Municipalities Financial Recovery Act

Amended Exit Plan

City of New Castle
Lawrence County, Pennsylvania



Prepared on behalf of the

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

As Filed with the City on October 30, 2020

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Introduction

On May 29, 2020, Governor Tom Wolf signed Act 23 in law, which provides an 18-month extension for municipalities designated as financially distressed according to the Municipalities Financial Recovery Act (Act 47 of 1987). For communities like the City of New Castle (the "City" or "New Castle"), the relevant provision is the following:

> *"A municipality operating pursuant to a recovery plan under the act of July 10, 1987 (P.L.246, No.47), known as the Municipalities Financial Recovery Act, shall be eligible for an 18-month extension beyond the time limit imposed under section 254 of the Municipalities Financial Recovery Act."*

Prior to this provision, New Castle's deadline to exit Act 47 was August 2022, three years after the adoption of the Exit Plan on August 23, 2019. Pursuant to Act 23 of 2020, the City's new deadline to exit Act 47 would be February 2024.

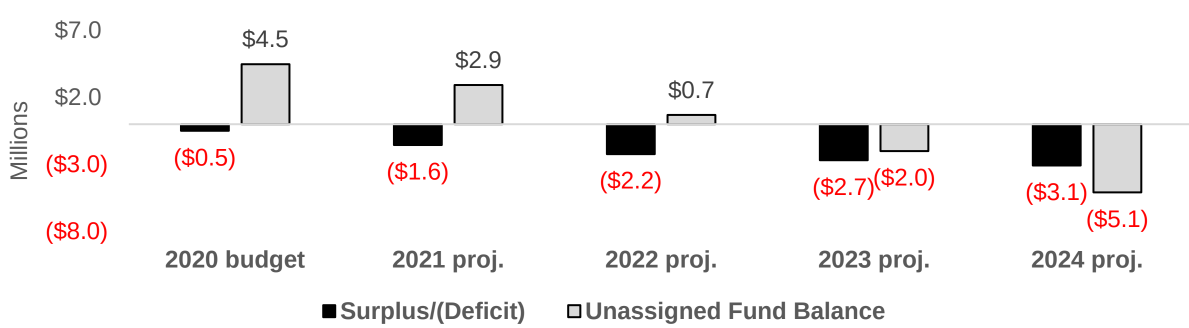
In light of this 18-month extension, the City's Recovery Coordinator – Eckert Seamans Cherin & Mellott, LLC ("Eckert Seamans") and Public Financial Management ("PFM") – prepared this Amended Exit Plan that extends the City's Exit Plan period through February 2024.

Baseline projection

Since the adoption of the 2019 Exit Plan, the City adopted the 2020 budget, negotiated new collective bargaining agreements with its four bargaining units, and privatized its trash collection services. The baseline projection therefore uses the 2020 adopted budget as the new starting point and runs through 2024 when the City is required to leave Act 47 oversight. The baseline projection also accounts for the potential impact of the COVID-19 pandemic. Lawrence County entered the "green" phase of reopening on May 29, 2020 according to guidelines provided by the Commonwealth of Pennsylvania, but telecommuting is still strongly encouraged, large gatherings are still prohibited, and many businesses are still required to operate at a 50 percent occupancy rate if they choose to reopen.[1] The Coordinator accounted for the potential impact of the pandemic and the resultant social restrictions based on year-to-date results in this baseline projection while acknowledging that there is still tremendous uncertainty regarding the trajectory of the pandemic and the economy at this time and will review and revise the projection when additional data becomes available.

Accounting for these adjustments, the Coordinator now projects deficits growing from $0.5 million in 2020 to $3.1 million in 2024 in the baseline scenario, resulting in the City running out of fund balance by the end of 2023. The following chart shows the baseline projection for the City's three primary funds.

Five-Year Baseline Projection of the City's Three Primary Funds, 2020 – 2024



[1] See Commonwealth guidelines for reopening available here: https://www.governor.pa.gov/process-to-reopen-pennsylvania/

