, the County sells the properties at tax sales, which are held twice a year -- one in April for the judicial sale and one in September for the upset sale. The process for seizing and selling a property due to tax delinquency can take at least two years, and City officials note it occassionally takes longer.

2015 New Castle Real Estate Tax Collection Calendar

Date/Event	Action
By March 1, 2015	Tax notices mailed out
March 1 – April 30, 2015	Discount period (2% Discount)
May 1 – June 30, 2015	Face period

Date/Event	Action
July 1 – December 31, 2015	Penalty period (10% Penalty)
After December 31, 2015	Unpaid taxes considered delinquent; accounts sent to County for collection
Upset sale (September 2016)	If the taxes are not paid, the property is offered together with any mortgages, judgments or non-tax liens
Judicial sale (April 2017)	If the taxes are not paid, the property is offered for sale divested of mortgages, judgments or liens

The City receives all prior year real estate tax revenue[12], including any penalties and interest, in its General Fund and then transfers a portion to the Sinking Fund. Prior year real estate tax revenues have dropped each year since 2011 with a total decline of 19.8 percent since 2010. The revenue growth from 2010 to 2011 was likely due to the sale of large commercial properties, including the Cascade Center at the Riverplex.

Prior Year Real Estate Tax, 2010 - 2014

	2010 *Actual*	2011 *Actual*	2012 *Actual*	2013 *Actual*	2014 *Actual*
Prior Year Real Estate Tax	1,120,811	1,196,975	1,033,913	943,846	898,439
% Change	N/A	6.8%	-13.6%	-8.7%	-4.8%

There could be some correlation between the City's apparent improvements in current year collection rates and the decline in prior year revenue. If the City collects more revenue when it is due, then it should turn over smaller amounts to the County for collection each year.

Another reason for the decline is an occasional time lag between when taxes are collected by Lawrence County and when the revenues are remitted to the City. The City reported that revenues in general are remitted in a timely manner, but there were points in time in prior years where there was a three- or four-month delay that could have depressed the year end results shown above.

While these factors could explain some of the drop in prior year revenue, that drop remains a concern, particularly when coupled with the still low current year collection rate. One justification occasionally offered for the City's low current year collection rate is that the delinquent tax collection process takes a long time but the City eventually gets the money owed. Available data does not allow the Coordinator to confirm the degree to which this is true. Unless the City is receiving the full principal due plus interest on every property, the City is likely losing money and time as it waits for the tax revenue to arrive. If properties are auctioned off at a lower price than their total tax delinquency at a judicial sale, then the City also loses that tax revenue.

The Coordinator has discussed this concern with City officials several times since New Castle entered Act 47 oversight in 2007. Two explanations often offered for the low collection rates are the concentration of several higher value properties in the hands of a few owners and the prevalence of out-of-town prospectors. Theoretically these prospectors buy properties at upset or judicial sales without the intention or ability to return the property to productive use; hold the properties vacant and do not receive the income needed to pay real estate taxes; let them drop back into tax delinquency and eventual sale; and then purchase other properties to start the cycle anew.

[12] Delinquent real estate tax revenue is sometimes referred to as "Tax Sales and Other Taxes" in the City's financial reports.

To test these explanations, the Coordinator reviewed the properties with tax delinquencies in 2012 through 2014. It is possible that the major property holder and out-of-town speculator explanations account for some of the delinquencies, but not the majority of them.

In 2014, the City had $1.1 million in taxes and penalties due by December 31, 2014 from 1,507 owners who held 2,203 properties. Three quarters of the properties were owned by a New Castle resident whose mailing address was the tax delinquent property (49 percent) or somewhere else in the City (27 percent).

Delinquent Taxes from New Castle Residents

Delinquent Tax Property Owner	2014 Number of Owners	2014 Number of Properties	2012	2013	2014
Mailing address same as delinquent property[13]	911	1,072	$417,037	$413,727	$444,363
Mailing address somewhere else in New Castle[14]	326	587	$203,350	$219,096	$214,166
Total	**1,237**	**1,659**	**$620,387**	**$632,823**	**$658,529**
% of Total Delinquent Taxes	**82.1%**	**75.3%**	**63.0%**	**62.2%**	**67.3%**

Realtors, developers and investment companies owned 127 tax delinquent properties, representing 15 percent (or $154,000) of the total value. Individuals with mailing addresses outside of New Castle owned 225 properties, but their total value was just 7.9 percent of the total ($78,000). It is possible that non-residents are purchasing properties in New Castle and using that as their mailing address.

The data is more definitive regarding the assumption that a few property owners control a large percentage of the delinquent tax properties. The five entities with the largest amount of delinquent taxes accounted for only 13 percent of the total delinquency.

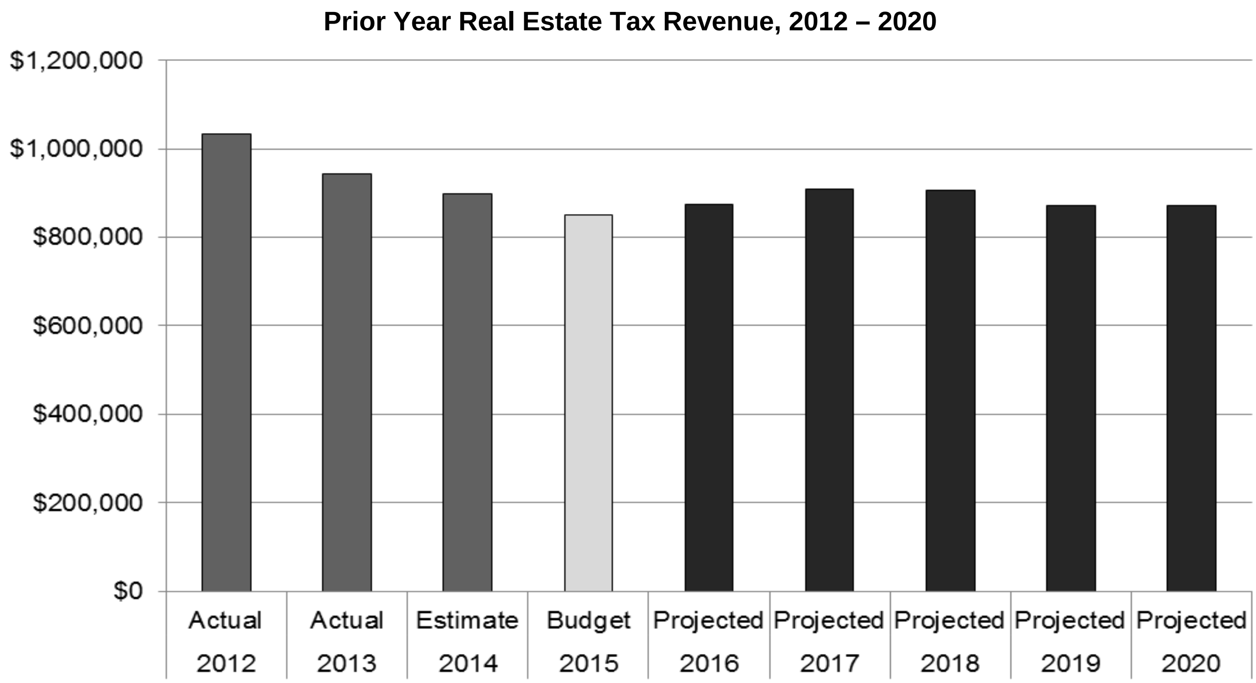
It is understandable that City officials are focused on addressing the tax delinquency caused by property owners who live outside New Castle or a few property owners with several high value commercial properties. Based on the information available, the Coordinator cannot definitively prove this is not occurring at some level and there are other problems related to property maintenance associated with potential absentee landlords. But it is at least equally important to focus on improving collections among the apparent residents who own one or few properties and account for much of the tax delinquency.

Baseline projection

The City budgets $850,000 in delinquent real estate tax revenue in 2015, which is a reasonable estimate given the 2014 results and the downward trend. Instead of projecting a specific amount of revenue, the Coordinator projects the City will collect 30.5 percent of the total amount of delinquent taxes over the prior three years, which is close to the collection rate for 2014 (i.e. the City's 2014 prior year receipts were 30.5 percent of the total tax delinquency for 2011 – 2013). That 30.5 percent is applied to the total projected tax delinquency to generate the total numbers shown below. The City's 2015 budget anticipates a lower collection rate this year, which translates to a larger amount of delinquent taxes forwarded to the County for collection and higher prior year revenues in 2017 and 2018. The projections assume the City would continue to transfer a small portion of the total to the Sinking Fund.

[13] There were 911 property owners whose mailing address matched one of the tax delinquent properties. Those 911 owners held another 161 properties, which brings the total to 1,072. The Coordinator reviewed all property listings to determine if a significant number of these owners paid taxes for other City properties (possibly their primary residence) but owe taxes for these properties and that was not the case.

[14] There were 326 property owners whose mailing address was in New Castle, but not the same place as one of their tax delinquent properties. They owned 587 properties.



	2012 *Actual*	2013 *Actual*	2014 *Estimate*	2015 *Budget*	2016 *Projected*	2017 *Projected*	2018 *Projected*	2019 *Projected*	2020 *Projected*
Tax Sales And Prior Year's Collection	1,033,913	943,846	898,439	850,000	875,000	908,302	905,888	872,162	872,162
% Change	-13.6%	-8.7%	-4.8%	-5.4%	2.9%	3.8%	-0.3%	-3.7%	0.0%

Earned income tax

The City's largest source of revenue is the earned income (or wage) tax, which generated $7.5 million in 2014. The EIT accounted for 39 percent of all revenue in the General, Sinking and Pension Funds last year.

The City's adopted 2015 budget anticipates $7.17 million in EIT revenue, including prior year receipts. That revenue flows into the General Fund where it supports daily operations ($4.90 million), the Sinking Fund where it pays pension bond debt service ($1.33 million) and the Pension Fund that the City uses to make its annual contribution to the employee pension plans ($0.93 million).

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

Authorizing law	Funding purpose	2015 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 and pay debt in the Sinking Fund	0.95% Resident 0.85% Non-Resident

Authorizing law	Funding purpose	2015 EIT Rate
Act 205 of 1984	Fund City contribution to employee pension plans	0.2% Resident 0.2% Non-Resident
	Total	**2.15% Resident 2.05% Non-resident**

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

Without the additional taxing authority that New Castle gets from Act 47 and Act 205, the City's maximum earned income tax rate on residents under the current form of government would be 1.0 percent. If the local government and school district both levy the EIT, as is the case in New Castle, the rate is usually split evenly --- the local government has a 0.5 percent EIT and the school district has a 0.5 percent EIT.

Under Act 511, Pennsylvania municipalities may also levy an EIT on non-residents who work in that community but live elsewhere (i.e. commuters), up to a maximum of 1.0 percent. The tax paid by these commuters is credited against any EIT liability in their home municipality in accordance with that municipality's tax rate.

In many cases the practical effect is that one municipality levies a 1.0 percent EIT on a commuter, the commuter pays the tax and all the money goes back to his or her home municipality. For example, someone who lives in Neshannock Township (1.0 percent resident EIT) and works in the Borough of Ellwood City (1.0 percent non-resident EIT) pays the 1.0 percent tax in Ellwood City and the revenue is credited back to Neshannock, where it is split evenly between the township and the school district. Eighteen of the 27 municipalities in Lawrence County levy a non-resident EIT and, except for New Castle, the levy is usually 1.0 percent.[15]

For many commuters who work in New Castle, City government receives little or no revenue from the 1.0 percent EIT levied on non-residents under Act 511 since it is credited back to their home municipalities. The table below shows how this dynamic translates to actual EIT receipts on a cash basis. In 2014 commuters paid $2.1 million to New Castle while residents paid $2.8 million, even though the resident rate is nominally only 0.05 percent higher. Commuters paid less money to New Castle because a large portion of their tax revenue went to their home municipality.

2014 City Current Year EIT Receipts (Cash Basis)

	Resident	Commuter	Total
General Fund	$2,224,988	$1,350,221	$3,575,209
Sinking Fund	$448,447	$508,779	$957,226
Pension Fund	$172,480	$195,684	$368,164
Total	**$2,845,915**	**$2,054,684**	**$4,900,599**

The table highlights another important dynamic. In 2014 the City levied a 0.1 percent EIT on residents and commuters to help fund its contribution to the employee pension plans. That 0.1 generated $196,000 in current year revenue from commuters versus $172,000 from residents, a 13.4 percent difference. So, for each 0.1 percent, the commuter EIT generated more money than the resident EIT.

[15] According to DCED's online statistics, Enon Valley Borough, Perry Township and Wayne Township have 0.5 percent non-resident EIT rates in 2015

The City's tax receipt data alone is not detailed enough to determine if there are more commuters than residents paying EIT to New Castle, if those commuters have higher earnings than residents, or if it's a combination of factors. US Census data indicate that the median earnings for Lawrence County residents were $27,305 in 2013, or 6.5 higher than the $25,646 earned by City residents.[16] So the wealth gap between residents and non-residents is likely a factor.

Recent changes to Act 47

Since 2008 New Castle has used its status as a distressed municipality as defined by Act 47 to levy an additional EIT on its residents (0.95 percent in 2015) and commuters (0.85 percent in 2015). The City relies on the revenue generated by this additional tax to maintain core municipal services, like police patrol and fire protection; to help repay its debt; and to help make the annual required minimum payments to the employee pension plans.

On October 31, 2014, Governor Tom Corbett signed Act 199 (formerly House Bill 1773) into law, which makes several significant changes to Act 47 oversight. In response to concerns that many municipalities that enter Act 47 oversight remain there for several years, Act 199 limits the amount of time that a municipality can remain in Act 47 oversight. For communities like New Castle that are already in Act 47 oversight, 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…"

The Commonwealth has determined that New Castle's termination date is December 2019, which is five years from the effective date of the last Plan amendment adopted by the City in December 2014. In 2019 the Coordinator must complete a report recommending one of the following actions:[17]

- That New Castle's distressed status be terminated and the City successfully exits Act 47 oversight;
- That a three-year exit plan be adopted; or
- That New Castle be declared in a state of "fiscal emergency" with the possibility of receivership.

A community's distressed status may be extended for three years under the exit plan option. However, according to DCED's guidance to date, the exit plan option is not the same as simply delaying the termination decision for three years. The Secretary of DCED must rescind the municipality's Act 47 status at the end of the three-year exit plan period.

The fiscal emergency process is new and has only been applied to one Pennsylvania city, Harrisburg. The high-level summary of the process is as follows:

- The Coordinator recommends that the Governor declare a fiscal emergency;
- The Governor may do so and direct the Secretary of the Department of Community and Economic Development (DCE) to establish an "emergency plan" to maintain "vital and necessary services";

[16] American Community Survey, five-year estimates, 2009-2013. The County data includes City residents.

[17] The law provides disincorporation as a fourth option, but that only applies to communities without paid police or fire departments so New Castle is not eligible.

- While the emergency plan is in effect, municipal officials have an opportunity to reach agreement on the terms of a “consent agreement” that "provides long-term financial stability to the distressed municipality after the termination of the fiscal emergency;" and

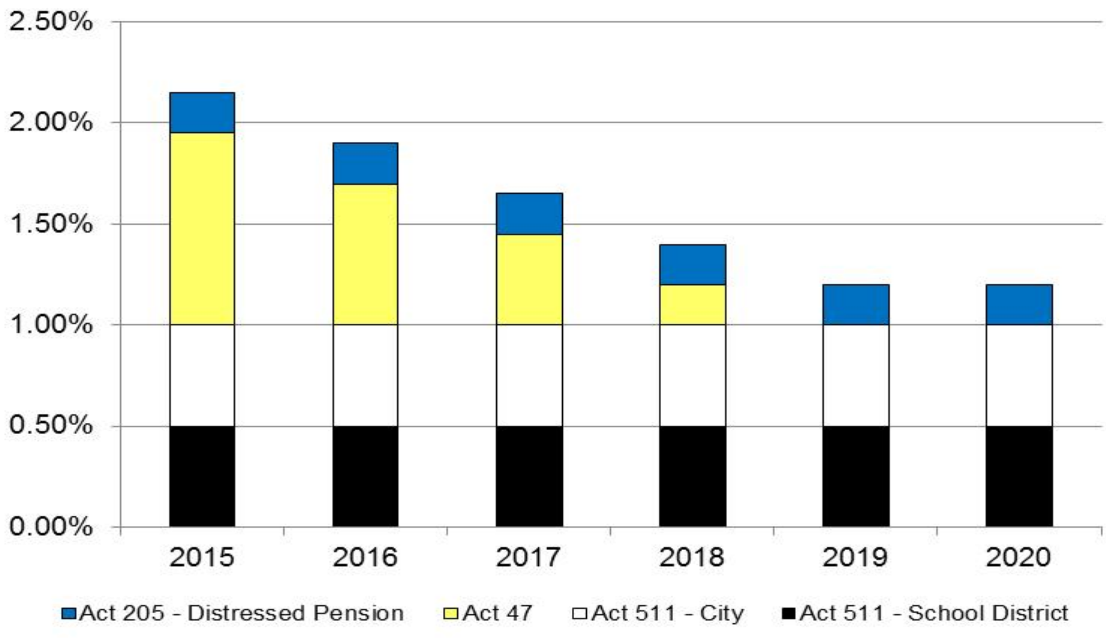
- If that does not work, the Governor petitions the Commonwealth Court to appoint a receiver for the City who then writes another “recovery plan.”

Act 47 explicitly prohibits a municipality from levying a commuter EIT during the fiscal emergency, consent agreement or receivership phases.[18] DCED has also advised the Coordinators that this Amended Recovery Plan that leads up to the termination decision date cannot presume that the City will subsequently use the three-year exit plan option. So the Act 47 portion of the commuter tax must be eliminated by 2019.

Act 47 does not explicitly prohibit a municipality from levying an additional EIT on its residents during the receivership phase. However, since the objective is for New Castle to successfully exit Act 47 oversight, and the City cannot keep the Act 47 portion of the resident EIT under its current form of government, the baseline projection assumes it will also be eliminated by 2019.

The law does not set the pace at which the City must eliminate the Act 47-authorized EIT to exit oversight. Ideally the City would eliminate that tax a couple years in advance of the December 2019 termination date and show it can repeatedly balance annual expenditures against annual revenues without this supplemental taxing power so it is better positioned to exit oversight. Practically speaking, eliminating the Act 47 EIT will cost the City millions of dollars that the City relies upon to fund core public services. So the Amended Recovery Plan baseline assumes the City would reduce its Act 47 supplement by roughly equal amounts each year through 2019. The City would not have any Act 47 authorized EIT in 2019, though it would still receive some revenue from the Act 47 EIT levied in prior years. For now the distressed pension tax rate is held constant at 0.2 percent, though this is addressed in the Initiative section.