Plan Projection

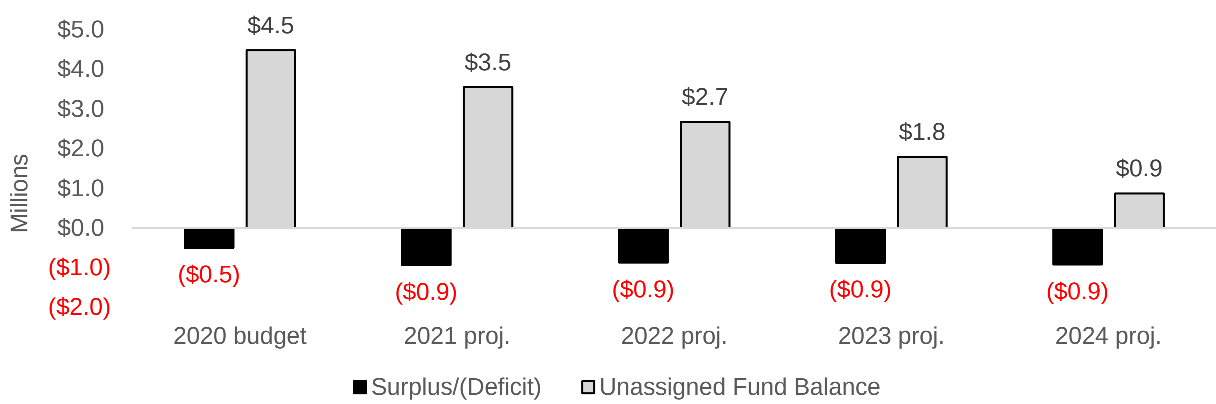
The remainder of this Plan Amendment includes the terms and provision of the 2019 Exit Plan that are amended by this Exit Plan Amendment. Except as otherwise specifically provided by the terms of this Amendment, all terms and conditions of the Exit Plan adopted by City Council and approved by the Mayor on August 23, 2019 shall remain in full force and effect.

Summary of Exit Plan Amendments

2019 Exit Plan Chapter	Amendment Action
Baseline Projection	Entire chapter replaced in this Exit Plan Amendment
Administration	Initiative AD01, AD03, and AD04 replaced in this Exit Plan Amendment
Revenue	Initiative RV01 and RV03 replaced in this Exit Plan Amendment
Economic Development	All initiatives from the 2019 Exit Plan remain valid and in effect
Workforce	Entire chapter replaced in this Exit Plan Amendment
Capital and Debt Management	Initiative CD01 and CD02 replaced in this Exit Plan Amendment

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 Projection (Includes the General, Sinking, and Pension Funds), 2020 – 2024



	2020 budget	2021 proj.	2022 proj.	2023 proj.	2024 proj.
Revenues	19,692,275	19,834,755	20,368,141	20,828,292	19,566,205
Expenditures	20,192,275	20,767,435	21,242,691	21,709,968	20,487,183
Surplus/(Deficit)	**($500,000)**	**($932,680)**	**($874,551)**	**($881,676)**	**($920,978)**
Unassigned Fund Balance	**$4,481,245**	**$3,548,564**	**$2,674,013**	**$1,792,337**	**$871,360**

Even with projected annual tax increases from 2021 to 2024 as required by initiative RV03, the Coordinator still projects negative results for each of the projected years, but they are more manageable than the multi-million dollar deficits in the baseline. The City had $5.1 million in unassigned fund balance at the end of 2018,[2] plus $2.6 million in a separate Rainy Day fund, and it will have to draw on those reserves to fund its

[2] In 2020, the City's auditor made adjustments to the City's statement of revenues, expenditures, and changes in fund balances and indicated that the unassigned fund balance as of December 31, 2018 should be adjusted to $5.1 million.

operating expenses. This is not an ideal response to the City's structural deficit, but it will help mitigate the level of tax increases or service cuts that would otherwise be necessary.

The Amended Exit Plan projects that the City will have to use $3.6 million in unassigned fund balance over the next four years to help close the remaining budget gap, which brings the City's unassigned fund balance level to $0.9 million in 2024. Including the $2.5 million in the Rainy Day Reserve as required by initiative AD04, the City will have a total fund balance of $3.4 million at the end of the 2024, equivalent to approximately 17 percent of the City's operating expenditures, the recommended minimum level of reserves for municipal governments by the Government Finance Officers Association ("GFOA").

The City's best chance to close its financial deficit in the long-term is the adoption of the Home Rule charter[3] and the use of the powers granted thereunder to keep the resident earned income tax at the level in place in 2024. In 2025, the City's debt payments will drop by $1.2 million when the debt on the 2011 pension bonds is fully repaid.[4] Home Rule would allow the City to shift part of the money currently used to repay that pension debt into the General Fund, giving the General Fund a $623,000 boost without any tax increase.[5] The General Fund reserves provide a bridge until the City can get this debt relief.

The terms and provisions included in this Exit Plan Amendment shall become effective immediately upon the adoption by ordinance by the City of New Castle.

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[3] Please refer to Exit Plan initiative RV02.

[4] Please refer to Exit Plan initiative CD01.

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

Five-Year Baseline Projection

Act 47 requires the Coordinator to project New Castle's revenues and expenditures in a baseline scenario that represents a carry-forward set of projections. This chapter provides a detailed explanation of the baseline projection that starts with the 2020 adopted budget and runs through 2024 when the City is required to leave Act 47 oversight.

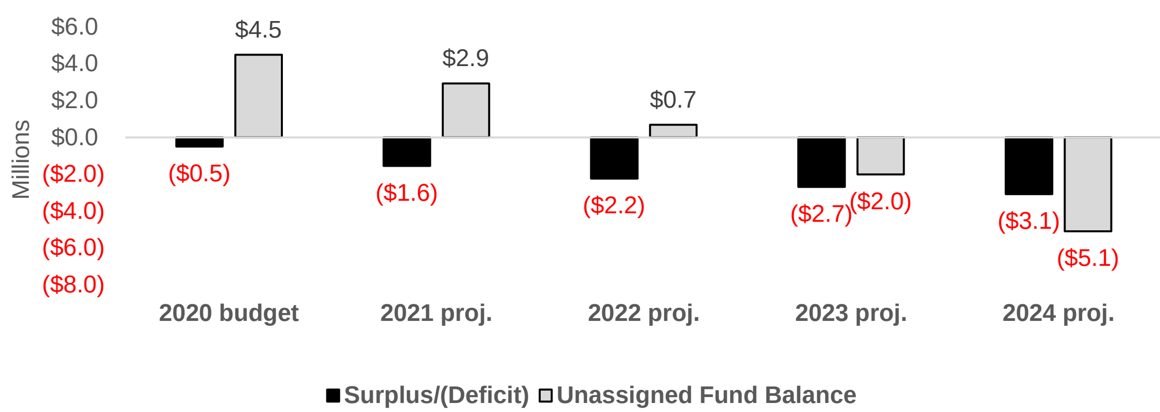
Similar to the Recovery Plan process, the baseline projection uses the most recently adopted budget as the starting point, accounts for known future changes (such as wage increases in existing collective bargaining agreements and scheduled debt payments), and then applies growth rates calculated using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

For many of the City's revenues and expenditures, the baseline uses the amounts in the most recently adopted 2020 budget and applies growth rates to project future results. On the revenue side, the baseline growth rates are calculated based on the Coordinator's analysis of historical revenue performance and trends in the underlying tax base. Since a large part of the City's locally generated revenue comes from the real estate and earned income taxes, the Coordinator reviewed changes in the total assessed value of taxable real estate and resident and commuter earnings.

This Amended Exit Plan was also written at a time of uncertainty nationally and locally regarding how the COVID-19 pandemic will impact the community's physical health and fiscal condition in 2020 and beyond. Lawrence County entered the "green" phase of reopening on May 29, 2020 according to guidelines provided by the Commonwealth of Pennsylvania, but telecommuting is still strongly encouraged, large gatherings are still prohibited, and many businesses are still required to operate at a 50 percent occupancy rate if they choose to reopen.[6] The Coordinator accounted for the potential impact of the pandemic based on year-to-date results in 2020 while acknowledging that there is still tremendous uncertainty regarding the trajectory of the pandemic and the economy at this time.

The five-year projection starts with the City's 2020 budget that shows a $500,000 deficit. Beginning in 2021, the baseline forecast projects a deficit of $1.6 million that will grow to $3.1 million in 2024, resulting in the City exhausting its fund balance by the end of 2023. Please note that the projection includes the City's three primary funds, which consist of the General, Sinking, and Pension Funds.

Five-Year Baseline Projection of the City's Three Primary Funds, 2020 – 2024



[6] See Commonwealth guidelines for reopening available here: https://www.governor.pa.gov/process-to-reopen-pennsylvania/

Five-Year Baseline Projection of the City's Three Primary Funds, 2020 – 2024

	2020 budget	2021 proj.	2022 proj.	2023 proj.	2024 proj.
Revenues	19,692,275	19,211,811	19,211,452	19,233,601	17,629,233
Expenditures	20,192,275	20,767,435	21,453,390	21,931,202	20,719,478
Surplus/(Deficit)	**($500,000)**	**($1,555,624)**	**($2,241,938)**	**($2,697,600)**	**($3,090,245)**
Fund Balance	**$4,481,245**[7]	**$2,925,620**	**$683,682**	**($2,013,918)**	**($5,104,164)**

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

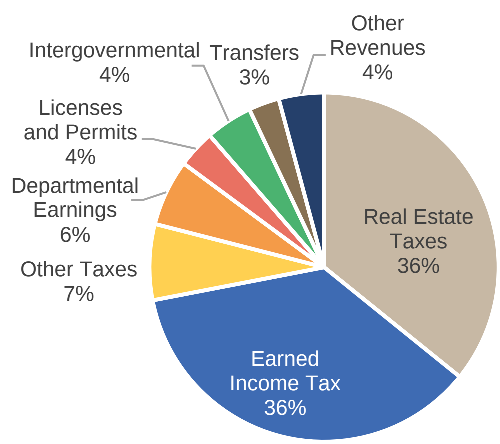
Major Revenue Assumptions

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

In aggregate, the City's operating revenues grew at an annual compound rate of 1.2 percent from 2014 to 2019, excluding the one-time transfers from the Marcellus Shale gas proceeds for capital projects.