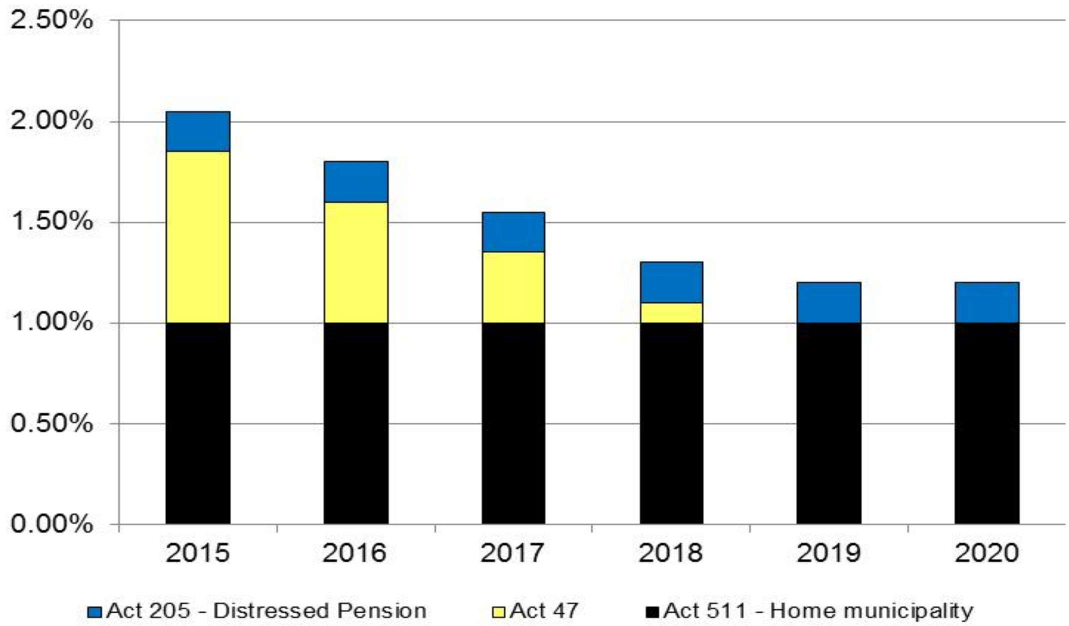
Baseline Projection – Resident EIT rates



[18] See Section 609(a)

Resident	2015	2016	2017	2018	2019	2020
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	0.95%	0.70%	0.45%	0.20%	0.00%	0.00%
Act 205 - Distressed Pension	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
Total	**2.15%**	**1.90%**	**1.65%**	**1.40%**	**1.20%**	**1.20%**

Baseline Projection – Commuter EIT rates



Commuter	2015	2016	2017	2018	2019	2020
Act 511 - Home municipality	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Act 47	0.85%	0.60%	0.35%	0.10%	0.00%	0.00%
Act 205 - Distressed Pension	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%
Total	**2.05%**	**1.80%**	**1.55%**	**1.30%**	**1.20%**	**1.20%**

Baseline projection

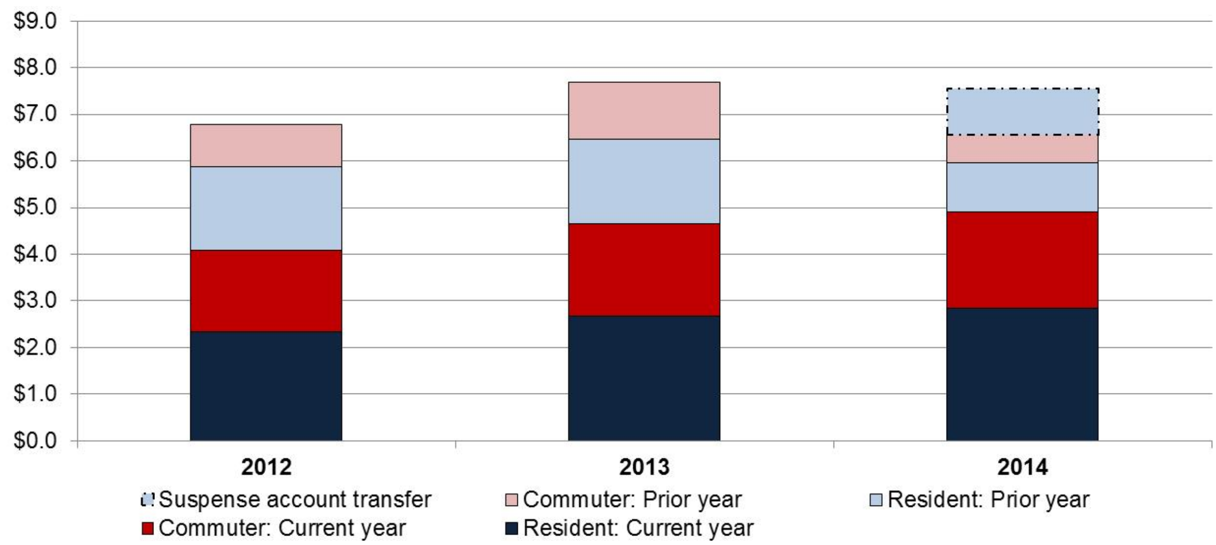
The City tracks current year EIT revenue separately from prior year EIT revenue in its General Fund, but it does not distinguish resident-generated revenue from commuter-generated revenue. So the $3.4 million that the City budgets for current year EIT in the General Fund in 2015 is a combination of revenue paid by residents and non-residents.

In the Sinking Fund, the City does not distinguish between resident and non-resident revenue, nor does it distinguish between current and prior year revenue. All revenue received in that fund is budgeted and recorded together. The same is true in the Pension Fund.

Given the differences between resident and commuter tax rates and the resident and commuter tax base, these distinctions are important to generating EIT projections that reflect those differences. There is also a time lag between when the City levies the tax and when it receives the money associated with that tax. Money recorded as “prior year revenue" in the early part of one year is often generated by the tax levied at the end of the previous year. So the full impact of a tax rate change is not evident in the year that the rate change occurs and tracking current versus prior year revenues becomes important for measuring the full impact of a rate change.[19]

The City’s detailed EIT receipt data does maintain these distinctions and the Coordinator has been analyzing that data carefully since the City entered Act 47. The graph below shows how total EIT revenue across all funds breaks down according to residents versus commuters and current year versus prior years.

Total EIT Revenues, 2012 - 2014



Total EIT revenues increased from $6.8 million in 2012 to $7.7 million in 2013. While external economic data shows growth in earnings during this period, that growth alone does not account for the 13.1 percent jump.

Some of the increase is likely related to changes in Pennsylvania law regarding how the EIT is collected and distributed to local governments. Act 32 of 2008 requires one tax collector for all taxing bodies within Lawrence County[20], more uniform withholdings across employers and more timely distribution of EIT receipts to local governments. Previously EIT collection was fragmented among multiple private and public tax collectors that did not uniformly collect revenue from commuters or immediately distribute revenue back to the commuter’s home municipality. New Castle moved to the countywide tax collector in late 2011, but the Commonwealth mandated deadline to make that switch was January 2012. So 2013 was the first year in which all governments had shifted responsibility for collecting current and at least one prior year of EIT revenue to a countywide collector.

After the City’s EIT revenues grew in 2013, they dropped in 2014. The preliminary, unaudited results show $7.5 million total in EIT revenue last year, which was 1.8 percent less than in 2013. While current year revenue collections grew by 5.5 percent, prior year revenue dropped by 13.1 percent. New Castle reports

[19] This is especially important in the Pension and Sinking Funds where the City does not make accrual adjustments for its own internal records.
[20] Berkheimer is currently the designated EIT collector for all Lawrence County taxing bodies.

$2.6 million in prior year revenues, and $980,000 of that amount came from a one-time transfer of prior year resident EIT that was held in a "suspense account."

Before 2011 the City Treasurer's Office collected EIT from anyone who worked in New Castle. The City was supposed to send money collected from commuters back to their home municipality. In practice, there was not a good system in place to track these EIT claims from other municipalities and pay them in a timely manner. As a contingency for paying future claims from other municipalities, the City withheld a portion of its resident EIT revenue in a suspense account to pay those claims, if and when they were received. This practice predated the City's entry into Act 47.[21]

Since the countywide tax collector now automatically pays recent claims from one municipality against another, and it is unlikely that New Castle will receive many claims from several years ago, New Castle did not need to maintain the suspense account. On the joint recommendation of the countywide collector and the Coordinator, the City closed the suspense account in December 2014 and transferred the $980,000 in that account to the General Fund. Then the City reported that transfer as prior year EIT revenue, boosting that total to $2.6 million for 2014.[22] Removing that one-time influx takes total EIT 2014 revenues down to $6.6 million.

In addition to reviewing the detailed historical receipts, the Coordinator also reviewed economic trend data as a guide for projecting how the resident and commuter tax bases will grow.[23] The US Census Bureau's American Community Survey (ACS) tracks New Castle resident earnings in different ways. As the table below shows, this external data shows growth except for median household income, though the pace of that growth varies by indicator. Median earnings for all residents grew by 6.7 percent per year over this period, but mean earnings for residents who worked full-time and year-round rose by just 2.4 percent per year.

City of New Castle, 2010 - 2013[24]

New Castle	2010	2011	2012	2013	CAGR
Median earnings for people 16 years and over	21,109	21,238	23,444	25,646	6.7%
Mean earnings for full-time, year-round workers	36,423	36,936	37,446	39,097	2.4%
Per capita income	16,756	16,897	17,286	17,945	2.3%
Median household income	30,690	30,032	30,070	29,559	-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 long term the compound annual growth in the number of employed residents was -1.4 percent for 2005 through 2014 and +0.4 percent for 2010 through 2014, according to the US Bureau of

[21] It was also emblematic of the problems referenced above that many municipalities had in collecting, tracking and distributing EIT revenue. Those problems were one of the main reasons for the changes required in Act 32 of 2008.

[22] The suspense account proceeds are a "non-recurring revenue increase…of at least $100,000 that occurs outside the City's annual budget." Therefore they are subject to the 2012 Amended Recovery Plan's windfall provision that requires the City to use one-time revenues for capital projects identified through the capital improvement planning process, repaying debt ahead of schedule or making an additional contribution to the employee pension plans. The use of these proceeds is described further in this Plan's Capital chapter.

[23] Please see the Economic Development chapter for more discussion on this topic.

[24] At the time of analysis, the most recent ACS data available was through 2013.

Labor Statistics' Local Area Unemployment Statistics (LAUS). The number of employed City residents dropped during the most recent recession and has not fully rebounded.

Given the varying external estimates of tax base growth, the lack of growth in the number of employed residents and the volatility in EIT receipts in recent years, the Coordinator uses a 5.0 percent annual growth rate assumption in the resident EIT base. That is roughly the midpoint between the 6.7 percent growth in median earnings for people over 16 cited and the 2.4 percent growth rate in median earnings for full-time, year round workers.[25]

For commuters, there is federal data available for Lawrence County residents, but the data covers all County residents when the only residents who are 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, 2010 – 2013

Lawrence County	2010	2011	2012	2013	CAGR
Median earnings for people 16 years and over	24,762	25,607	26,788	27,305	3.3%
Mean earnings for full-time, year-round workers	43,741	44,576	45,619	46,595	2.1%
Per capita income	21,467	22,052	22,722	22,906	2.2%
Median household income	42,570	43,821	44,079	43,546	0.8%

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

In this case there is less variance in the growth rates for the different indicators. County resident earnings have grown over this period, though at a lower rate than City residents. As with the City, there has been minimal long term growth in the number of employed County residents. The compound annual growth rate for the number of employed County residents was -0.4 percent for 2005 through 2014 and +0.5 percent for 2010 through 2014, according to the US Bureau of Labor Statistics' Local Area Unemployment Statistics (LAUS). The Coordinator uses a 3.0 percent annual growth rate assumption for the commuter EIT that is in line with the recent growth in median earnings.

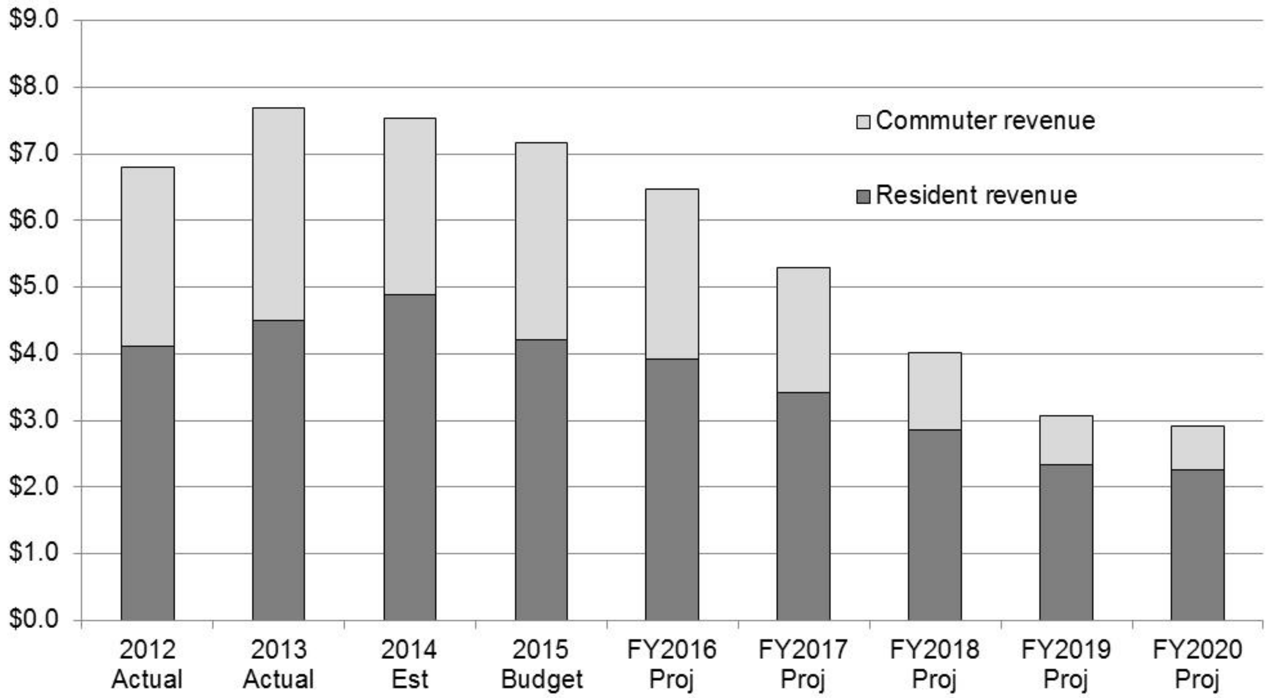
Despite the assumed growth in the tax base, total revenues will fall because of the mandated EIT rate reductions described above. The City's portion of the resident EIT rate drops by 58 percent by 2019 so the resident EIT revenue is projected to drop by 44 percent, even with the tax base growth.[26] Similarly the City's portion of the commuter EIT drops by 81 percent so the commuter EIT revenue is projected to drop by 75 percent.[27] All of the remaining commuter tax revenue and a portion of the resident revenue would be designated for the City's pension costs.

[25] Because of the mandatory reduction in the tax rate, the City's revenues would fall even if a higher growth rate for resident earnings is assumed. For example, using a 6.0 percent annual growth rate instead of 5.0 percent would add less than $90,000 per year through 2019 once the tax rate reduction is taken into account.

[26] The City's portion of the resident EIT drops from 1.65 percent in 2015 to 0.70 percent in 2019, which is a 58 percent reduction. Growth in the resident EIT base keeps the revenue reduction at a lower percentage.

[27] The City's portion of the commuter EIT drops from 1.05 percent in 2015 to 0.2 percent (i.e. distressed pension tax) in 2019. Growth in the commuter EIT base keeps the revenue reduction at a lower percentage.

EIT Revenue (All Funds), 2012-2020 (in $ Millions)



	2012 Actual	2013 Actual	2014 Est	2015 Budget	FY2016 Proj	FY2017 Proj	FY2018 Proj	FY2019 Proj	FY2020 Proj
Resident revenue	$4.1	$4.5	$4.9	$4.2	$3.9	$3.4	$2.9	$2.3	$2.3
Commuter revenue	$2.7	$3.2	$2.7	$3.0	$2.6	$1.9	$1.2	$0.7	$0.7
Total	**$6.8**	**$7.7**	**$7.5**	**$7.2**	**$6.5**	**$5.3**	**$4.0**	**$3.1**	**$2.9**
% Change	N/A	13.1%	-1.8%	-5.0%	-9.7%	-18.1%	-24.1%	-23.6%	-5.3%

While the Plan provides this baseline projection as required by Act 47, the City could not maintain core services, pay its debt and make its annual contributions to the employee pension plan if EIT revenues dropped by this amount. Please see the Initiative section for the Plan's approach to address this issue.

Business gross receipts taxes

The City levies a mercantile tax on the gross receipts of retail businesses (1.5 mills) and wholesale businesses (1.0 mill). It levies a business privilege tax of 3.0 mills on the gross receipts of all other businesses, including rental receipts. Manufacturing businesses and non-profits are exempt from the tax. Across the two taxes, the City collected $660,000 in mercantile and business privilege tax in 2014. In any given year, most of the revenue comes from the current year levy with small amounts coming from prior years or penalties and interest.

Starting in 2013, the City has contracted with an external tax collector[28] for BPT and mercantile tax collection. That collector reported that $559,000 in current year revenues last year -- 11.2 percent from

[28] The City uses Berkheimer for these taxes, the EIT and the local services tax since there is overlap between the tax bases.

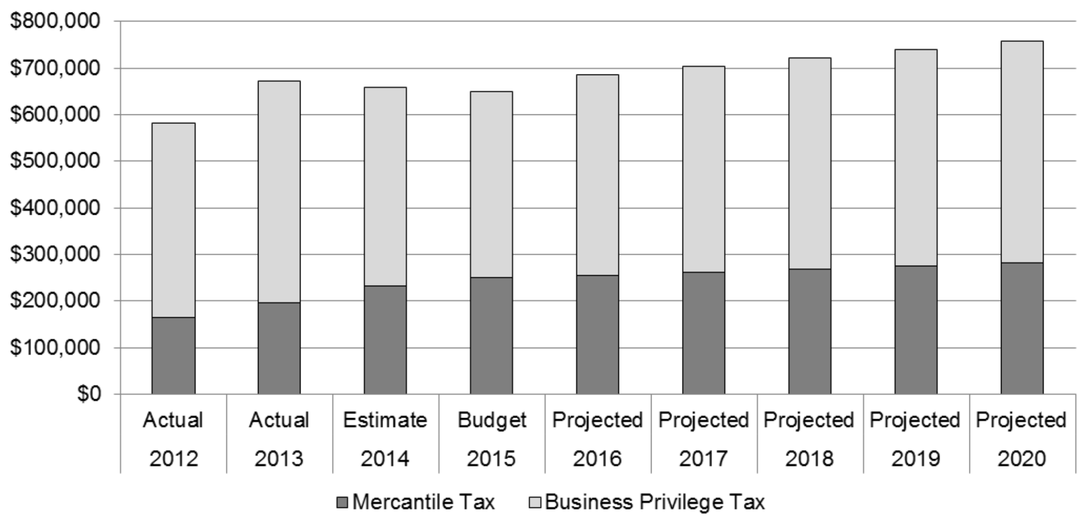
wholesale, 22.4 percent from retail and 66.3 percent from other businesses. Wholesale and retail businesses account for more than half of the estimated total gross business receipts, but they generate only one-third of the tax revenues due to the lower tax rates.