The pie chart to the right shows the major categories of revenues in the adopted 2020 budget and the table below shows the City's operating revenues in the three primary (General, Sinking, and Pension) funds from 2014 to 2019.

2020 Revenue Budget ($19.7M)



Revenues across the Three Primary Funds, 2014-2019

	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actuals	CAGR
Real Estate Taxes	5,704,190	5,955,032	6,491,399	6,366,008	6,742,229	6,583,491	2.9%
Earned Income Tax	7,393,619	7,514,866	6,330,745	7,030,349	6,925,271	7,458,189	0.2%
Other Taxes	1,432,760	1,283,077	1,380,764	1,303,556	1,315,940	1,361,564	-1.0%
Licenses and Permits	779,720	587,616	484,602	944,560	1,058,383	714,545	-1.7%
Departmental Earnings	1,881,314	1,673,489	1,798,732	1,808,298	1,918,103	1,949,825	0.7%
Intergovernmental	760,092	1,185,430	805,071	841,872	847,846	907,195	3.6%
Transfer for capital	408,417	1,209,455	954,854	236,019	0	0	N/A
Other transfers	481,717	392,686	233,312	373,136	508,672	550,988	2.7%
Other Revenues	339,792	345,777	343,494	376,579	403,030	411,846	3.9%
Total Revenues	**19,181,621**	**20,147,427**	**18,822,974**	**19,280,378**	**19,719,473**	**19,937,643**	**0.8%**
Revenues excl. capital[8]	**18,773,204**	**18,937,972**	**17,868,120**	**19,044,359**	**19,719,473**	**19,937,643**	**1.2%**

[7] In 2020, the City's auditor made adjustments to the City's statement of revenues, expenditures, and changes in fund balances and indicated that the unassigned fund balance as of December 31, 2018 was $5.1 million. The City's preliminary 2019 result shows a deficit of $135,000. Including the $500,000 projected use of fund balance in the 2020 budget, the baseline projects the City finishing 2020 with $4.5 million in unassigned fund balance.

[8] This line excludes transfers from the Marcellus Shale Gas Fund to the General Fund used for capital projects.

Real estate tax

The City's real estate tax represents more than one-third of the City's total revenues. For 2020, the City projects approximately $7.1 million will come from this source, including delinquent payments. The City levied a 15.476 mill real estate tax in 2020 that is directed to the General, Debt Service, and Library Funds.

	2020 Tax Rate	Est. Real Estate Tax Revenues
General Fund	13.39	5,610,600
Debt Service Fund	1.91	801,181
Library Fund	0.177	74,180
Current Year Revenues	**15.476**	**$6,485,961**
Prior Year Revenues	**N/A**	$566,764
Total Revenues	**N/A**	**$7,052,725**

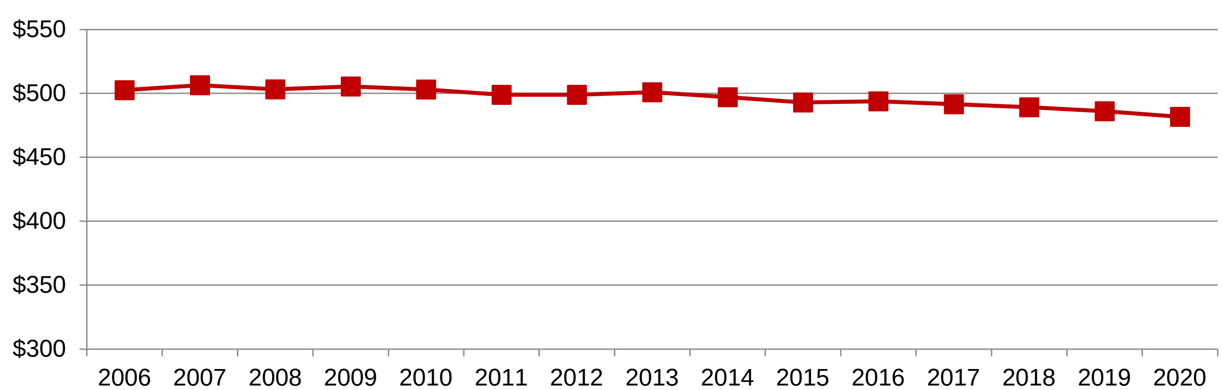
Prior to 2016, the County Tax Claim Bureau collected delinquent taxes on behalf of New Castle. Based on the Coordinator's recommendation in the 2015 Amended Recovery Plan,[9] the City contracted its delinquent real estate tax collection to a third-party collector in 2016. While the intended outcome of that effort was to improve delinquent collections, the practical impact was that the collection rate for the City's current year taxes improved significantly. The City saw an increase in its current year collections from 84 percent in 2015 to 89 percent in 2018, despite tax increases each year. Preliminary 2019 results show that the City's current year collection rate staying near that level. Prior year real estate tax revenues have declined, partially because higher current year collections reduce the number and size of delinquent accounts.

Total Current Year Real Estate Tax Revenue

	2014	2015	2016	2017	2018	2019
General Fund	4,551,609	3,715,909	4,491,990	5,011,141	5,173,151	5,006,091
Sinking Fund	181,044	1,048,394	847,826	815,369	942,399	1,042,607
Library Fund	73,098	72,640	75,923	69,788	85,596	81,429
Total	**4,805,751**	**4,836,944**	**5,415,740**	**5,896,298**	**6,201,146**	**6,130,126**
Tax Rate (Mills)	**11.726**	**11.726**	**12.726**	**13.726**	**14.226**	**14.226**
Collection Rate	**82.5%**	**83.7%**	**86.2%**	**87.4%**	**89.1%**	**88.7%**

The City's real estate tax base has continued its slow decline. The taxable assessed value in 2020 was 3.8 percent (or $19.2 million) lower than in 2013 and 4.1 percent (or $20.8 million) lower than in 2006.

Taxable Assessed Values, 2006 – 2020 (in millions)



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

Net of all these changes, the City's total real estate revenues increased by 15.4 percent from 2014 through 2019, even though the tax rate increased by over 20 percent. The following table details the City's current and prior year tax revenues during the six-year period.

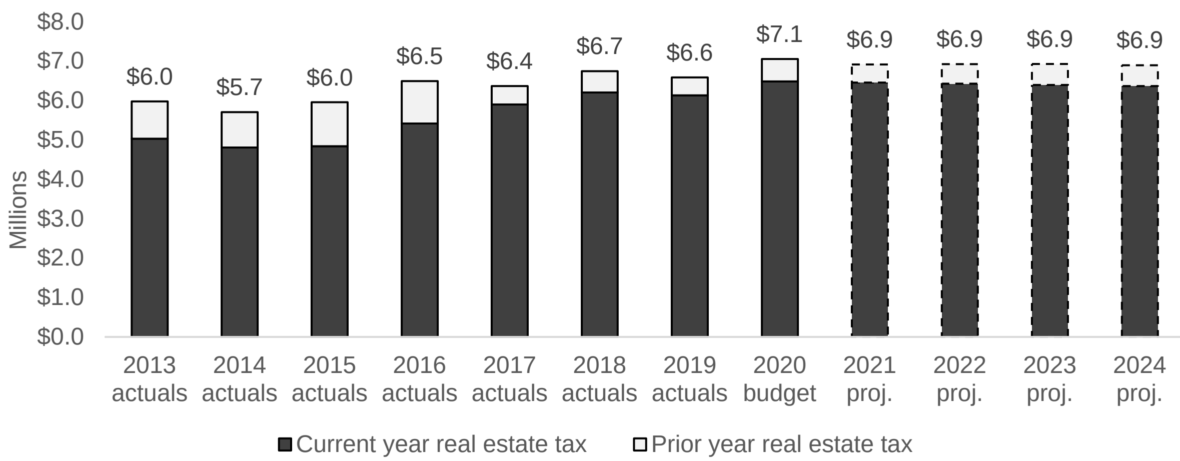
Real estate tax revenues, 2014 - 2019

	2014 actual	2015 actual	2016 actuals	2017 actuals	2018 actuals	2019 actuals	2014-19
Taxable assessed values (millions)	$497.0	$493.0	$493.8	$491.5	$489.2	$486.1	-2.2%
Tax rate	11.726	11.726	12.726	13.726	14.226	14.226	21.3%
Collection rate	82.5%	83.7%	86.2%	87.4%	89.1%	88.7%	7.5%
Current year revenues	**4,805,751**	**4,836,944**	**5,415,740**	**5,896,298**	**6,201,146**	**6,130,126**	27.6%
Prior year revenues	**898,439**	**1,118,089**	**1,075,659**	**469,710**	**541,083**	**453,365**	-49.5%
Total real estate revenues	**5,704,190**	**5,955,032**	**6,491,399**	**6,366,008**	**$6,742,229**	**$6,583,491**	**15.4%**