2014 Revenues/Tax Payers by Business Type

	Wholesale	Retail	Other	Total
Mercantile Tax/BPT	$62,909	$125,601	$370,965	$559,475
Percentage (%)	11.2%	22.4%	66.3%	100.0%
Est. Gross Receipts[29]	$62,908,960	$83,733,880	$123,654,980	$270,297,820
Percentage of total receipts (%)	23.3%	31.0%	45.7%	100.0%
Number of Businesses[30]	68	155	801	1,024
Percentage of total businesses (%)	6.6%	15.1%	78.2%	100.0%

In 2015 the City budgets $400,000 for the BPT, which would be 6.5 percent lower than the 2014 year-end results. The Coordinator instead uses $430,000 starting in 2016, which is close to the 2014 year-end result ($428,000). The City budgets $250,000 in mercantile tax revenue which is incorporated in the Plan baseline. Total receipts across the two categories have grown unevenly with a year of growth followed by a year of decline since 2010. Business privilege and mercantile tax receipts are closely related to economic activity, so the baseline projections assume both taxes grow by 2.5 percent, which is close to the Federal Reserve Bank's projections for the national gross domestic product (GDP).[31]

Mercantile and Business Privilege Tax Revenue, 2012 - 2020



[29] Total excludes gross receipts from non-profits and manufacturing companies, which are exempt from the BPT.

[30] This is higher than the total number of business the City collected taxes from (969) because some businesses are engaged in both retail and service business and pay both taxes.

[31] Q2 2015 Survey of Professional Forecasters published by the Federal Reserve Bank of Philadelphia projects 2.4 percent for 2015, 2.8 for 2016, 2.8 for 2017 and 2.5 for 2018, which averages to 2.6 percent.

	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Mercantile Tax	$165,961	$196,861	$231,857	$250,000	$256,250	$262,656	$269,223	$275,953	$282,852
Business Privilege Tax	$415,378	$474,920	$427,909	$400,000	$430,000	$440,750	$451,769	$463,063	$474,640
Total	**$581,339**	**$671,781**	**$659,766**	**$650,000**	**$686,250**	**$703,406**	**$720,991**	**$739,016**	**$757,492**
% Change	N/A	15.6%	-1.8%	-1.5%	5.6%	2.5%	2.5%	2.5%	2.5%

Local services tax

The Local Services Tax (LST) is a $52 per capita annual tax levied on all individuals who are employed within the City limits, regardless of where they reside. The LST replaced the Emergency Municipal Services Tax (EMST) in 2008, which in turn replaced the $10 per capita Occupational Privilege Tax (OPT) in 2005.

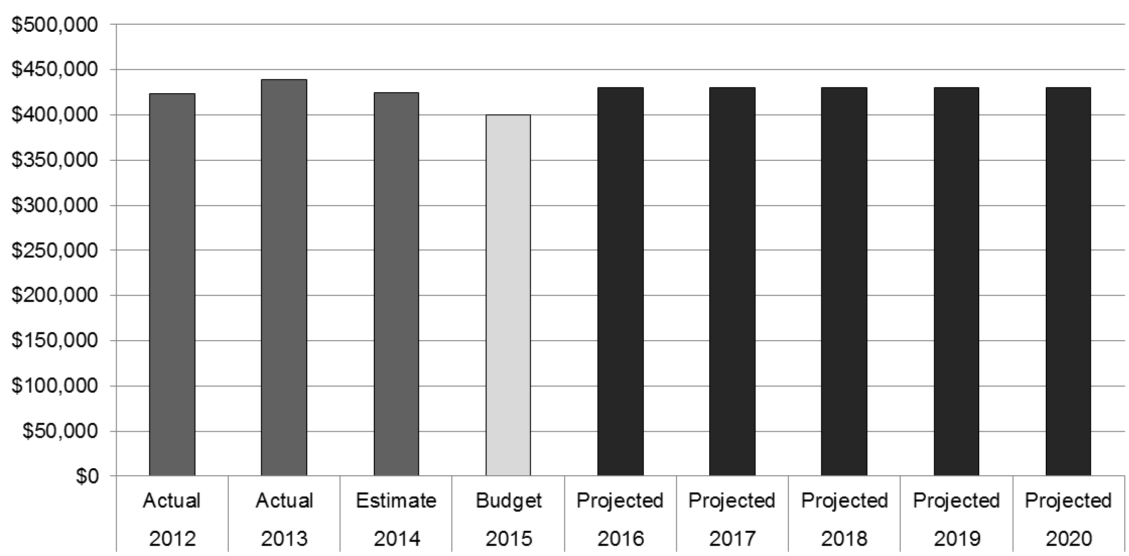
The City budgeted $400,000 in LST revenues for 2015, which is lower than the annual reported receipts for each year since at least 2010. So the Coordinator has adjusted the projection to the approximate recent three-year average of $430,000 in 2016.

As noted earlier, the growth in the number of employed residents in the County and City was slightly negative from 2005 through 2014 and slightly positive for 2010 through 2014 according to LAUS data. As another point of reference, the Bureau of Labor Statistics also publishes the Quarterly Census of Employment and Wages, which tracks the number of employees in the County, regardless of their place of residence. As shown below, that also shows a flat trend for 2009 through 2013 so the Coordinator projects flat growth for LST revenue.

Lawrence County - All Employees

2009	2010	2011	2012	2013	CAGR
29,255	29,288	29,096	29,063	28,996	-0.2%

Local Service Tax Revenue, 2012 - 2020



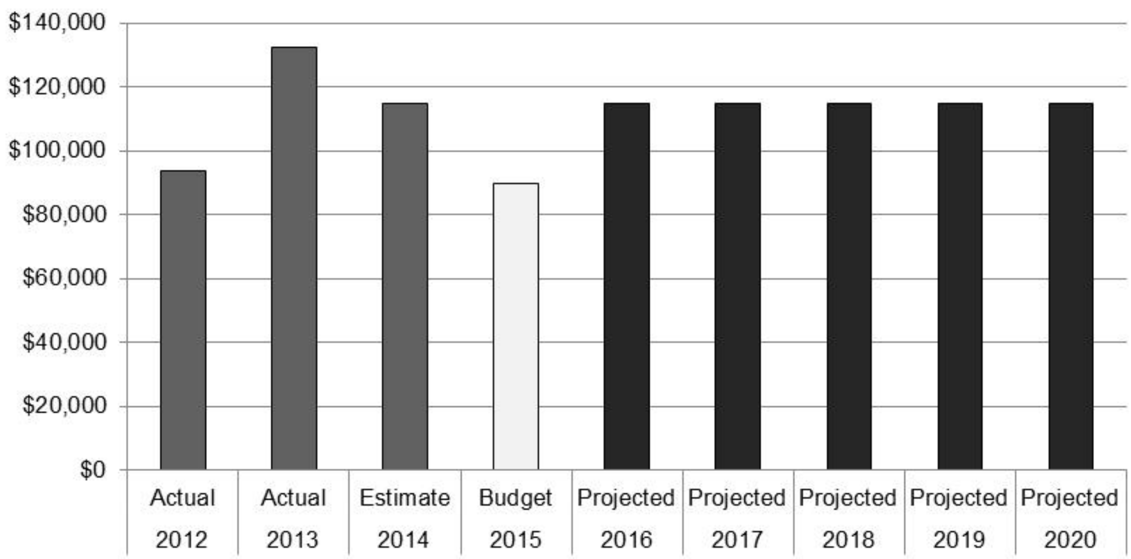
	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Local Service Tax	$423,060	$438,767	$424,159	$400,000	$430,000	$430,000	$430,000	$430,000	$430,000
% Change	N/A	3.7%	-3.3%	-5.7%	7.5%	0.0%	0.0%	0.0%	0.0%

Other taxes

In 2007 the City levied a 1.0 percent **deed transfer tax** on all real estate transactions in New Castle. In 2008 the New Castle Area School District also began levying a 0.5 percent deed transfer tax. Because Pennsylvania law limits the deed transfer tax to 1.0 percent maximum for New Castle, the School District effectively assumed half of the City's revenue in 2009. The City has a 0.5 percent transfer tax rate in 2015 and the School District charges another 0.5 percent.

Since 2010, the growth in this revenue has been very uneven – up 45.2 percent in 2011, down 34.4 percent in 2012, up 41.4 percent in 2013, down 13.0 percent in 2014. Given this volatility, the City budgets $90,000 for 2015. The Coordinator adjusted the 2016 revenue projection to $115,000, which is close to the recent three- and five-year average, and left forward projections constant at that level through 2020.[32]

Deed Transfer Tax Revenue, 2012 – 2020



	2012 Actual	2013 Actual	2014 Estimate	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Deed Transfer Tax	$93,558	$132,329	$115,072	$90,000	$115,000	$115,000	$115,000	$115,000	$115,000
% Change	N/A	41.4%	-13.0%	-21.8%	27.8%	0.0%	0.0%	0.0%	0.0%

There are other, smaller amounts of tax revenue in the 2015 budget that generally grow by 2.5 percent per year in the baseline projection. One exception is the delinquent EIT revenue that was due to the City before collection responsibilities shifted to Berkheimer in 2012.[33] Another company collects revenue on these older accounts on behalf of the City. Revenue in this line peaked at $134,000 in 2013 and has since

[32] Please see the Economic Development chapter for more discussion of the real estate market.
[33] 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."

declined each year to $90,000 in 2014. The City anticipates that revenue will drop to $75,000 in 2015, a reasonable assumption given the age of these accounts and the number of years that collection activities have already taken place. The Coordinator continues this pattern with $10,000 reductions each year through 2020.

Departmental earnings

Departmental earnings are largely comprised of service charges paid by the individual or organization that directly benefits from the service. The category accounts for 11.3 percent of the City's 2015 General Fund budget with almost half of the $1.9 million in revenue generated by the refuse collection fees.

Refuse collection (or "blue bag") fees

This fee is the City's largest source of non-tax revenue in the General Fund. The City charges residents $2.00 per garbage bag to cover the cost of residential solid waste and recycling collection. The price has remained at $2.00 since it was increased under the original Recovery Plan. The Lawrence County Housing Authority purchases blue bags on behalf of its tenants at a reduced price of $1.60 per bag, but must purchase bulk orders in cases of twelve.

Since 2009, the City has been distributing free blue bags to residents in April and May and September and October. Residents can receive two bags per month per household at City Hall with a valid photo identification card. The City distributed 5,662 free blue bags in 2014, the first year for which information is available. Through April, the City distributed 83 (or 5.1 percent) more free bags in 2015 than in 2014

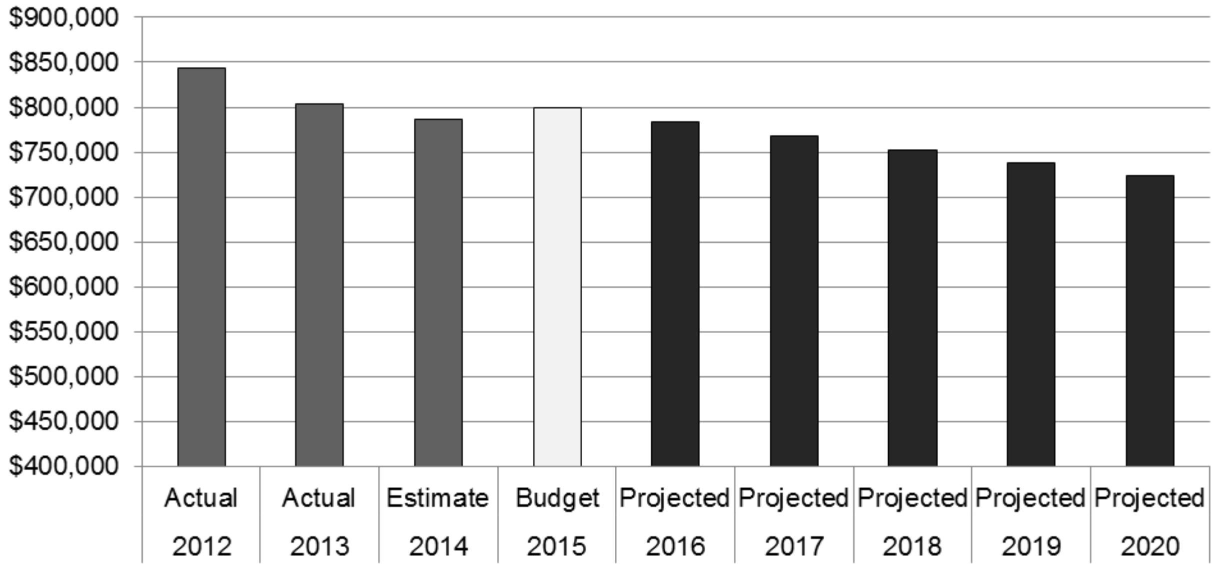
The number of bags sold and amount of revenue collected has dropped each year since 2011. The Coordinator notes that revenues have dropped faster than bag sales since 2011 (9.4 percent versus 2.4 percent), but there is not sufficient detailed historical data to explain the difference.

Bags Sold and Fee Revenue, 2010 - 2014

	2010	2011	2012	2013	2014
Cases of bags sold (250 bags per case)	1,774	1,815	1,768	1,735	1,731
Number of bags sold	443,500	453,750	442,000	433,750	432,750
% Change	***N/A***	***2.3%***	***-2.6%***	***-1.9%***	***-0.2%***
Refuse collection fee	$851,933	$868,394	$844,031	$803,542	$786,435
% Change	***N/A***	***1.9%***	***-2.8%***	***-4.8%***	***-2.1%***

The City budgets $800,000 in refuse collection fee revenue in 2015. Since the trends in bags sold, revenue collected and total City population have all been negative in recent years, the baseline projects that refuse collection fee revenue will decline by 2.0 percent per year, matching the compound annual growth rate from 2010 to 2014. The baseline does not assume any changes in the bag fee levels, though that concept is addressed in the initiative section of this chapter.

Refuse Collection Fee Revenue, 2012 – 2020



	2012 *Actual*	2013 *Actual*	2014 *Estimate*	2015 *Budget*	2016 *Projected*	2017 *Projected*	2018 *Projected*	2019 *Projected*	2020 *Projected*
Refuse Collection Fee	844,031	803,542	786,435	800,000	784,000	768,320	752,954	737,895	723,137
% Change	-2.8%	-4.8%	-2.1%	1.7%	-2.0%	-2.0%	-2.0%	-2.0%	-2.0%

Other departmental earnings

Other large revenues in this category include employee contributions toward the cost of their health insurance ($266,000 budgeted in 2015), water fee revenue ($170,000), golf course revenue ($209,000) and code enforcement revenues ($150,000).[34]

Noteworthy trends in these revenues include:

- **Employee health insurance contributions** have grown in recent years because of a provision in the 2012 Amended Recovery Plan that capped growth in the City's share of the total premium costs at 5 percent per year. Contributions from non-uniformed union employees also increased in 2013 according to the original Recovery Plan. Projected employee contributions will drop significantly when police officers, firefighters and non-represented employees move to a different health insurance plan in the second half of 2015, which is discussed more fully in the Workforce Chapter.

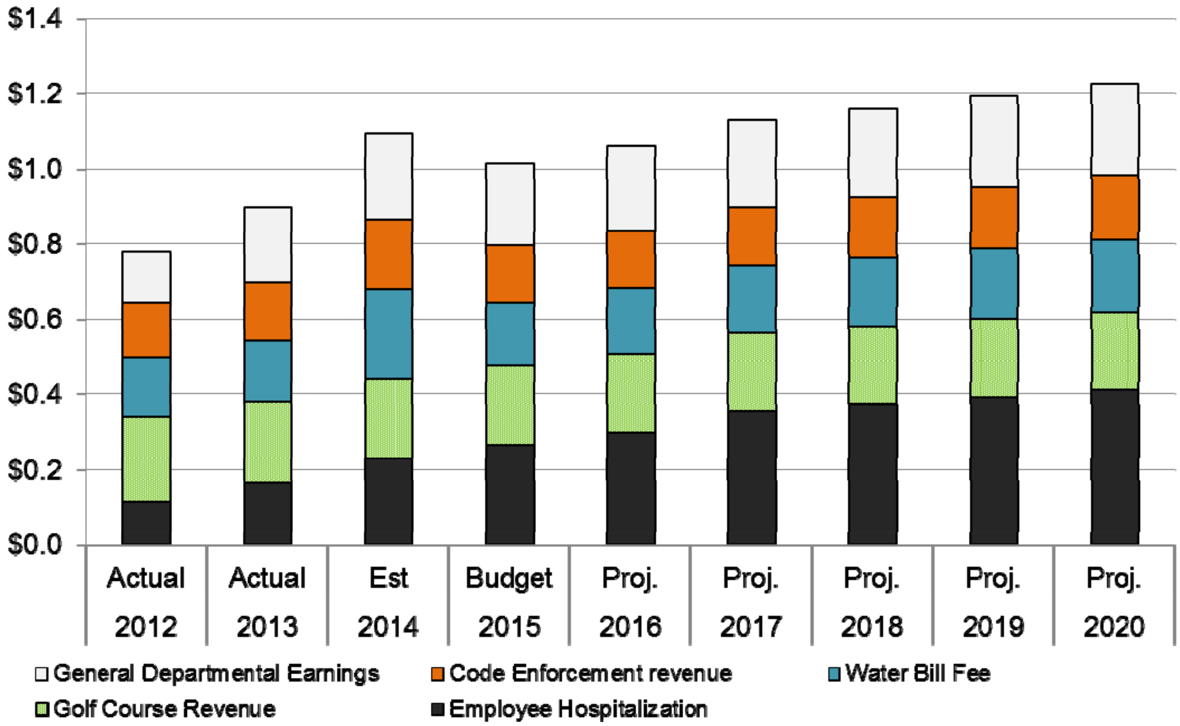
- **Golf course revenues** dropped by 3.7 percent per year from 2010 through 2013. To maintain cost recovery, the City increased fees in October 2013. The preliminary results for 2014 show total course revenues finishing close to 2013 levels and the baseline projection assumes the City will maintain the $209,000 budgeted for 2015. The Golf Course is addressed in more detail in a separate chapter.

[34] The golf course revenues include course earnings ($154,000) and golf cart rental fees ($55,000). The code enforcement revenues include department fees ($90,000) and the rental fee ($60,000). The operations related to these fees are reviewed in other Plan chapters.

- **Water bill fee revenue** grew from $124,000 in 2010 to $168,000 in 2013 and then jumped to $240,000 in 2014. The New Castle Area Sanitation Authority collects this surcharge and transfers it to the City. It is unknown what caused the revenue spike in 2014 or whether that increase will recur in future years. Given this uncertainty, the City budgets $170,000 in 2015 and the Plan baseline grows the revenues by 2.5 percent, though the City needs to re-evaluate the fee levels as discussed in the Fire Department chapter.

- Revenue from the **code rental fee** dropped by 47.3 percent in 2012 when the City reduced the fees. The baseline projects 2.5 percent growth off the City's 2015 budget target.