The baseline projection holds the real estate tax rate at the current level (15.476 mills after the 2020 tax increase) and assumes the taxable assessed value will drop by 0.5 percent annually, consistent with recent trends. Current year real estate tax revenue would drop from $6.5 million in 2020 to $6.4 million in 2024. The baseline projection also carries forward the 87 percent collection rate assumed in the 2020 budget, even though the City's collection rate was close to 89 percent in 2018 and 2019, on the assumption that the COVID-19 pandemic may result in lower collection rates moving forward.

From 2017 to 2019, the City averaged $0.5 million in annual delinquent tax revenues. While the 2020 budget projects $0.6 million in revenues, the Coordinator reduces the 2021 projection to $0.5 million and projects the City will collect approximately 18 percent of the prior three years' delinquent taxes, consistent with the actual results in 2019.

Historical and Projected Real Estate Tax (All Funds)



	2014	2015	2016	2017	2018	2019	2020
General Fund	11.18	8.969	10.58	11.58	11.52	11.52	13.39
Debt Service	0.369	2.58	1.97	1.97	2.53	2.53	1.91
Library	0.177	0.177	0.177	0.177	0.177	0.177	0.177
Total Millage	**11.726**	**11.726**	**12.726**	**13.726**	**14.226**	**14.226**	**15.476**

Earned income tax

The **earned income tax** is the City's single largest revenue source, representing 36 percent of the total operating budget. The City's adopted 2020 budget anticipates $7.1 million in EIT revenue, including prior year receipts. That revenue flows into the General Fund where it supports daily operations ($3.3 million), the Sinking Fund where it covers pay pension bond debt service ($1.8 million) and the Pension Fund that the City uses to make its annual contribution to the employee pension plans ($2.0 million).

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

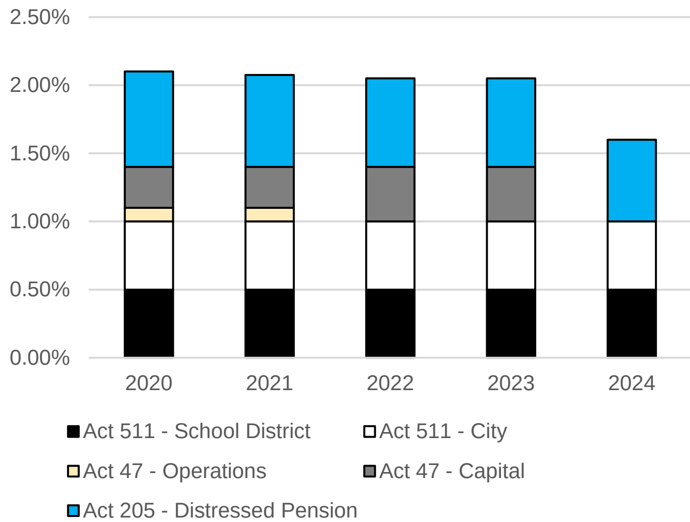
Authorizing law	Funding purpose	2020 EIT Rate
Act 511 of 1965	Fund daily operations in the General Fund	1.0% Resident (Split with School District) 1.0% Non-resident**
Act 47 of 1987	Fund daily operations in the General Fund	0.1% Resident 0.1% Non-Resident
Act 47 of 1987	Fund capital improvement projects	0.3% Resident 0.2% Non-Resident
Act 205 of 1984	Fund City contribution to employee pension plans (including a portion of the pension bond debt)	0.7% Resident 0.7% Non-Resident
	Total	**2.1% Resident** **2.0% Non-resident**

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

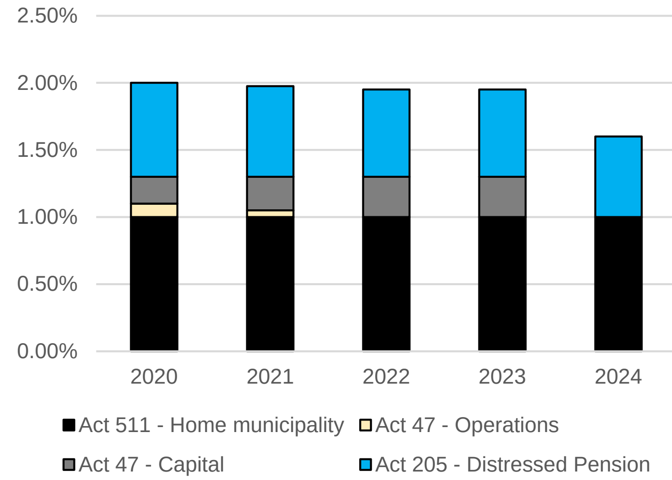
The deadline to exit Act 47 translates to the loss of the Act 47 taxing authority on residents and commuters. To help prepare for this eventuality while still providing the necessary capital funding the City needs to maintain its infrastructure, the baseline projection assumes that the City will gradually shift the operations portion of the Act 47 EIT toward capital uses. The receipts from the capital portion of the Act 47 EIT cannot be used to support operations, retire existing debt or cover the City's pension costs, but can provide funding for capital improvement projects such as vehicle replacement, building repairs, and road paving. Beginning in 2024, the entire Act 47 levy is eliminated in the baseline projection. The baseline does not account for any Home Rule Charter that would allow the City to levy a higher resident tax rate beyond 2023, though that remains an important part of the strategy for New Castle to exit Act 47 oversight.

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

Projected Resident EIT rates

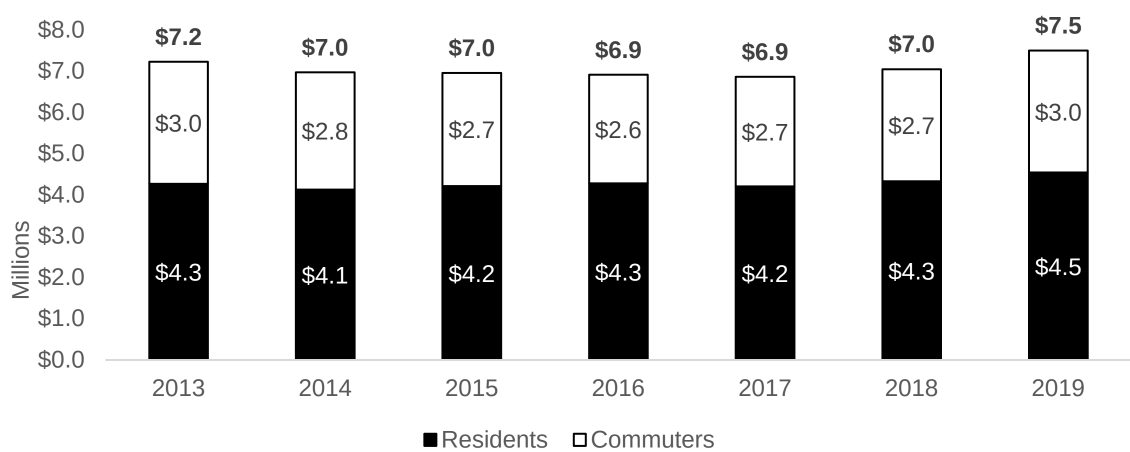


Projected Commuter EIT rates



Looking at the historical EIT trends, revenues from residents and commuters dropped by 3.5 percent from 2013 to 2014 across all payers. Total EIT revenues were flat from 2014 through 2018, and then there was an uptick in total revenues in 2019. On average, EIT revenue increased by 1.9 percent per year for residents and 0.8 percent for commuters from 2014 to 2019.

Total EIT Revenues, 2012 – 2019 (on a cash basis)



Tax base growth has been a little more positive than tax revenue growth. We calculate the amount of revenue each 1.0 percent generates on a cash basis to get a clearer picture of how resident and commuter earnings are changing, once we account for any changes in the tax rate[10]. The amount of revenue generated per 1.0 percent of EIT increased by 2.6 percent per year for residents and 1.8 percent for commuters from 2014 to 2019.

[10] . The 2015 Amended Recovery Plan anticipated that the City would have to eliminate the Act 47 EIT by 2019 so there was a small tax rate decrease in 2016. Total EIT for residents dropped from 2.15% in 2015 to 2.10% in 2016 and total EIT for commuters dropped from 2.05% to 2.0% in 2016.

Revenues per 1.0% in EIT (on a cash basis), 2014 - 2019

	2014	2015	2016	2017	2018	2019	2014-19 CAGR
Resident revenues	2,499,679	2,552,147	2,673,090	2,624,817	2,703,110	2,836,791	2.6%
Commuters revenues	2,703,567	2,609,253	2,627,993	2,654,821	2,714,970	2,950,769	1.8%
Total	**$5,203,246**	**$5,161,400**	**$5,301,082**	**$5,279,637**	**$5,418,081**	**$5,787,560**	**2.2%**

In addition to reviewing the historical receipts, the Coordinator reviewed economic trend data. The US Census Bureau's American Community Survey (ACS) tracks New Castle residents' earnings in different ways. As the table below shows, this external data shows growth for most earnings measures before the pandemic, though the pace of that growth varies by indicator. Mean earnings for residents who worked full-time and year-round rose by 3.0 percent per year, but median earnings for residents who are 16 years and over dropped by 1.0 percent annually.