Other Departmental Earnings, 2012 – 2020



	2012 *Actual*	2013 *Actual*	2014 *Estimate*	2015 *Budget*	2016 *Projected*	2017 *Projected*	2018 *Projected*	2019 *Projected*	2020 *Projected*
Employee Hospitalization	116,064	165,747	229,873	266,000	298,990	355,002	372,455	391,073	410,836
Golf Course Revenue	223,652	212,328	211,895	209,000	209,000	209,000	209,000	209,000	209,000
Water Bill Fee	159,202	167,682	240,159	170,000	174,250	178,606	183,071	187,648	192,339
Code Enforcement revenue	147,472	152,235	183,468	150,000	153,750	157,594	161,534	165,572	169,711
General Departmental Earnings	132,286	201,435	229,485	221,627	226,060	230,581	235,192	239,896	244,694
Departmental Earnings	**778,676**	**899,427**	**1,094,879**	**1,016,627**	**1,062,050**	**1,130,783**	**1,161,252**	**1,193,189**	**1,226,581**

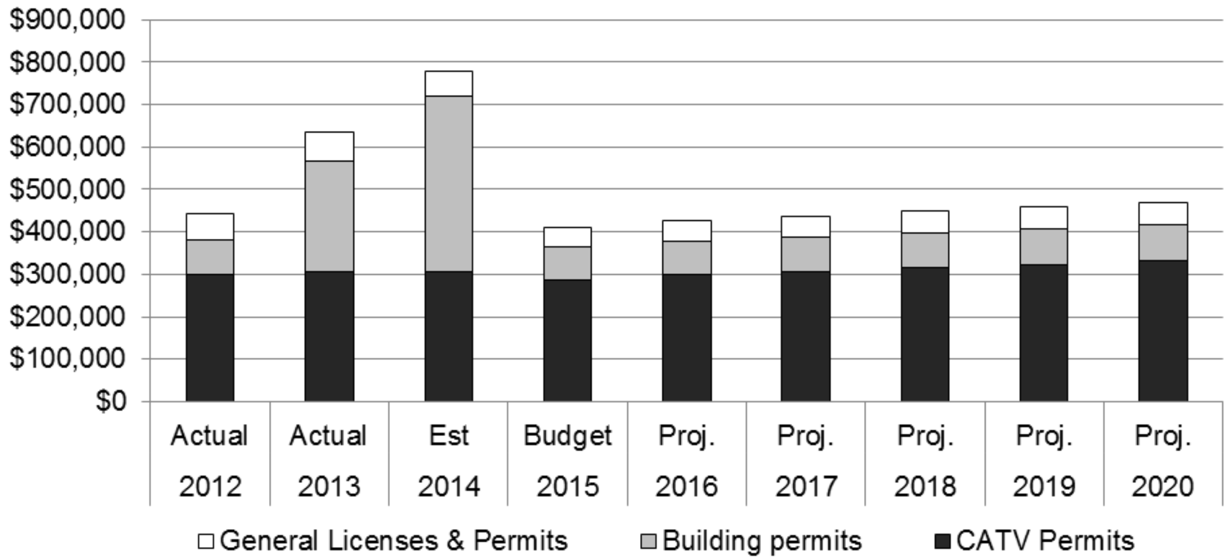
Licenses and permits

This category consists of licenses and permits including gas station, gaming device, beverage license, and building permits. The largest recurring item in this category is cable access television (CATV) permit revenues. In 2010, the City began receiving revenue from a five percent programming charge. That charge coupled with a one-time change in when the fees are remitted to the City pushed CATV earnings to $415,000 that year. Since 2011, CATV permit revenue has level off at approximately $300,000 per year. The baseline projection uses that amount and grows it at by 2.5 percent per year.

Building permit revenues have fluctuated depending on the sporadic occurrence of large construction projects. Revenues increased from $68,000 in 2010 to $382,000 in 2011 because of a large construction project at Jameson Hospital. Revenues dropped back down to the normal level in 2012 and then jumped back to $259,000 in 2013 because of an elementary school construction project. Last year there was another one-time increase due to the North American Forgemasters' expansion project.

While the expansion projects had a welcome impact on the City's building permit revenue, and the City's tax base needs to grow[35], the baseline projection assumes revenues in this category will grow off the 2015 budget levels by 2.5 percent, which is close to the Federal Reserve Bank's projections for the national gross domestic product (GDP).

Licenses and Permits Revenue, 2012 – 2020



	2012 *Actual*	2013 *Actual*	2014 *Estimate*	2015 *Budget*	2016 *Proj.*	2017 *Proj.*	2018 *Proj.*	2019 *Proj.*	2020 *Proj.*
General Licenses & Permits	63,150	68,050	61,335	48,055	49,256	50,488	51,750	53,044	54,370
Building permits	80,235	258,590	413,101	75,000	76,875	78,797	80,767	82,786	84,856
CATV Permits	300,184	307,190	305,284	288,000	300,000	307,500	315,188	323,067	331,144
Total Licenses & Permits	**443,569**	**633,829**	**779,720**	**411,055**	**426,131**	**436,785**	**447,704**	**458,897**	**470,369**
% Change	-40.0%	42.9%	23.0%	-47.3%	3.7%	2.5%	2.5%	2.5%	2.5%

[35] The school district project does not represent tax base growth since it was building consolidation, not expansion. Jameson Hospital's expansion does not directly help the real estate tax base since the land is tax-exempt, but it could correlate with growth in the earned income tax base. Some of the additional revenue was also used for additional plan review expenditures.

Grants and gifts

New Castle receives a small portion of its General Fund revenue from the federal, Commonwealth and County governments.

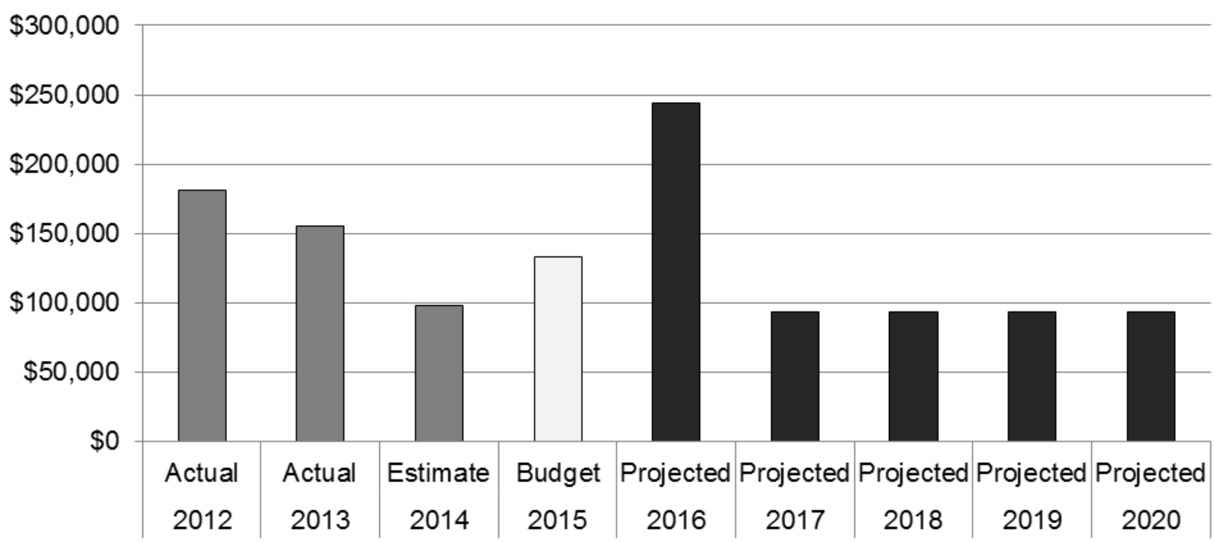
The City budgeted $133,000 in grant revenues in the General Fund in 2015, which primarily consisted of the Task Force grant of $45,000 that the City receives from the Federal Drug Enforcement Administration and a $46,000 recycling performance grant that the City receives from the Commonwealth Department of Environmental Protection. That grant is usually closer to $10,000 but the City received a one-time increase to support its purchase of a new garbage truck.

The City also received grant funding from the Pennsylvania Department of Community and Economic Development under the original Recovery Plan, which expired in 2012. DCED recently awarded the City an additional $150,000 grant to improve the City's information technology hardware and infrastructure.

The City records payments from some non-governmental agencies in its "grants and gifts" category. One of those payments came from the Crestview Gardens multi-family apartment complex that previously paid for additional police coverage. The complex changed ownership in 2014 and the new owner has hired a private security company. Because of this change, the Crestview Gardens revenue will drop from a high of $50,000 in 2013 to $0 in 2015 and will be at least partially offset by lower police overtime expenditures.

The Coordinator removed the $39,000 one-time increase from the recycling performance grant to get an adjusted baseline of $94,000 and then added $150,000 from the DCED IT grant in 2016.[36] While the City's Department of Community and Economic Development continues to pursue grants to fund strategic priorities, the plan baseline does not assume the receipt of any other awards.

Grants and Gifts, 2012 – 2020 (General Fund Only)



	2012 *Actual*	2013 *Actual*	2014 *Estimate*	2015 *Budget*	2016 *Projected*	2017 *Projected*	2018 *Projected*	2019 *Projected*	2020 *Projected*
Grants and Gifts	181,115	155,209	97,864	132,670	243,670	93,670	93,670	93,670	93,670
% Change	-24.1%	-14.3%	-36.9%	35.6%	83.7%	-61.6%	0.0%	0.0%	0.0%

[36] The City received the grant in 2015 and could spend some of the award this year.

Other intergovernmental revenues of note:

- The largest source of recurring intergovernmental revenue is the **Commonwealth pension aid**. 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. State pension aid is recorded in the City's Pension Fund. Based on historical trends, the Coordinator projects that the pension aid will grow by 3.0 percent per year off the $662,000 that the City received in 2014. This revenue is recorded in the Pension Fund since it must be used for pension related expenditures.

- The City receives a **Liquid Fuels** allocation from the Commonwealth to help cover street related expenditures, like road paving, road salting and street lighting. The City receives the revenue in a separate Liquid Fuels fund where it covers some expenditures and then transfers the remainder to the General Fund. While the Commonwealth allocation has grown, so have the expenditures in the Liquid Fuels fund such that the amount transferred to the General Fund has dropped each of the last five years. The baseline projection holds the General Fund transfer at the $290,000 level budgeted for 2015 through 2020.

- The City receives federal **Community Development Block Grant (CDBG)** funding which is recorded outside the General Fund. Before 2014 the City used a portion of the CDBG funds to repay a Section 108 loan that was fully repaid last year. The City also uses $150,000 of the allocation to cover its administrative and code enforcement expenditures in the General Fund. Since 2010, the City's CDBG revenue has been dropping from $503,000 to less than $300,000 in 2014. For now the baseline projection maintains the $150,000 transfer, though further reductions in CDBG revenue could cause the City to re-evaluate that transfer size.

	2010	2011	2012	2013	2014
Community Development Block Grant	502,607	348,494	300,000	300,000	288,311

The City budgets the Liquid Fuels and CDBG revenues that support General Fund operations as interfund transfers.

During the Plan drafting process, the City noted that it will likely receive a federal grant to help purchase a new rescue pumper for the Fire Department, which is included in the City's 2015 capital improvement plan. When that money is received, it will alleviate the need to spend the same amount from the City's limited capital improvement funds and increase the amount of funding available for other capital projects in subsequent years.

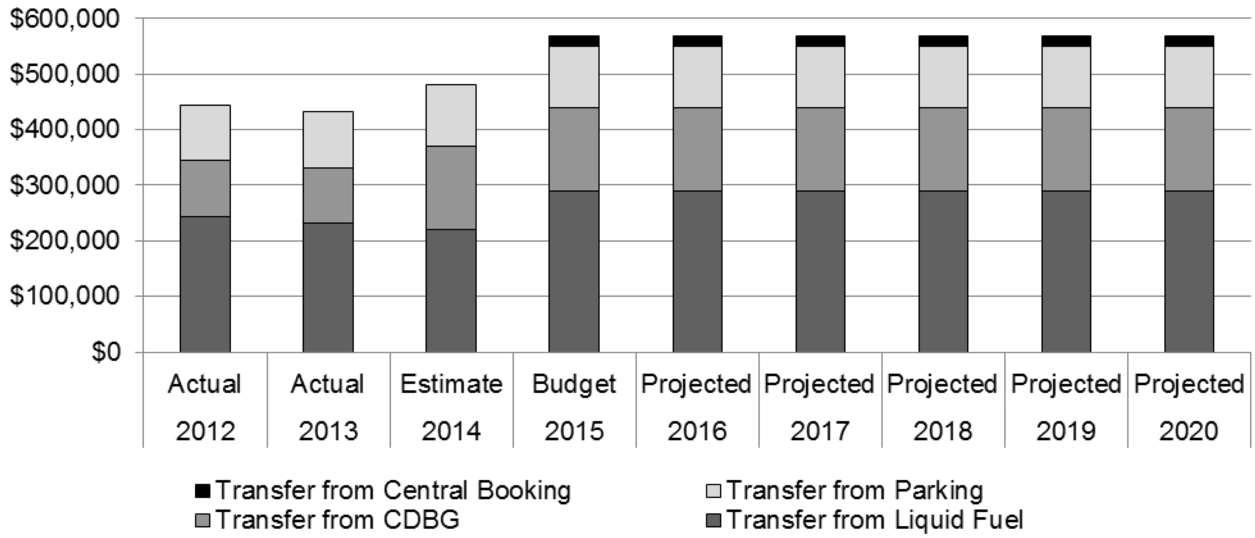
The City is also pursuing grants to support specific economic and community development projects, like redeveloping the Shenango Pottery site. It is uncertain whether the City will receive those funds and they are generally not available to support operations.

Transfers

This category consists of interfund transfers from special funds to the General Fund. As of 2015, the largest recurring transfers come from the Liquid Fuel fund, CDBG funding, and the City's parking operation. The Liquid Fuels and CDBG transfers are described above. The parking transfer accounts for the revenue that the City receives from the meters, surface lots and North Mercer Street garage. The City budgets that transfer revenue at $110,000 in 2015, which is close to the five-year historical average. The

City also recently added a transfer to help fund its Central Booking operation which offsets related expenditures in the Police Department.

Recurring Transfer Revenues, 2012 - 2020



	2012 *Actual*	2013 *Actual*	2014 *Estimate*	2015 *Budget*	2016 *Projected*	2017 *Projected*	2018 *Projected*	2019 *Projected*	2020 *Projected*
Transfer from Parking	100,269	100,617	110,454	110,000	110,000	110,000	110,000	110,000	110,000
Transfer from Liquid Fuel	243,745	231,113	221,229	290,486	290,486	290,486	290,486	290,486	290,486
Transfer from CDBG	100,000	100,000	150,034	150,000	150,000	150,000	150,000	150,000	150,000
Transfer from Central Booking	0	0	0	17,241	17,241	17,241	17,241	17,241	17,241
Total	**444,014**	**431,730**	**481,717**	**567,727**	**567,727**	**567,727**	**567,727**	**567,727**	**567,727**
% Change	N/A	-2.8%	11.6%	17.9%	0.0%	0.0%	0.0%	0.0%	0.0%

The City's 2015 General Fund budget has two other items that could be considered transfers.

The first is a transfer from prior year fund balance of $1,100,000. The City anticipates that it will need $1.1 million from its prior year fund balance to cover its operating expenditures in the General Fund this year.[37] Use of fund balance is not generally considered revenue from an accounting perspective, but that is the City's budgeting convention.

The second is a transfer from an account established to hold the proceeds from a Marcellus Shale gas lease agreement. 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 has used for capital improvement projects. The City used $408,000 in 2014 and budgets another $1.3 million in 2015. If the City uses that amount, there would be less than $100,000 left in the account in 2016.

As noted earlier, the City had a one-time windfall of $980,000 in prior year earned income tax revenues that the Coordinator recommends be used for capital projects and is incorporated in the baseline

[37] Please see the Administration Chapter for more discussion of the fund balance.

projection.[38] As described in the Capital Improvement chapter, the capital needs are numerous and recurring.

Other revenues

The City has a variety of smaller, miscellaneous revenues including traffic fines, reimbursements related to pension fund or snow removal, a payment from the New Castle School District for the City's real estate tax collection work and very minimal revenue from sales of property ($273 total since 2010). The two largest items -- school district tax collection fees and fines – have declined by 9.6 percent and 37 percent respectively since 2010 and the baseline applies a flat growth rate to both.

Initiatives

To exit Act 47 oversight, the City has to eliminate the portion of the earned income tax tied to its Act 47 status. In 2015, the Act 47 authorized portion of the EIT accounts for 0.95 percent of the 2.15 percent levy on residents and 0.85 percent of the 2.05 percent levy on commuters. Reducing the tax rate for the City's largest source of revenue by that amount would threaten the City's ability to fund basic services, pay its debt and meet its Minimum Municipal Obligation (MMO) to the employee pension plans.

Under current law, the City has two options to offset some of the reduction in the Act 47 authorized EIT with an increase in the portions authorized by other statutes so that the City can retain some of the revenue.

The first option is to shift some of the EIT authorized by Act 47 to an EIT authorized by Act 205 of 1984, with the associated revenue restricted to covering some of the City's pension obligation bond debt and Minimum Municipal Obligation to the employee pension plans. Initiative RV01 describes this option.

The second option is to adopt a Home Rule charter that allows the City to levy a higher EIT on its residents than the 1.0 percent authorized by Act 511, which the City splits with the New Castle School District. Initiative RV02 describes this option.

There are benefits and drawbacks to each approach as described below. Based on the Coordinator's discussions with the City's actuary and external pension attorney, the City can use the first option starting in January 2016. The second option involving Home Rule remains a possibility, though that process would take at least a year, and possibly more. Given uncertainty about the timing and amount of revenue generated by the Home Rule option, the City shall implement RV01 effective for 2016 while it considers the benefits of using RV02 in later years.

RV01.	**Increase the distressed pension tax in tandem with reducing the Act 47 authorized EIT**	
	Target outcome:	Maintain balanced financial results for exiting Act 47 oversight
	Financial impact:	See below
	Responsible party:	Administration, City Council

As noted earlier the City uses two laws to increase its resident EIT above the 1.0 percent maximum rate generally allowed to Pennsylvania municipalities. The City uses Act 47 because of its status as a financially distressed municipality and Act 205 because its pension fund is distressed as defined by that statute. The City uses those same laws to levy an EIT on commuters.

[38] The baseline shows the City using the $980,000 in one year, but could be distributed over this period.

The City first levied the Act 205 EIT on residents in January 1987 and then extended it to non-residents in June 1988. New Castle has used the tax every year since 1987,[39] including the 0.20 percent levy this year. The City's eligibility for this tax is determined by Act 205 and is not related to its Act 47 status.

According to Act 205, the City can only use the revenue from this distressed pension tax to pay its pension obligation bond debt or make its annual MMO payments to the employee pension plans. Unlike the Act 47 EIT, the City cannot use this tax to fund basic services or pay general obligation debt service.

The City cannot use the distressed pension tax to cover all of its pension related costs. Act 205 requires municipalities to use revenue from sources other than the distressed pension tax to cover some of the total pension costs. That minimum non-tax contribution is determined by the City's average contributions to the employee pension plans in the three years before the City started levying the Act 205 tax, expressed as a percentage of covered payroll. New Castle's actuary estimates that the City has to contribute at least 18 percent of its annual covered payroll toward the total pension costs using money from sources other than the distressed pension tax.[40] That 18 percent translates to approximately $1.1 million in 2015.

The minimum non-tax contribution grows as the City's pensionable payroll does. As shown in the table below[41], the minimum non-tax contribution is expected to rise from $1.1 to $1.3 million over the next five years. Subtracting that amount from the City's total projected pension costs gives the estimated maximum amounts that the City can receive from distressed pension tax each year.

Estimated Maximum Revenue from Distressed Pension Tax

	2016	2017	2018	2019	2020
Total projected pension costs	4,324,423	4,716,485	4,687,802	4,636,964	4,653,770
Minimum non-Act 205 tax contribution	(1,144,000)	(1,189,760)	(1,237,350)	(1,286,844)	(1,338,318)
Maximum Act 205 tax revenue	**3,180,423**	**3,526,725**	**3,450,452**	**3,350,120**	**3,315,452**

Please note that the City can only use the distressed pension tax revenue for the pension MMO or pension bond debt service. Those costs are combined in the total projected pension costs shown above. If those costs decrease for any reason, such as MMO reductions or pension bond refunding, then the maximum amount of distressed pension tax revenue will also decrease.

In 2015 the City levies a 0.2 percent distressed pension tax on residents and commuters. The Coordinators assume the City will continue to levy an equal distressed pension tax rate on residents and commuters, though the City could tax its residents at a higher rate than commuters. The Coordinators estimate that the following pattern of Act 205 EIT rates would generate enough revenue to help cover the City's pension costs.

[39] The distressed pension levy was incorporated in the Act 47 EIT in 2013 and 2014 and separate from it every other year.
[40] State pension aid counts toward this minimum.

[41] The actuary's exact estimate for 2015 was $1,026,091. That figure was based on the best historical information available as of late 2014. Given uncertainty what the exact amount should be, and to avoid any compliance issues associated with Act 205 in the event that better information becomes available, the Coordinator has rounded up the City's minimum contribution to $1,100,000. The actuary uses a 4.0 percent annual growth assumption in its MMO projections, which is included here for consistency with the actuary's projections, even though that growth rate differs from what is used in other parts of the Amended Recovery Plan.

Resident EIT Rate

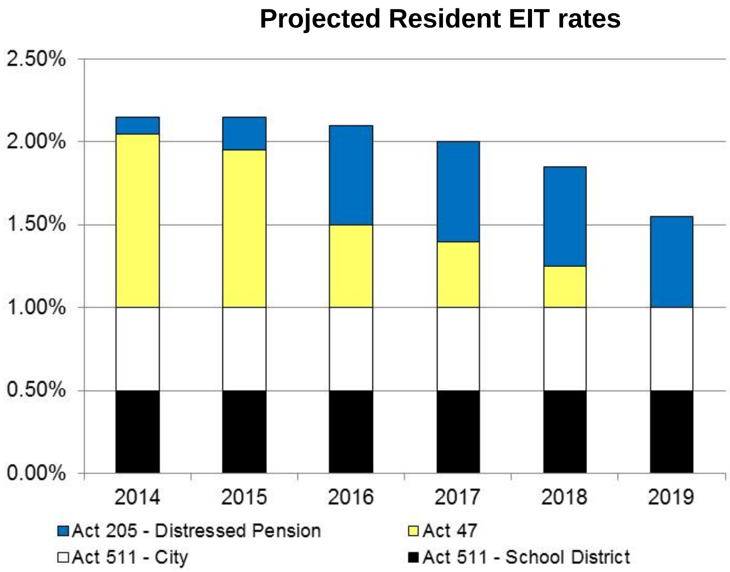
	2015	2016	2017	2018	2019
Act 511 - School District	0.50%	0.50%	0.50%	0.50%	0.50%
Act 511 - City	0.50%	0.50%	0.50%	0.50%	0.50%
Act 47	0.95%	0.50%	0.40%	0.25%	0.00%
Act 205 - Distressed Pension	0.20%	0.60%	0.60%	0.60%	0.55%
Total	**2.15%**	**2.10%**	**2.00%**	**1.85%**	**1.55%**

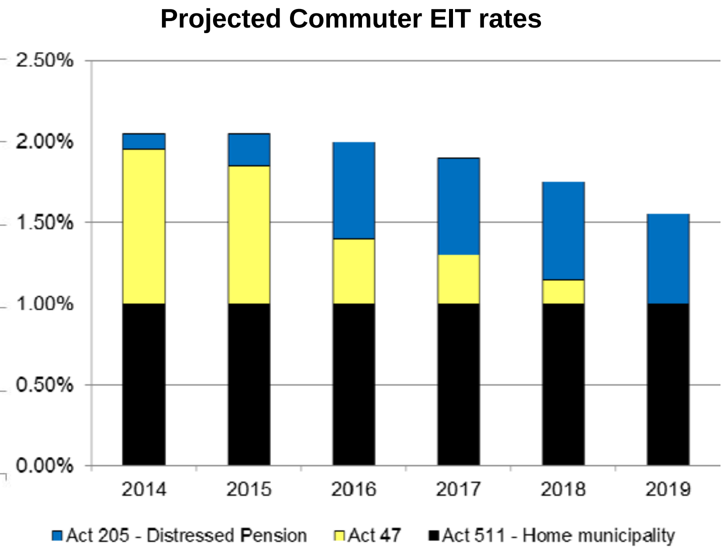
Non-Resident (or Commuter) EIT Rate

	2015	2016	2017	2018	2019
Act 511 - Home municipality	1.00%	1.00%	1.00%	1.00%	1.00%
Act 47	0.85%	0.40%	0.30%	0.15%	0.00%
Act 205 - Distressed Pension	0.20%	0.60%	0.60%	0.60%	0.55%
Total	**2.05%**	**2.00%**	**1.90%**	**1.75%**	**1.55 %**

Please note that the distressed pension tax rates shown here 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 must use that revenue as an additional contribution to the employee pension plans, over and above the MMO. The City cannot use the additional distressed pension tax revenue to reduce its minimum non-tax contribution or for purposes unrelated to the pension fund.

Using these estimates, the graphs below show how the City's total resident EIT rate would drop from 2.15 percent in 2015 to 1.55 percent in 2019. The total commuter EIT rate would drop from 2.05 percent in 2015 to 1.55 percent in 2019, with 1.0 percent of that amount usually going to the commuter's home municipality as required by Commonwealth law.





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. 0.50 percent in 2016, 0.40 percent in 2017). This Act 47 authorized EIT will be in addition to any distressed pension tax levied on residents under Act 205.

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 shown in the Non-Resident EIT Rate table shown above (e.g. 0.40 percent in 2016, 0.30 percent in 2017). 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.

The table below shows the projected impact of this tax shift relative to the baseline projection. The projections cover all funds, all taxpayers and all years (current plus prior). The shift will generate $7.4 million more than the baseline projection through 2019, but the City's EIT receipts in 2019 will still finish more than $1 million below budgeted levels for 2015.

Projected Financial Impact

	2016	2017	2018	2019
Initiative RV01	7,238,000	7,051,000	6,538,000	5,452,000
Baseline	6,473,000	5,298,000	4,021,000	3,072,000
Projected Impact	**765,000**	**1,753,000**	**2,517,000**	**2,380,000**

Please see the related appendix for a more detailed description of how the City would use the revenues to meet obligations in its General, Sinking and Pension Funds.

RV02.	**Consider reorganizing City government under a Home Rule charter to increase revenue flexibility**	
	Target outcome:	Increase the number of revenue options for balancing future budgets
	Financial impact:	TBD
	Responsible party:	Mayor, Solicitor, Council, Business Administrator

New Castle's form of government follows the provisions of Pennsylvania's Optional Third Class City Charter Law (the "Optional Plans Law"), including its limitations on tax rates. Without the additional taxing authority provided under Act 47 and Act 205, the City can only levy a 1.0 percent EIT on residents and must split the revenue with the New Castle Area School District.

Other Act 47 communities have gained more flexibility in setting their resident EIT rates by reforming their government under a Home Rule charter. A Home Rule charter would set new parameters for how New Castle's government is organized and funded and give the City greater flexibility than its current structure, which is subject to the limitations of the Third Class City Code.[42]

From a revenue generation perspective, depending on how the Home Rule charter was written, the City could gain the flexibility to set its resident EIT rate at whatever level the elected officials choose. They 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.[43] **Please note that adopting a Home Rule charter would not give the City additional taxing authority over non-residents.**

Increased flexibility over local taxes is not the only reason the City might adopt a Home Rule charter, but it is primary focus of this initiative.

How the process works

Writing a Home Rule charter begins with a Government Study Commission that is authorized by Council ordinance or a petition of the electors. Members of the Commission are nominated and elected by the majority 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 or changes to the current Optional Plan, 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 the completion of 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.

If the City pursues Home Rule through this Government Study Commission process, the City's elected officials would have little direct control over the eventual content of any Home Rule charter. The Mayor and City Council members cannot select the Government Study Commission members, limit the scope of their review or reject individual provisions in any proposed Home Rule charter. It is possible that the Mayor and Council could initiate the Home Rule process with the intention of gaining more local control

[42] The current Optional Plan form of government is still subject to the constraints of the Third Class City Code.

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

over resident earned income taxation and not actually achieve that objective. That was one of the reasons that a working group convened according to the 2012 Amended Recovery Plan decided against pursuing Home Rule at that time.[44]

There is a variation on the Home Rule process that would give elected officials more control over the process and increase the likelihood that the City would gain more local control over resident earned income taxation. The City could adopt a new Home Rule charter as part of a larger municipal merger or consolidation effort. The governing bodies of each municipality would have to approve the charter and the residents of each municipality would still have to approve consolidation or merger by voter referendum. So while this process would give local leaders more control over the Home Rule process, it also requires that the City find a neighboring municipality that is interested in pursuing consolidation or merger.

Potential fiscal impact

At this point there are too many variables to project how much money the City could generate if it adopted a Home Rule charter that provided more control over resident earned income taxation. Once the Home Rule charter was in place, the City's elected officials would then have to determine what the resident EIT rate would be, according to any parameters set by the new charter. The potential to use Home Rule to close the deficit projected in this Recovery Plan is also unknown since that depends in part on how quickly the City completed the Home Rule process. Other Home Rule charter provisions that are unrelated to taxation could also impact the City's finances. If the City decides to pursue this option, the Coordinator can provide revenue projections and scenario analysis to support those deliberations at that time.

Distressed pension tax versus Home Rule

As noted above, the distressed pension tax provides more certainty in the short term that the City can replace a portion of the revenue that will be lost as the City eliminates its Act 47 authorized EIT. The City can shift a portion of its total EIT rate to the distressed pension tax while reducing its Act 47 authorized EIT starting in 2016 while the Home Rule process would likely not be concluded until at least 2017.

However, this does not mean that the City should not consider the Home Rule option. The table below summarizes some of the benefits and drawbacks of each approach from the perspective of addressing City government's projected financial deficit. The last drawback associated with the distressed pension tax is reason enough to re-consider the Home Rule charter option. The City is currently authorized by Commonwealth law to use the distressed pension tax on residents and non-residents, but there is no guarantee it will always have that authority. If the General Assembly changes Act 205, the City could lose its ability to levy this tax, particularly on non-residents.

[44] See the 2012 Amended Recovery Plan, initiative AD03 on pages 63-65.

	Increased distressed pension tax (RV01)	Home Rule charter (RV02)
PROS	Allows larger earned income tax base (residents & non-residents)	City has more discretion over how to use revenue; can be used for operations, debt service or pension needs
	Provides designated revenue to address one of the City's largest liabilities	City has more control over resident earned income taxation and less dependence on real estate tax
	Can be implemented starting 2016	City could make other changes unrelated to revenue to improve efficiency, reduce costs, etc
	Can be adjusted each year to help meet City's pension obligations, within the parameters set by Act 205	Can be adjusted each year to meet City's financial needs, within parameters set by Home Rule charter
	Tax is not tied to City's Act 47 status	Tax is not tied to City's Act 47 status
CONS	Revenue can only be used for pension related costs, not operations or General Obligation debt	Results in narrower earned income tax base (resident only)
	Does not provide additional local control over resident EIT or decrease dependence on real estate tax	Process takes at least 9-18 months to complete before tax rates can be adjusted
	Taxing authority subject to curtailment with future changes in Commonwealth law	Uncertainty whether eventual Home Rule charter will provide the desired tax flexibility

RV03.	Real estate tax increase	
	Target outcome:	Maintain balanced financial results for exiting Act 47 oversight
	Financial impact:	$6.0 million
	Responsible party:	Administration, City Council

The mandatory reduction in the earned income tax reduces the amount of revenue that the City will collect to fund its operations and meet its obligations, even with the tax shift described in initiative RV01. The City will need to replace that lost revenue and the real estate tax is the only other source that is controlled by the City and generates enough money to help cover the projected deficit.

Increasing real estate taxes is a difficult decision, especially in New Castle given the existing weakness of the tax base. Higher taxes result in a larger burden for home and business owners, which is especially difficult for those on a fixed income. Higher taxes make it harder to attract and retain the residents and businesses that the City needs to stay or move into New Castle as part of its economic development efforts. But, given the change in State law and the timeline for exiting oversight, higher taxes will very likely be necessary.

The Coordinator estimates that the following real estate tax increase pattern will be necessary to provide enough revenue to help cover the projected annual deficits, provide a modest amount of money for urgent capital projects and keep the City's cash flow at a level where it ideally does not have to borrow money early in the fiscal year to cover its expenditures before tax revenues arrive.

	2015 (Current)	2016	2017	2018	2019
City millage rate	11.726	12.726	15.726	18.726	20.726
Increase from prior year	0%	8.5%	23.6%	19.1%	10.7%

Projected impact

As noted earlier, the City's current year real estate tax collection rate has historically been 80 – 83 percent. There have been signs of improvements since 2011, but the preliminary year-end results for 2014 show the collection rate slipping back to 83.5 percent from 85.6 percent in 2013.

The Coordinator assumes that increasing the real estate tax rate will decrease the current year collection rate, holding all other factors constant. There is limited historical information on how much the collection rate drops in New Castle as real estate taxes increase. Fortunately the City has not needed a real estate tax increase since 2009. Looking back to that increase, which was 13.4 percent, the City's collection rate reportedly dropped from 78.2 percent in 2008 to 74.4 percent in 2009.[45] That translates to approximately a 3:1 ratio (i.e. every three percent increase in the tax rate will result in a one percent drop in collections) that is incorporated in the revenue projection calculation.

As current year collection rates drop, the amount of delinquent taxes that the City forwards to the County Tax Claim Bureau for collection will increase. As noted earlier, delinquent tax revenues have recently been approximately 31 percent of the total amount forwarded to the County for the prior three years. Based on the preliminary year-end results, the 2014 prior year receipts were 30.5 percent of the total real estate tax delinquency for 2011 – 2013. The revenue projection assumes prior year collections will remain at that level.

Taking these two dynamics together, the City would not receive the full amount of additional revenue from a tax increase in the year that it occurs. Some of the revenue from tax increase comes to the City in subsequent years when the County Tax Claim Bureau collects money on delinquent accounts. Therefore, while a one mill tax increase in 2016 should generate about $405,000, it may take a couple years before revenues reach that level.

Applying those two assumptions and the rate increase pattern shown above yields the following increases in revenue over the baseline projection. These are the total revenues, including prior year collections.

Projected Financial Impact

2016	2017	2018	2019
251,000	974,000	1,864,000	2,815,000

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

[45] These collection rates are calculated on a cash basis of accounting (i.e. only money that is collected during the calendar year is counted toward the collection rate). Wherever possible, the Coordinator uses the modified accrual accounting basis to match the City's budgeting and financial reporting convention. The City could not provide the current real estate tax collection data on a modified accrual basis for 2007 and 2008. That information likely would show a higher collection rate in both years since it would include money that was received early in the following year (early 2008 for 2007 and early 2009 for 2008).

- Current year collection rates improve because of corrective acitons taken by the City (see next initiative)

- Current year collection rates drop by more or less than assumed as tax rates increase

- Prior year collection rates drop or increase from the level assumed

The City's elected officials have expressed their desire to find alternate sources of recurring, sustainable revenue to replace at least a portion of the real estate tax increases. If the City is able to identify additional recurring, sustainable revenue above the levels projected in the Amended Recovery Plan, inclusive of other Plan initiatives, then the City shall present those alternatives to the Recovery Coordination for discussion and possible incorporation in future operating budgets with an offsetting reduction in the real estate tax increase. Similalry, the City may choose to reduce its expenditures below the levels projected in the Amended Recovery Plan. If the City is able to identify additional recurring, sustainable expenditure savings below the levels projected in the Amended Recovery Plan, inclusive of other Plan initiatives, then the City shall present those alternatives to the Recovery Coordination for discussion and possible incorporation in future operating budgets with an offsetting reduction in the real estate tax increase.

Note: Please see the Plan Appendix for a demonstration of the projected impact of earned income tax reduction and real estate tax increases on City residents at different levels of income and home value.

RV04.	**Continue to improve current and prior year real estate tax collection**	
	Target outcome:	Maintain balanced financial results for exiting Act 47 oversight
	Financial impact:	TBD
	Responsible party:	Administration, Treasurer

As described earlier, the City appears to have made progress in improving its current year real estate tax collection rate. There have been signs of improvements since 2011, though the preliminary year-end results for 2014 show the collection rate slipping back to 83.5 percent from 85.6 percent in 2013. The City needs to maintain the progress and build on it where possible. It also needs to stabilize, if not improve, its stream of prior year real estate tax revenues.

To some extent, those objectives can be contradictory. Better current year collections will eventually result in less delinquent accounts turned over to the County for collection and less prior year revenues. But these objectives can also complement each other. Better collections of delinquent taxes may reinforce the need for tax payers to pay their tax bills when they are due and improve current year collection rates.

Whatever the case, New Castle needs to improve one or both of these processes to halt the recent trend where total tax revenues (current and prior year) have dropped each year since 2011, especially given the aforementioned reduction in the earned income tax rates and the likely real estate tax increases described in the prior initiative.

Potential options for addressing this challenge include:

- **Targeted follow up with tax payers during the year:** The City generally mails its property tax bills in February or March of each year and sends out delinquent notices the first week of August, one month after it is due. The Treasurer's Office could follow up with select tax payers who have had delinquent taxes for consecutive years to communicate the growing liability.

- **Outsourcing current year real estate tax collection:** The City has already shifted collection responsibilities for most of its taxes to entities outside of City Hall. Given the importance of real estate tax revenues to funding the City's core services, City officials should consider doing the same with real estate taxes. Alternatively the City could conduct a managed competition process where it solicits bids from external tax collectors and its own employees to determine who has the best plan to improve current year collections.

  The City will have to confer with its solicitor regarding the statutory limitations and collective bargaining implications for contracting with an external tax collector, though other cities have done so. The City of Greensburg, for example, contracts with one collection firm for current real estate while the City of Coatesville and the City of Hazleton use another for the same purpose. [46]

  If the City did outsource tax collection, it may lose the payment it gets from the New Castle Area School District for real estate tax collection ($102,500 in 2015 budget). While that payment helps the City cover its costs in the Treasurer's Office, the ultimate objective should be higher current year real estate tax collection rates since that tax is much larger source of revenue than the relatively small and recently declining school district payment.

- **Meet with the County to discuss options for improving delinquent tax collection:** The County Tax Claim Bureau collects delinquent taxes on behalf of New Castle and all other Lawrence County municipalities. City officials have had some discussions with County officials on the importance of improving delinquent tax collection. It may be difficult for County Tax Claim to make process improvements that only benefit the City when the office works with the entire county. If that is the case, the City may benefit from using an external tax collector instead of County Tax Claim. The Cities of Scranton and Allentown use an external collector for prior year real estate taxes.

While there are other options that could result in one-time increases in revenues, like tax lien sales, the City should prioritize changes that result in sustained, recurring increase in revenues.

To increase the focus on this issue, the Administration and Treasurer's Office shall include the following information in quarterly financial reports to the Act 47 Coordinator and City Council, starting with the second quarter report in 2016.

- Number of delinquent tax accounts (properties) and value of accounts (dollars owed) in different stages of the current year collection process (e.g. paid during discount period, paid during face value period, past due)

- Number and value of accounts turned over to County Tax Claim for collection for most recent year;

- Number and value of accounts at each stage in the collection process (judicial sale scheduled, upset sale scheduled)

- Number and value of accounts for property owners with three years of tax delinquency on the same property

[46] In both cities, their County Tax Claim Bureaus collect the delinquent real estate taxes.

RV05.	Levy a payroll preparation tax in place of the business privilege/mercantile tax	
	Target outcome:	Future revenue growth
	Financial impact:	See below
	Responsible party:	Administration, City Council

As part of the recent changes to Act 47, the Commonwealth authorized Act 47 municipalities to exchange their business privilege and mercantile tax for a payroll preparation tax. Chapter 3 of the Local Tax Enabling Act (Act 511 of 1965) describes the payroll preparation tax as a tax on the "payroll amounts generated as a result of an employer conducting business activity within a city..."

Before this change to Act 47, the payroll preparation tax was used only by the City of Pittsburgh. The General Assembly authorized Pittsburgh to levy this tax in exchange for eliminating its mercantile tax and phasing out its business privilege over five years. While Pittsburgh's economy is very different from New Castle's, that city's experience with the payroll preparation tax has been positive. Payroll preparation tax revenue has grown each of the last four years at a compound annual growth rate of 4.7 percent per year. The tax has provided the City with another source of revenue that grows.

The basic parameters for making this exchange in New Castle as provided in Act 47 are:

- The City may impose the tax at a rate certified by the Recovery Coordinator and approved by the County Court of Common Pleas.
- The City may impose the payroll preparation tax at a rate not to exceed the rate "sufficient to produce revenues equal to revenues collected as a result of a business privilege and a mercantile tax."
- Once the Court approves the tax rate, the City can continue to levy the payroll preparation tax at that level in subsequent years, even after it has left Act 47 oversight.
- Once the City adopts a payroll preparation tax, it cannot levy the BPT or mercantile tax.

One rationale for switching from the current BPT/mercantile tax combination to a payroll preparation tax is the latter would grow more consistently, generating more revenue for the City over the long term. In the immediate term the payroll preparation tax should not generate more than the BPT/mercantile tax.

Based on Pittsburgh's experience, New Castle would levy the payroll preparation tax on any for-profit entity with payroll earned by employees working within the City, regardless of the location of the business itself. The following table provides an overview of the key differences between the business privilege tax and the payroll preparation tax.

Comparison between the BPT and the Payroll Preparation Tax[47]

	Business Privilege Tax	Payroll Preparation Tax
Who is taxed?	For-profit business located in the City	For-profit payroll earned by employees working in the City, regardless of the location of the business itself
What is being taxed?	Gross business receipts, meaning any cash, credits and property of any kind received in any sale or services rendered or any commercial or business transaction	Salaries, wages, commissions, bonuses and incentive payments earned, including fees and tips, whether directly or through an agent, and whether in cash, credit or property
Who pays the tax?	Business owners	Employers
Self-employed individuals subject to the tax?	Yes	Yes
Manufacturing industry taxable?	No	Yes
Rental income taxable?	Yes	No
For-profit business located outside of the City but does business in the City?	No	Yes

One of the key differences between the two taxes is the tax base. Under the current business privilege/mercantile tax, receipts earned by businesses in the manufacturing industry are exempt from the tax, while property owners who earn rental income are not. If the City switches to the payroll preparation tax, employers in the manufacturing industry would be subject to the tax whereas property owners who generate income by renting out properties would be exempt since rental income does not count as payroll income.

This potential switch is a policy decision that deserves more discussions with a broader audience than can be addressed here, including the business and rental property owner community. With the Coordinators' support, the City shall consider this potential shift for enactment before 2019, supported by a subsequent Plan Amendment.

[47] Most of the information related to the payroll preparation tax in this table is drawn from a payroll estimates study completed by the Pennsylvania Economy League (PEL) in 2004 when the City was considering the switch. At the time, PEL estimated that Pittsburgh would have $7.5 billion in earned payroll that was subject to the payroll preparation tax.

RV06.	Adjust refuse collection fees to maintain cost recovery	
	Target outcome:	Maintain cost recovery
	Financial Impact:	$530,000
	Responsible party:	Administration, City Council

As described above, the City charges a $2.00 per garbage bag fee that covers the cost of residential solid waste and recycling collection. The number of bags sold and revenue from those sales has declined each year since 2011, as have the number of people and households in the City. Based on these trends, the baseline projection assumes revenues will continue to drop by 2.0 percent per year.

While some communities roll the cost municipal trash collection into their annual real estate tax bill, New Castle uses a "pay-per-throw" system where residents pay for the level of service they receive, instead of paying a flat dollar amount per household, regardless of the level of trash collected from them. The "pay per throw" system is intended to distribute the full cost of trash collection, including vehicle replacement and justifiable overhead costs, to the service users. When the Coordinator reviewed the trash collection operation in 2010, the City was covering most of its costs for providing the service, with the exception of some overhead costs.

In 2014, the City spent $347,000 on personnel costs related to refuse collection; $380,000 for equipment, refuse bag packaging, landfill and vehicle maintenance; and $88,000 in overhead costs including administrative and labor costs. This totals $814,000 in spending, which exceeds the $795,000 in revenues the City collected, resulting in a $19,000 deficit. The reason the City was not able to recover its full cost in 2014 was due in part to the drop in refuse collection revenues. Since 2011, refuse collection fee has been dropping at an annual rate of 2.9 percent from $869,000 in 2011 to $795,000 in 2014.

If the negative revenue trend continues, the City will not fully cover its costs of providing the service at the current $2.00 per bag fee. Expenditures will also generally rise as employee compensation and the costs of materials and supplies rise.

If the City reaches its revenue target for 2015 and keeps expenditures at the budgeted level, it should cover its costs this year with the help of a one-time $39,000 increase in its recycling performance grant. According to the baseline projections, it will not do so in subsequent years.

Cost Recovery of the City's Refuse Collection Program, 2015 - 2020[48]

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected
Revenues	**846,770**	**791,780**	**776,110**	**760,754**	**745,706**
Direct expenses	676,363	698,539	718,481	737,086	758,781
Allocated expenses	38,631	39,696	40,624	41,215	42,190
Vehicle replacement	55,000	55,000	55,000	55,000	55,000
Overhead expenses	70,479	73,206	75,549	77,688	80,278
Expenses	**840,474**	**866,441**	**889,654**	**910,990**	**936,248**
Balance/(Deficit)	**6,296**	**(74,661)**	**(113,544)**	**(150,236)**	**(190,543)**

[48] The projections assume a 10-year useful life for the two refuse trucks that the City currently owns.

Unless the City moves away from the pay-per-throw system, it needs to fully recover its costs for providing this service. This is especially true with the required reductions in the earned income tax and likely increases in the real estate tax.

Beginning with the 2016 budget, the City shall periodically adjust its garbage bag fee to cover the full projected costs of providing this service, including all elements of employee compensation, any capital costs (i.e. vehicle replacement) and justifiable overhead costs. To reduce the need for future fee increases, the City could choose to reduce or change its free bag distribution program or lower the costs of providing the service, though that is not required under this initiative. The financial projection below assumes the City will adjust fees to eliminate the projected deficit described above.

Projected Financial Impact

2016	2017	2018	2019
75,000	114,000	150,000	191,000

Other fee, fines, license or permit increases

The same guiding principal in this initiative should be applied to other fees, licenses, permits and user charges that are intended to generate enough revenue to pay for the associated services. Making regular adjustments to fee levels to maintain or increase cost recovery can be tedious and time consuming. But the practical drawback of not doing so is that associated services would have to be reduced or the City will draw on its limited tax revenues.

Two of the largest of these types of revenue – refuse collection fees and golf course revenues – are addressed by specific initiatives.[49] Others, like the building permit fees, have generally paid for the cost of providing service and the City has shown a willingness to make adjustments where needed. Some user charges will be set according to other policy goals, like increasing code enforcement fees to deter non-compliance, and others can only be changed once every couple of years, like the cable access television permit fee. The Coordinator recognizes the City's progress in this area and encourages continued diligence.

[49] Please see the Sylvan Heights Golf Course chapter for discussion of those revenues.

Appendices

Appendix A: Baseline Projection

Act 47 of 1987 as amended by Act 199 of 2014 requires that a recovery plan formulated by the Recovery Coordinator include “projections of revenues and expenditures for the current year and the next five years, both assuming the continuation of present operations [baseline] and as impacted by the measures in the plan.” The Act requires the projections include an “itemization” of certain revenues and expenditures, though the items listed in the Act are not specifically defined, overlap with each other and are not parallel (i.e. some are specific and others general). The Recovery Coordinator provides these projections across the City’s three major funds (General, Sinking and Pension) in the baseline scenario. Please note that the Act 133 categories differ from those that the City uses in its budget, so individual items may be counted in different categories in this appendix than in other parts of the Amended Recovery Plan.

Baseline Revenue Projections

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Real Estate Tax	5,586,118	5,722,265	5,756,080	5,754,191	5,721,004	5,721,555
Earned Income Tax	7,166,266	6,472,740	5,298,194	4,021,112	3,072,073	2,908,218
Local Services Tax	400,000	430,000	430,000	430,000	430,000	430,000
Business Privilege Tax	400,000	430,000	440,750	451,769	463,063	474,640
Mercantile Tax	250,000	256,250	262,656	269,223	275,953	282,852
Deed Transfer Tax	90,000	115,000	115,000	115,000	115,000	115,000
Other Taxes	170,000	162,375	154,809	147,305	139,862	132,484
Total Local Taxes	**14,062,384**	**13,588,630**	**12,457,490**	**11,188,599**	**10,216,955**	**10,064,749**
General Licenses and Permits	123,055	126,131	129,285	132,517	135,830	139,225
CATV Permits	288,000	300,000	307,500	315,188	323,067	331,144
Fines	65,000	66,300	67,626	68,979	70,358	71,765
Total Licenses, Permits and Fines	**476,055**	**492,431**	**504,411**	**516,683**	**529,255**	**542,135**
Sale of Property	100	100	100	100	100	100
Rentals	6,600	6,732	6,867	7,004	7,144	7,287
Total Sales and Rentals	**6,700**	**6,832**	**6,967**	**7,104**	**7,244**	**7,387**

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
General Grants and Gifts	132,670	243,670	93,670	93,670	93,670	93,670
State Pension Aid	600,000	702,558	723,634	745,343	767,704	790,735
Transfer from Liquid Fuels	290,486	290,486	290,486	290,486	290,486	290,486
Transfer from CDBG	150,000	150,000	150,000	150,000	150,000	150,000
Total Federal, State and County Grants and Loans	**1,173,156**	**1,386,714**	**1,257,791**	**1,279,500**	**1,301,860**	**1,324,891**
Refuse Collection Fee	800,000	784,000	768,320	752,954	737,895	723,137
Water Bill Fee	170,000	174,250	178,606	183,071	187,648	192,339
Code Departmental and Rental Fees	150,000	153,750	157,594	161,534	165,572	169,711
Golf Course Revenue	209,000	209,000	209,000	209,000	209,000	209,000
Employee Hospitalization Contribution	266,000	298,990	355,002	372,455	391,073	410,836
School District Collection Fee	102,500	102,500	102,500	102,500	102,500	102,500
Other	378,342	383,425	388,609	393,897	399,291	404,792
Total Departmental Earnings	**2,075,842**	**2,105,915**	**2,159,631**	**2,175,410**	**2,192,978**	**2,212,316**
Transfer from Fund Balance	1,100,000	0	0	0	0	0
Transfer for Capital Projects	1,347,427	1,050,322	0	0	0	0
Transfer from Parking	110,000	110,000	110,000	110,000	110,000	110,000
Total Transfers	**2,557,427**	**1,160,322**	**110,000**	**110,000**	**110,000**	**110,000**
TOTAL REVENUES	**20,351,565**	**18,740,844**	**16,496,289**	**15,277,296**	**14,358,292**	**14,261,477**

Baseline Expenditure Projections by Category

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Salaries and Longevity	6,266,627	6,389,510	6,562,601	6,718,163	6,860,393	6,995,632
Other Cash Compensation	534,684	523,207	534,820	544,441	553,919	561,428
Overtime	442,100	457,523	475,964	492,482	507,750	522,657
Active Employee' Benefits	2,103,404	2,217,785	2,328,733	2,445,213	2,567,643	2,696,437
Retirees' Benefits	450,624	474,348	500,438	527,962	557,000	587,635
Workers' Comp and Unemployment	521,276	428,376	436,618	445,025	453,600	462,346
Pension Contribution	3,128,007	3,011,000	3,030,000	2,965,000	2,833,000	2,869,000
Workforce Expenditures	**13,446,723**	**13,501,751**	**13,869,173**	**14,138,286**	**14,333,305**	**14,695,135**
General Services	682,160	680,020	698,474	717,547	737,262	757,646
Engineering Services	100,000	100,000	100,000	100,000	100,000	100,000
Sanitary Landfill	140,000	142,800	145,656	148,569	151,541	154,571
Multiperil Insurance & Pension Administration	505,000	518,900	533,192	547,887	562,997	578,534
Contractual Services	**1,427,160**	**1,441,720**	**1,477,322**	**1,514,003**	**1,551,800**	**1,590,752**
Utilities	1,108,538	1,150,187	1,193,676	1,239,099	1,286,555	1,336,148
Vehicle Repairs	140,000	147,000	154,350	162,068	170,171	178,679
Other Materials and Supplies	493,196	484,420	494,108	503,990	514,070	524,352
Materials and Supplies	**1,741,734**	**1,781,607**	**1,842,134**	**1,905,157**	**1,970,796**	**2,039,179**
Capital Expenditures	**1,347,427**	**1,200,322**	**0**	**0**	**0**	**0**
Debt Service	**2,365,910**	**2,294,090**	**2,915,548**	**2,875,301**	**2,962,337**	**2,941,899**
Other Expenses	**87,282**	**87,453**	**87,629**	**87,811**	**87,997**	**88,190**
TOTAL EXPENDITURES	**20,416,236**	**20,306,942**	**20,191,806**	**20,520,557**	**20,906,235**	**21,355,154**

Baseline Expenditure Projections (by Department)

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Council	126,897	128,869	130,806	132,798	134,847	136,954
Controller	40,232	41,714	43,086	44,533	46,059	47,670
Mayor	91,213	92,826	94,625	96,460	98,333	100,243
Solicitor	228,585	213,932	219,238	224,732	230,423	236,318
Elected and Executive Officials	**486,926**	**477,342**	**487,756**	**498,524**	**509,662**	**521,186**
Administration	276,758	290,097	298,116	306,434	315,064	324,021
Treasurer	211,982	212,253	218,521	225,043	231,833	238,903
Parking	46,457	46,725	47,174	47,634	48,105	48,587
Central Services	840,053	862,929	886,646	910,967	935,930	961,569
Employee Benefits	548,686	456,554	465,991	475,466	485,023	494,693
Financial Management	**1,923,936**	**1,868,558**	**1,916,447**	**1,965,545**	**2,015,955**	**2,067,773**
Engineering Contractual	100,000	100,000	100,000	100,000	100,000	100,000
Streets and Bridges	604,254	603,804	620,179	637,135	654,698	672,896
Sewer	84,435	87,420	89,968	92,614	95,362	98,216
Capital	1,347,427	1,200,322	0	0	0	0
Infrastructure Costs	**2,136,117**	**1,991,546**	**810,147**	**829,749**	**850,060**	**871,112**
Building Custodian	114,915	118,130	120,761	123,461	126,232	129,076
Refuse Collection	560,967	574,663	587,363	600,430	613,877	627,718
Public Works Administration	464,188	480,886	497,973	515,911	534,747	554,534
Street Lighting	408,400	421,469	434,956	448,874	463,238	478,062
Municipal Garage	305,105	317,584	329,609	342,168	355,289	368,997
Electricians	120,210	127,267	131,385	135,674	140,143	144,800
Parks and Recreation	321,758	331,310	340,570	350,207	360,238	370,683
Park Maintenance	59,150	60,333	61,540	62,770	64,026	65,306
Maintenance Costs	**2,354,693**	**2,431,642**	**2,504,157**	**2,579,496**	**2,657,790**	**2,739,177**
Golf	241,658	238,908	243,719	248,714	253,901	259,289
City Subvention Transit	149,739	157,226	165,087	173,342	182,009	191,109
Library Fund, Booster Club and Over 30 Dances	71,282	71,282	71,282	71,282	71,282	71,282

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Pension Administrative Costs	125,000	127,500	130,050	132,651	135,304	138,010
Other Professional Services	**587,679**	**594,916**	**610,139**	**625,989**	**642,496**	**659,691**
Police	3,869,660	4,039,480	4,188,594	4,334,381	4,477,969	4,617,929
Fire	2,680,617	2,692,837	2,800,705	2,894,690	2,980,693	3,065,869
Crossing Guards	38,954	38,958	38,962	38,966	38,970	38,975
Public Safety	**6,589,231**	**6,771,275**	**7,028,261**	**7,268,037**	**7,497,632**	**7,722,773**
Code Enforcement	546,573	562,392	577,139	592,401	608,202	624,565
Planning and Zoning	89,993	92,381	95,012	97,740	100,570	103,507
Health Department	26,932	26,853	27,390	27,938	28,497	29,067
Community and Economic Development	180,240	184,947	189,811	194,837	200,033	205,405
Community and Economic Development	**843,737**	**866,573**	**889,351**	**912,917**	**937,302**	**962,544**
Pension Contribution	**3,128,007**	**3,011,000**	**3,030,000**	**2,965,000**	**2,833,000**	**2,869,000**
Debt Service	**2,365,910**	**2,294,090**	**2,915,548**	**2,875,301**	**2,962,337**	**2,941,899**
TOTAL EXPENDITURES	**20,416,236**	**20,306,942**	**20,191,806**	**20,520,557**	**20,906,235**	**21,355,154**

Summary Projections (Rounded)

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Total Revenues	20,352,000	18,741,000	16,496,000	15,277,000	14,358,000	14,261,000
Total Expenditures	20,416,000	20,307,000	20,192,000	20,521,000	20,906,000	21,355,000
Annual Surplus/Deficit	***(64,000)***	***(1,566,000)***	***(3,696,000)***	***(5,244,000)***	***(6,548,000)***	***(7,094,000)***
FY Ending Fund Balance	***4,187,000***	***2,621,000***	***(1,075,000)***	***(6,318,000)***	***(12,866,000)***	***(19,960,000)***

Appendix B: Plan Implementation Projection

Act 47 of 1987 as amended by Act 199 of 2014 requires that a recovery plan formulated by the Recovery Coordinator include "projections of revenues and expenditures for the current year and the next five years, both assuming the continuation of present operations [baseline] and as impacted by the measures in the plan." The Act requires the projections include an "itemization" of certain revenues and expenditures, though the items listed in the Act are not specifically defined, overlap with each other and are not parallel (i.e. some are specific and others general). The Recovery Coordinator provides these projections across the City's three major funds (General, Sinking and Pension) with Amended Recovery Plan initiatives applied. Please note that the Act 133 categories differ from those that the City uses in its budget, so individual items may be counted in different categories in this appendix than in other parts of the Amended Recovery Plan.

Revenue Projections with Initiatives Applied

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Real Estate Tax	5,586,118	5,973,265	6,730,080	7,618,191	8,536,004	9,263,555
Earned Income Tax	7,166,266	7,238,270	7,050,989	6,538,306	5,451,867	4,957,216
Local Services Tax	400,000	430,000	430,000	430,000	430,000	430,000
Business Privilege Tax	400,000	430,000	440,750	451,769	463,063	474,640
Mercantile Tax	250,000	256,250	262,656	269,223	275,953	282,852
Deed Transfer Tax	90,000	115,000	115,000	115,000	115,000	115,000
Other Taxes	170,000	162,375	154,809	147,305	139,862	132,484
Total Local Taxes	**14,062,384**	**14,605,160**	**15,184,284**	**15,569,793**	**15,411,749**	**15,655,746**
General Licenses and Permits	123,055	126,131	129,285	132,517	135,830	139,225
CATV Permits	288,000	300,000	307,500	315,188	323,067	331,144
Fines	65,000	66,300	67,626	68,979	70,358	71,765
Total Licenses, Permits and Fines	**476,055**	**492,431**	**504,411**	**516,683**	**529,255**	**542,135**
Sale of Property	100	100	100	100	100	100

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Rentals	6,600	6,732	6,867	7,004	7,144	7,287
Total Sales and Rentals	**6,700**	**6,832**	**6,967**	**7,104**	**7,244**	**7,387**
General Grants and Gifts	132,670	243,670	93,670	93,670	93,670	93,670
State Pension Aid	600,000	702,558	723,634	745,343	767,704	790,735
Transfer from Liquid Fuels	290,486	290,486	290,486	290,486	290,486	290,486
Transfer from CDBG	150,000	150,000	150,000	150,000	150,000	150,000
Total Federal, State and County Grants and Loans	**1,173,156**	**1,386,714**	**1,257,791**	**1,279,500**	**1,301,860**	**1,324,891**
Refuse Collection Fee	800,000	859,000	882,320	902,954	928,895	952,137
Water Bill Fee	170,000	174,250	178,606	183,071	187,648	192,339
Code Departmental and Rental Fees	150,000	153,750	157,594	161,534	165,572	169,711
Golf Course Revenue	209,000	209,000	223,000	244,000	250,000	257,000
Employee Hospitalization Contribution	266,000	72,684	247,565	254,394	266,586	282,420
School District Collection Fee	102,500	102,500	102,500	102,500	102,500	102,500
Other	378,342	383,425	486,609	494,897	504,291	512,792
Total Departmental Earnings	**2,075,842**	**1,954,609**	**2,278,194**	**2,343,349**	**2,405,491**	**2,468,900**
Transfer from Fund Balance	1,100,000	0	0	0	0	0
Transfer for Capital Projects	1,347,427	1,050,322	0	0	0	0
Transfer from Parking	110,000	110,000	110,000	110,000	110,000	110,000
Total Transfers	**2,557,427**	**1,160,322**	**110,000**	**110,000**	**110,000**	**110,000**
TOTAL REVENUES	**20,351,565**	**19,606,068**	**19,341,647**	**19,826,429**	**19,765,599**	**20,109,059**

Expenditure Projections with Initiatives Applied (By Category)

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Salaries and Longevity	6,266,627	6,389,510	6,531,455	6,686,393	6,827,989	6,962,579
Other Cash Compensation	534,684	523,207	573,215	543,314	552,770	560,256
Overtime	442,100	457,523	474,474	490,962	506,199	521,075
Active Employee' Benefits	2,103,404	1,688,940	1,758,797	1,828,379	1,904,509	1,984,445
Retirees' Benefits	450,624	268,872	278,604	288,865	299,686	311,096
Workers' Comp and Unemployment	521,276	428,376	436,618	445,025	453,600	462,346
Pension Contribution	3,128,007	3,011,000	3,030,000	2,986,150	2,879,530	2,869,000
Workforce Expenditures	**13,446,723**	**12,767,428**	**13,083,162**	**13,269,089**	**13,424,282**	**13,670,798**
General Contracted Services	682,160	680,020	698,474	717,547	737,262	757,646
Engineering Services	100,000	100,000	100,000	100,000	100,000	100,000
Sanitary Landfill	140,000	142,800	145,656	148,569	151,541	154,571
Other Contractual Services	505,000	518,900	533,192	547,887	562,997	578,534
Contractual Services	**1,427,160**	**1,441,720**	**1,477,322**	**1,514,003**	**1,551,800**	**1,590,752**
Utilities	1,108,538	1,150,187	1,193,676	1,239,099	1,286,555	1,336,148
Vehicle Repairs	140,000	147,000	154,350	162,068	170,171	178,679
Other Materials and Supplies	493,196	484,420	494,108	503,990	514,070	524,352
Materials and Supplies	**1,741,734**	**1,781,607**	**1,842,134**	**1,905,157**	**1,970,796**	**2,039,179**
Capital Expenditures	**1,347,427**	**1,200,322**	**500,000**	**500,000**	**500,000**	**300,000**
Debt Service	**2,365,910**	**2,268,090**	**2,840,548**	**2,849,301**	**2,936,337**	**2,915,899**
Transfer to Reserve	**0**	**1,200,000**	**0**	**0**	**0**	**0**
Other Expenses	**87,282**	**87,453**	**87,629**	**87,811**	**87,997**	**88,190**
TOTAL EXPENDITURES	**20,416,236**	**20,746,620**	**19,830,795**	**20,125,360**	**20,471,212**	**20,604,817**

Expenditure Projections Initiatives Applied (By Department)

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Council	126,897	128,869	130,965	131,862	133,892	135,980
Controller	40,232	31,884	32,488	33,124	33,796	34,504
Mayor	91,213	92,826	94,625	96,460	98,333	100,243
Solicitor	228,585	204,102	208,799	212,388	217,204	222,178
Elected and Executive Officials	**486,926**	**457,681**	**466,877**	**473,835**	**483,225**	**492,906**
Administration	276,758	280,267	287,852	293,171	300,909	308,925
Treasurer	211,982	208,825	215,894	218,822	225,228	231,894
Parking	46,457	46,725	47,174	47,634	48,105	48,587
Central Services	840,053	2,062,929	886,646	910,967	935,930	961,569
Employee Benefits	548,686	456,554	465,991	475,466	485,023	494,693
Financial Management	**1,923,936**	**3,055,300**	**1,903,557**	**1,946,060**	**1,995,194**	**2,045,668**
Engineering Contractual	100,000	100,000	100,000	100,000	100,000	100,000
Streets and Bridges	604,254	603,804	621,293	628,389	645,778	663,797
Sewer	84,435	87,420	89,898	91,444	94,169	96,999
Capital	1,347,427	1,200,322	500,000	500,000	500,000	300,000
Infrastructure Costs	**2,136,117**	**1,991,546**	**1,311,191**	**1,319,834**	**1,339,947**	**1,160,796**
Building Custodian	114,915	118,130	121,249	122,861	125,620	128,451
Refuse Collection	560,967	564,832	577,499	585,378	597,897	610,762
Public Works Administration	464,188	468,222	484,500	499,148	516,786	535,309
Street Lighting	408,400	421,469	434,956	448,874	463,238	478,062
Municipal Garage	305,105	317,584	329,661	340,026	353,104	366,768

	2015 Budget	2016 Projected	2017 Projected	2018 Projected	2019 Projected	2020 Projected
Electricians	120,210	127,267	132,091	134,199	138,638	143,265
Parks and Recreation	321,758	331,310	341,299	346,558	356,516	366,887
Park Maintenance	59,150	60,333	61,540	62,770	64,026	65,306
Maintenance Costs	**2,354,693**	**2,409,148**	**2,482,795**	**2,539,814**	**2,615,824**	**2,694,810**
Golf	241,658	229,077	233,121	237,306	241,638	246,124
City Subvention Transit	149,739	157,226	165,087	173,342	182,009	191,109
Library Fund, Booster Club and Over 30 Dances	71,282	71,282	71,282	71,282	71,282	71,282
Pension Administrative Costs	125,000	127,500	130,050	132,651	135,304	138,010
Other Professional Services	**587,679**	**585,085**	**599,540**	**614,580**	**630,232**	**646,525**
Police	3,869,660	3,689,379	3,810,825	3,926,134	4,038,695	4,145,914
Fire	2,680,617	2,406,514	2,492,119	2,562,610	2,623,822	2,682,837
Crossing Guards	38,954	38,958	38,962	38,966	38,970	38,975
Public Safety	**6,589,231**	**6,134,851**	**6,341,907**	**6,527,711**	**6,701,487**	**6,867,725**
Code Enforcement	546,573	554,170	568,494	576,457	591,375	606,810
Planning and Zoning	89,993	81,205	82,994	84,834	86,727	88,675
Health Department	26,932	26,853	27,413	27,412	27,960	28,520
Community and Economic Development	180,240	171,690	175,480	179,373	183,373	187,484
Community and Economic Development	**843,737**	**833,918**	**854,381**	**868,076**	**889,435**	**911,488**
Pension Contribution	**3,128,007**	**3,011,000**	**3,030,000**	**2,986,150**	**2,879,530**	**2,869,000**
Debt Service	**2,365,910**	**2,268,090**	**2,840,548**	**2,849,301**	**2,936,337**	**2,915,899**
TOTAL EXPENDITURES	**20,416,236**	**20,746,620**	**19,830,795**	**20,125,360**	**20,471,212**	**20,604,817**

Summary Projections with Initiatives Applied (Rounded)

	2015 Budget	2016 Proj.	2017 Proj.	2018 Proj.	2019 Proj.	2020 Proj.
Total revenues	20,352,000	19,606,000	19,342,000	19,826,000	19,766,000	20,109,000
Total expenditures	20,416,000	20,747,000	19,831,000	20,125,000	20,471,000	20,605,000
Surplus/deficit (Annual result)	($64,000)	($1,141,000)	($489,000)	($299,000)	($705,000)	($496,000)
Fund balance	*4,187,000*	*3,046,000*	*2,557,000*	*2,258,000*	*1,553,000*	*1,057,000*
Annual result w/out transfers to reserve/capital	($64,000)	$60,000	$11,000	$201,000	($206,000)	($196,000)

Appendix C: Estimate Impact of Tax Changes

One common question is how the projected tax rate changes will impact specific individuals or families. This Appendix provides the estimated impact of the reduction in the resident earned income tax, reduction in the commuter earned income tax and increase in the real estate tax rates as described in initiatives RV01 and RV03. Please note that these are solely intended to provide simple estimates of the impact on individual tax payers and do not account for other factors that affect tax liability. They also assume a constant level of earned income and assessed property values from 2015 through 2019 for simplification. Please see the Revenue Chapter for more discussion.

Resident Earned Income Tax

New Castle residents currently pay a 2.15 percent earned income tax (EIT) with 0.50 percent going to the New Castle Area School District and the remainder going to the City of New Castle. The table below shows how the tax liability would drop in accordance with the tax rate reductions described in initiative RV01. According to the US Census Bureau, the median earnings for City residents in 2013 was $25,646 and the median family income was $40,912.

If your annual earnings are…	$20,000	$25,000	$30,000	$40,000	$50,000	$60,000	$70,000
Estimated total earned income tax	$430	$538	$645	$860	$1,075	$1,290	$1,505
Estimated EIT paid to School District in 2015	$100	$125	$150	$200	$250	$300	$350
Estimate EIT paid to the City in 2015	**$330**	**$413**	**$495**	**$660**	**$825**	**$990**	**$1,155**
Estimated EIT paid to City in 2016	$320	$400	$480	$640	$800	$960	$1,120
Estimated EIT paid to City in 2017	$300	$375	$450	$600	$750	$900	$1,050
Estimated EIT paid to City in 2018	$270	$338	$405	$540	$675	$810	$945
Estimated EIT paid to City in 2019	**$210**	**$263**	**$315**	**$420**	**$525**	**$630**	**$735**

Commuter Earned Income Tax

Many people who work in New Castle but live elsewhere pay a 2.05 percent earned income tax (EIT) with 1.00 percent returning to their home municipality and school district and the remainder going to the City of New Castle. The table below shows how the tax liability for commuters would drop in accordance with the tax rate reductions described in initiative RV01. According to the US Census Bureau's American Community Survey, the median earnings for County residents in 2013 was $27,305 and the median family income was $43,546.

If your annual earnings are…	**$20,000**	**$25,000**	**$30,000**	**$40,000**	**$50,000**	**$60,000**	**$70,000**
Estimated total earned income tax*	$410	$513	$615	$820	$1,025	$1,230	$1,435
Estimated EIT paid to home municipality in 2015*	$200	$250	$300	$400	$500	$600	$700
Estimate EIT paid to the City in 2015	**$210**	**$263**	**$315**	**$420**	**$525**	**$630**	**$735**
Estimated EIT paid to City in 2016	$200	$250	$300	$400	$500	$600	$700
Estimated EIT paid to City in 2017	$180	$225	$270	$360	$450	$540	$630
Estimated EIT paid to City in 2018	$150	$188	$225	$300	$375	$450	$525
Estimated EIT paid to City in 2019	**$110**	**$138**	**$165**	**$220**	**$275**	**$330**	**$385**

** Actual liability will depend on the earned income tax rate in the commuter's home municipality. For most Lawrence County municipalities outside the City, the home tax rate is 1.0 percent, which is the assumption used here. The revenue from that 1.0 percent is split between the municipal government and the school district.*

Real Estate Tax

Home owners and business property owners in New Castle currently pay a total real estate tax of 35.694 mills. That includes 17.27 mills paid to the New Castle Area School District, 6.698 mills paid to Lawrence County and 11.726 mills paid to the City of New Castle. The City millage includes 0.177 mills that the City collects and forwards to the New Castle Public Library.

The table below shows how the tax liability would increase in accordance with the tax rate increases described in initiative RV03. According to the US Census Bureau's American Community Survey, the median market value for owner occupied units in New Castle was $57,800 in 2013. Tax bills are calculated using the property's *assessed value*, which is frequently different from the market value. The estimates below show the estimated tax liability at different levels of assessed value, assuming it remains constant through 2019.

If your property's assessed value is…	**$20,000**	**$40,000**	**$60,000**	**$80,000**	**$100,000**	**$120,000**	**$140,000**
Estimated total real estate tax	$714	$1,428	$2,142	$2,856	$3,569	$4,283	$4,997
Estimated tax paid to Lawrence County	$134	$268	$402	$536	$670	$804	$938
Estimated tax paid to School District	$345	$691	$1,036	$1,382	$1,727	$2,072	$2,418
Estimate tax paid to the City in 2015	**$235**	**$469**	**$704**	**$938**	**$1,173**	**$1,407**	**$1,642**
Estimated tax paid to City in 2016	$255	$509	$764	$1,018	$1,273	$1,527	$1,782
Estimated tax paid to City in 2017	$315	$629	$944	$1,258	$1,573	$1,887	$2,202
Estimated tax paid to City in 2018	$375	$749	$1,124	$1,498	$1,873	$2,247	$2,622
Estimated tax paid to City in 2019	**$415**	**$829**	**$1,244**	**$1,658**	**$2,073**	**$2,487**	**$2,902**

Appendix D: Earned Income Tax Explanation

As described in the Revenue chapter, the City of New Castle has to eliminate the portion of the earned income tax (EIT) that is tied to its Act 47 status. The Act 47 authorized portion of the EIT accounts for 0.95 percent of the 2.15 percent levy on residents and 0.85 percent of the 2.05 percent levy on commuters in 2015. Reducing the tax rate for the City's largest source of revenue by that amount would threaten the City's ability to fund basic services, pay its debt and meet its Minimum Municipal Obligation (MMO) to the employee pension plans.

Under current law, the City has two options to offset some of the reduction in the Act 47 authorized EIT with an increase in the portions authorized by other statutes so that the City can retain some of the revenue. The two options are described in the Revenue Chapter in initiatives RV01 (Increase the distressed pension tax in tandem with reducing the Act 47 authorized EIT) and RV02 (Consider Home Rule). For the reasons described in that analysis, the City shall use the option described in RV01 starting in 2016 while it considers the benefits of using RV02 in subsequent years.

This narrative describes how the City would use the money associated with this Act 47-to-Act 205 shift and the projections incorporated in the Amended Recovery Plan implementation scenario shown in Appendix B.

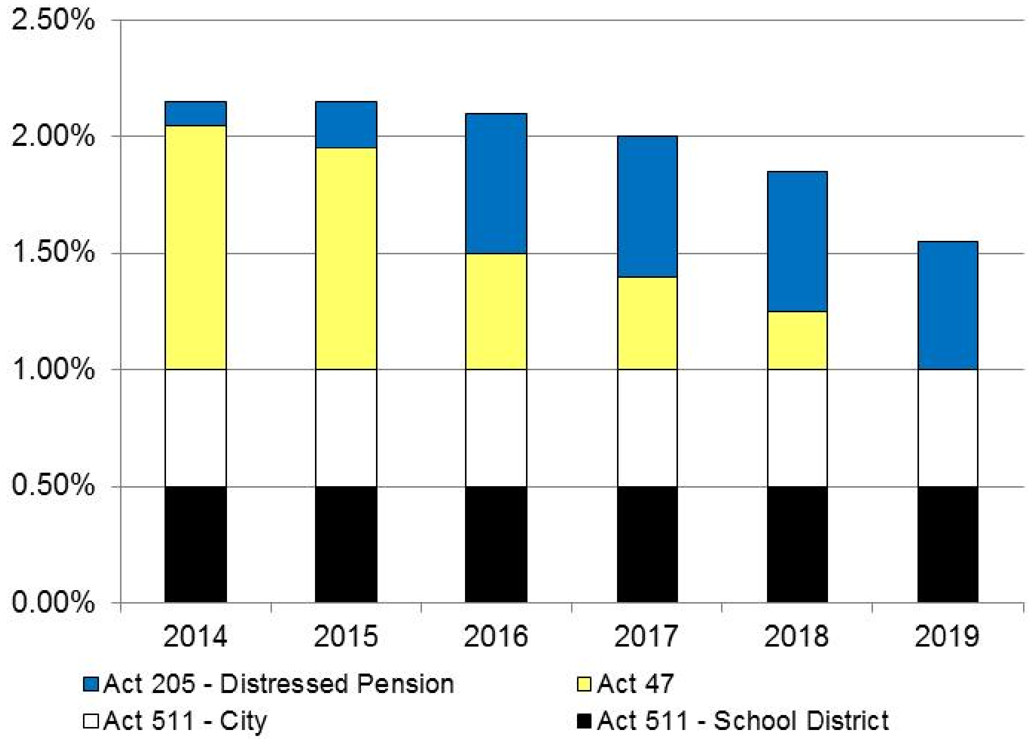
Shifting the EIT from Act 47 to Act 205

The City uses three laws (Act 511 of 1965, Act 47 of 1987 and Act 205 of 1984) to levy EIT on residents and commuters and it spends that revenue through three funds (General Fund, Sinking or Debt Service Fund and Pension Fund[1]). According to initiative RV01, the City would increase the distressed pension tax as it reduces the Act 47 authorized EIT. The City has to eliminate the Act 47 authorized EIT by 2019 to comply with the statutory deadline for exiting Act 47 oversight. The City also has the authority to increase the distressed pension tax effective January 1, 2016.

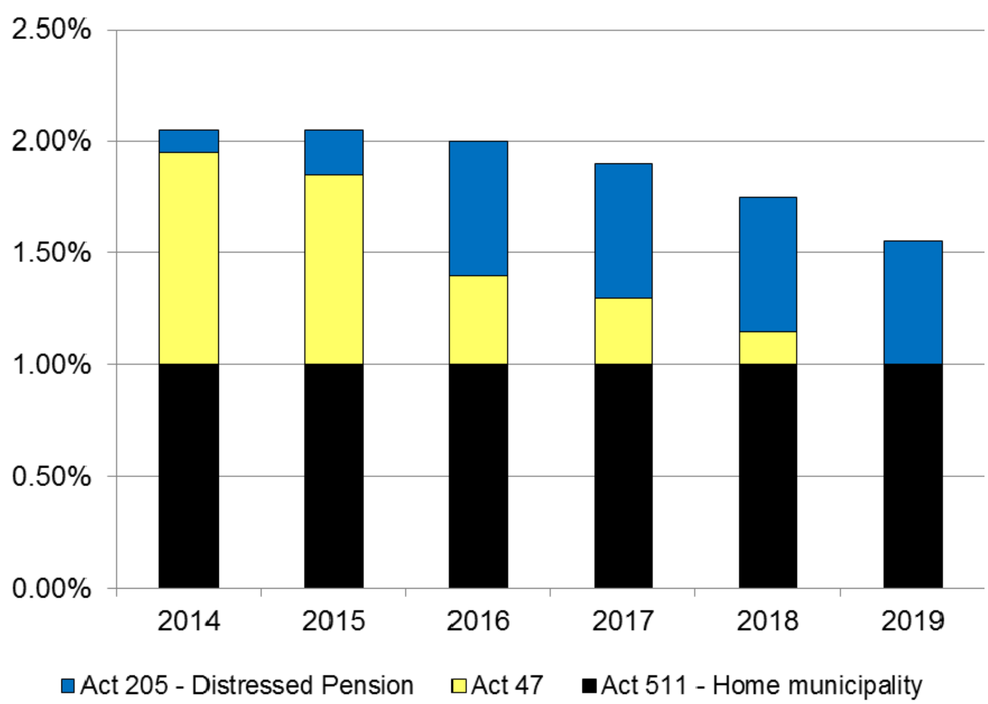
The bar graphs below show how this shift would occur with the Act 47 EIT (yellow bar) dropping annually from 2014 through 2019 and the Act 205 EIT rate (blue bar) increasing to 0.60 percent in 2016 and then potentially dropping gradually if the City's pension costs do.

[1] This is a checking account that the City maintains to pay pension-related administrative costs and hold pension related revenues before they are deposited to the pension plans. It is not the pension plans themselves.

Projected Resident EIT Rates



Non-Resident (or Commuter) EIT Rates



Pension Fund

According to Act 205, the City currently levies a 0.2 percent EIT on residents and commuters to help fund its pension costs. The City can only use the revenue from this tax to cover pension obligation bond debt or make its MMO payments to the employee pension plans. Unlike the Act 47 EIT, the City cannot use this tax to fund basic services or pay general obligation debt service.

The City also cannot use the distressed pension tax to cover all of its pension related costs. Act 205 requires municipalities to use revenue from sources other than the distressed pension tax to cover some of the total pension costs.[2] The size of the minimum non-tax contribution is determined by the City's average contributions to the employee pension plans in the three years before the City started levying the Act 205 tax, expressed as a percentage of covered payroll. New Castle's actuary estimates that the City has to contribute at least 18 percent of its annual covered payroll toward the total pension costs using money from sources other than the distressed pension tax. That 18 percent translates to approximately $1.1 million in 2015.

The minimum non-tax contribution grows as the City's pensionable payroll does. As shown in the table below[3], the minimum non-tax contribution is expected to rise from $1.1 million to $1.3 million over the next five years. Subtracting that amount from the City's total projected pension costs gives the estimated maximum amounts that the City can receive from distressed pension tax each year.

Estimated Maximum Revenue from Distressed Pension Tax

	2016	2017	2018	2019	2020
Total pension costs	4,324,423	4,716,485	4,687,802	4,636,964	4,653,770
Minimum non-Act 205 tax contribution	(1,144,000)	(1,189,760)	(1,237,350)	(1,286,844)	(1,338,318)
Maximum Act 205 tax revenue	**3,180,423**	**3,526,725**	**3,450,452**	**3,350,120**	**3,315,452**

The Coordinator assumes the City will continue to levy an equal distressed pension tax rate on residents and commuters, though it is possible for the City to tax its residents at a higher rate. The Coordinator estimates that the following pattern of Act 205 EIT rates would generate enough revenue to help cover the City's pension costs.

[2] State pension aid counts toward this minimum.

[3] The actuary's exact estimate for 2015 was $1,026,091. That figure was based on the best historical information available as of late 2014. Given uncertainty what the exact amount should be, and to avoid any compliance issues associated with Act 205 in the event that better information becomes available, the Coordinator has rounded up the City's minimum contribution to $1,100,000. The actuary uses a 4.0 percent annual growth assumption in its MMO projections, which is included here for consistency with the actuary's projections, even though that growth rate differs from what is used in other parts of the Amended Recovery Plan.

Resident EIT Rate

	2015	2016	2017	2018	2019	2020
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	0.95%	0.50%	0.40%	0.25%	0.00%	0.00%
Act 205 - Distressed Pension	0.20%	0.60%	0.60%	0.60%	0.55%	0.50%
Total	**2.15%**	**2.10%**	**2.00%**	**1.85%**	**1.55%**	**1.50%**

Commuter (or Non-Resident) EIT Rate

	2015	2016	2017	2018	2019	2020
Act 511 - Home municipality	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Act 47	0.85%	0.40%	0.30%	0.15%	0.00%	0.00%
Act 205 - Distressed Pension	0.20%	0.60%	0.60%	0.60%	0.55%	0.50%
Total	**2.05%**	**2.00%**	**1.90%**	**1.75%**	**1.55%**	**1.55%**

Please note that the distressed pension tax rates shown here are only estimates based on the best 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, then the City must use that revenue as an additional contribution to the employee pension plans, over and above the MMO. The City cannot use the additional distressed pension tax revenue to reduce its minimum non-tax contribution or for purposes unrelated to the pension fund.

Using the tax rates shown above, the Act 205 EIT rate would generate $2.6 million in 2016 rising to $3.5 million in 2019. The City can use that revenue to make its MMO contribution or pay pension-related debt in its Sinking Fund. For now the Coordinator assumes that the City will use the Act 205 revenue to cover its pension related debt first, and then use the remainder for the MMO contribution. Given the current level of pension related debt, the table below shows how much of the Act 205 revenue is available for the MMO contribution.

	2016	2017	2018	2019	2020
Projected Act 205 EIT revenue	2,645,766	3,466,906	3,604,253	3,531,954	3,347,852
Amount needed for debt service	(1,313,423)	(1,686,485)	(1,722,802)	(1,803,964)	(1,784,770)
Amount left for MMO	**1,332,343**	**1,780,421**	**1,881,451**	**1,727,990**	**1,563,082**

These projections use the same tax base growth assumptions described in the Revenue chapter and account for the time lag between when the City levies a tax and when the City receives the revenue from that tax. When the City levies an EIT in the final months of one year, the revenue associated with that tax is usually received in the early months of the following year.

The Act 205 EIT will help to cover the majority of the pension related costs, up to the previously described limit. The City would still have to transfer money from the General Fund to the Pension Fund to cover the remaining MMO costs and any administrative costs (e.g. payments for actuarial and legal services; pension-related meeting advertisements). The City budgeted $125,000 for these administrative costs in 2015. The General Fund transfer would larger in 2016 than in subsequent years because a large portion of the 2016 prior year revenues would be based on the lower tax rate in place in 2015. Once the higher Act 205 EIT is phased in and the City gets through the lag between tax levy and revenue collection, the General Fund transfer drops below $700,000. The City would have to use the small positive differences shown for 2018 and 2019 as an additional contribution to the employee pension plans.

Projected Impact of Tax Shift on Pension Fund

	2016	2017	2018	2019	2020
Total projected MMO	3,011,000	3,030,000	2,965,000	2,833,000	2,869,000
Administrative costs	127,500	130,050	132,651	135,304	138,010
Total expenditures	**3,138,500**	**3,160,050**	**3,097,651**	**2,968,304**	**3,007,010**
Estimated state pension aid	702,558	723,634	745,343	767,704	790,735
General Fund transfer	1,103,599	655,995	492,007	519,141	653,192
Act 205 EIT revenues	1,332,343	1,780,421	1,881,451	1,727,990	1,563,082
Total revenues	**3,138,500**	**3,160,050**	**3,118,801**	**3,014,834**	**3,007,010**
Difference	**0**	**0**	**21,150**	**46,530**	**0**

Sinking Fund

The City uses a separate Sinking Fund to pay the principal and interest due for most of its debt service. In recent years the primary source of revenue for this fund has been a portion of the real estate tax dedicated to debt service and a portion of the Act 47-authorized EIT on residents and non-residents. While the City has to eliminate that Act 47 EIT to exit Commonwealth oversight, the debt service that is currently covered by that tax revenue will remain. So the Coordinator assumes the City will use a portion of the Act 205 EIT to cover the remaining annual principal and interest related to its two pension bonds.

Unlike the Act 47 EIT, the City cannot use the Act 205 EIT to cover debt unrelated to the pension bonds. The City will have to use its real estate tax to cover the principal and interest payments for non-pension debt. The City's 2015 budget projected $1.0 million in current year real estate tax for that purpose and the Amended Recovery Plan implementation scenario has a similar amount after 2016.

Projected Impact of Tax Shift on Sinking Fund

	2016	2017	2018	2019	2020
Pension-related debt	1,313,423	1,686,485	1,722,802	1,803,964	1,784,770
Other debt	980,668	1,229,064	1,152,500	1,158,374	1,157,130
Total expenditures	**2,294,091**	**2,915,549**	**2,875,302**	**2,962,338**	**2,941,900**
Act 205 EIT for pension-related debt	1,313,423	1,686,485	1,722,802	1,803,964	1,784,770
Real estate tax revenue (all years)	716,379	1,229,064	1,152,500	1,158,374	1,157,130
Total revenues	**2,029,802**	**2,915,549**	**2,875,302**	**2,962,338**	**2,941,900**

The 2016 expenditures are $264,000 higher than revenues because the Coordinator anticipates that the City will end 2015 with a cash reserve in the Sinking Fund. The City refinanced one of its bonds in 2015 which should result in the City paying less than budgeted for that particular series in 2015. If the cash reserve is smaller than anticipated, the City will need to increase the debt-related real estate tax rate to cover the difference. The opposite is true if the cash reserve is larger than anticipated.

General Fund

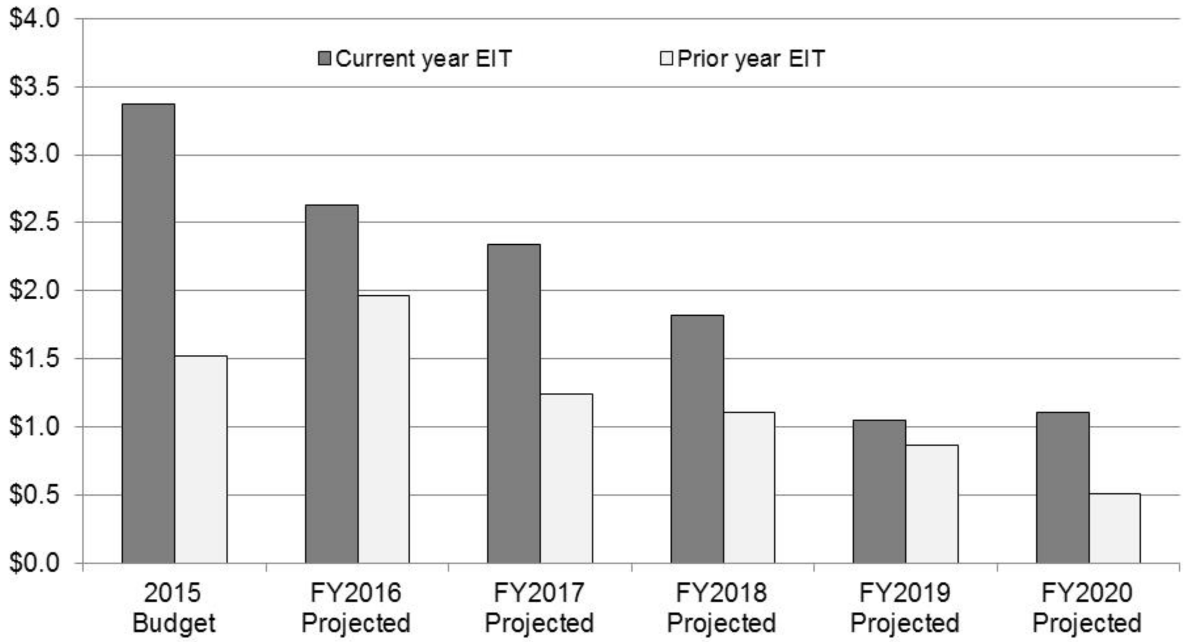
While the City can shift a portion of its Act 47 EIT to a distressed pension tax, it cannot simply trade one for the other. The distressed pension tax can only be used according to the restrictions set in Act 205, and the City will still have to reduce its total EIT rate to exit Commonwealth oversight.

The total EIT rate on residents is projected to drop from 2.15 percent in 2015 to 1.55 percent in 2019, including the 0.5 percent that goes to the New Castle School District. The total EIT rate on commuters is projected to drop from 2.05 percent in 2015 to 1.55 percent in 2019, including the amount (usually 1.0 percent) that goes back to the commuter's home municipality. And while there will be some variability in the Act 205 EIT rate as the variables related to that tax change, the Act 47 EIT must be eliminated according to the statutory deadline for the City to exit Act 47 oversight.

The General Fund loses the most EIT revenue under this scenario. The 2015 General Fund budget anticipates $4.9 million in EIT revenue (all years, residents and commuters). The Coordinator projects that total General Fund EIT revenue will drop to $1.9 million in 2019, which will be the first year without a current year Act 47 EIT levy. The projections assume the City will shift all prior year Sinking Fund EIT revenue to the General Fund in 2016, resulting in the temporary increase from $1.5 million in 2015 to $2.0 million in 2016, before it drops annually through 2020.[4] These projections do not account for the impact of any other initiatives in the Amended Recovery Plan.

[4] As noted earlier, the City uses a portion of its Act 47 EIT to pay debt in the Sinking Fund. That revenue is actually a transfer from the General Fund to the Sinking Fund that can be discontinued at any time. While this scenario shows the City no longer transferring a portion of its prior year Act 47 EIT to the Sinking Fund after 2015, the City may continue to do so. Holding other factors constant, that will reduce the amount of real estate tax needed in the Sinking Fund to cover debt service and reduce the amount of EIT available to fund operations in the General Fund.

Current and Prior Year General Fund EIT, 2015 – 2020 ($ Millions)



Appendix E: Grant Requests

In conjunction with this Amended Recovery Plan, the Coordinator requests that the Pennsylvania Department of Community and Economic Development (DCED) consider the following high priority requests to support Plan initiatives and implementation.

Storm Water Management

- **$125,000** for a consultant study as the basis for a storm water management strategy, storm water ordinance, and storm water fund. At a minimum, the study shall describe and quantify (to the extent possible) the City's current and future storm water management practices and challenges; recommend appropriate levels of annual maintenance and capital improvements; obtain community input on policy issues as determined by the Mayor and City Council; recommend a methodology for assessing a storm water fee, including any calculations to determine the initial fee levels; provide a plan for implementing that fee, addressing legal, logistical and technical issues; and assist in the development of the storm water service fee, including billing system, billing data files, credit program, and public outreach as needed.

  Please see initiative CP02 for more information.

Facility Management and Capital Planning

- **$65,000** for a facility asset inventory and high-level condition assessment of facilities used in daily municipal operations. The assessment will provide data to help the City manage its facilities more proactively and help forecast and prioritize capital needs. It shall serve as a baseline that the City will be responsible for maintaining and updating going forward. The assessment shall report apparent facility conditions and document specific deficiencies with narrative and photographs. The assessment shall estimate remaining useful lives of facilities and major component systems; report significant deficiencies that are likely to need addressing within 10 years; describe the work required to correct the deficiencies; and estimate associated costs. The assessment shall categorize all recommendations in terms of relative urgency; propose a sequence and timeline for implementing recommendations, and provide summaries by facility and a summary for all facilities.

  Please see initiative CP04 for more information.

Regional cooperation

- **$75,000** for technical support to develop regional or intermunicipal approaches to providing services traditionally handled by individual governments. New Castle's elected leaders are interested in exploring different models for providing public services in cooperation with other governments. Possible models include a regional authority, regional public safety departments or a service district covering multiple municipalities. Possible areas of cooperation include public safety, parks and recreation or utility services. This funding support would enable New Castle and interested neighboring municipalities to explore specific initiatives with a view to providing the same or higher levels of service at the same or lower costs.

Parks & Recreation

- **$25,000** for a comprehensive study of New Castle's park system. The study should highlight where further investment (or reprioritized investment) may enhance existing community and economic development strategies and highlight areas of opportunity for private investment or converting parks to other uses given the City's very limited resources for maintenance and improvements.

  Please see initiative PW01 for more information.

Comprehensive Plan Update

- **$80,000** for the update of the Comprehensive Plan. 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 that would stabilize communities and attract businesses. The Plan should be updated to reflect the City's development since 2005 and provide the basis for updating the City's related regulations for zoning, land use and code.

  Please see initiative ED03 for more information.