New Castle	2013	2014	2015	2016	2017	2018	CAGR
Median earnings for people 16 years and over	$25,646	$26,044	$25,143	$25,172	$24,955	$24,373	-1.0%
Mean earnings for full-time, year-round workers	$39,097	$41,670	$41,781	$42,007	$45,582	$45,336	3.0%
Per capita income	$17,945	$18,463	$19,206	$19,286	$20,636	$21,086	3.3%
Median household income	$29,559	$29,762	$30,422	$31,557	$31,044	$33,451	2.5%

Source: US Census Bureau, American Community Survey, five-year estimates[11]

Another variable in the earned income tax base is the number of employed residents. From 2013 to 2018, the number of employed residents decreased by 0.7 percent on an average annual basis according to the US Bureau of Labor Statistics' Local Area Unemployment Statistics ("LAUS").

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

Lawrence County, 2013 – 2018

Lawrence County	2013	2014	2015	2016	2017	2018	CAGR
Median earnings for people 16 years and over	27,305	$28,092	$28,669	$29,677	$30,026	$30,484	2.2%
Mean earnings for full-time, year-round workers	46,595	$47,922	$49,805	$51,642	$54,381	$54,926	3.3%
Per capita income	22,906	$23,519	$24,450	$25,614	$26,918	$27,734	3.9%
Median household income	43,546	$43,991	$44,571	$45,764	$47,188	$48,860	2.3%

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

While there was some growth in earnings, the number of employed County residents declined during the same period, dropping by 0.6 percent on an annual average basis, according to the Bureau of Labor Statistics.

[11] At the time of analysis, the most recent ACS data available was through 2018.

COVID-19 Impact on the EIT

The Coordinator has closely monitored the limited data available to date on how the COVID-19 pandemic is impacting New Castle's EIT revenues. Lawrence County moved from the most restrictive "red" phase to the "yellow" phase on May 8, 2020 and then the "green" phase on May 29, 2020. Under the current "green" phase of reopening, businesses may operate at a lower capacity, but telecommuting is still strongly encouraged and large gatherings are still prohibited.

There is a time lag between when income is earned and when the associated EIT is remitted to the City, so New Castle only started to see the pandemic's impact in its Q3 2020 figures.[12] As shown in the table below, through September 2020, the City's earned income tax revenues have declined by 1.9 percent but there was no change in Q3 revenues relative to last year.

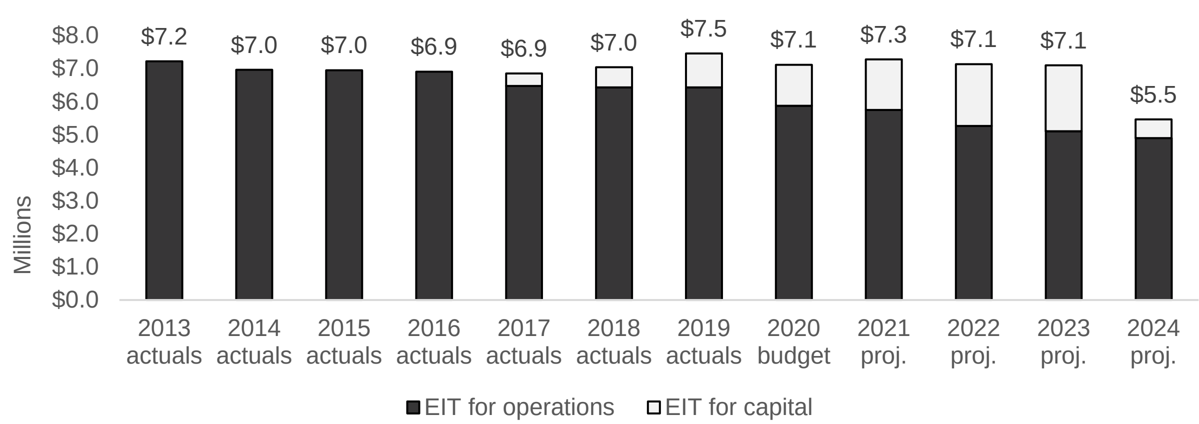
Earned Income Tax Revenues on a Cash Basis, Q1 through Q3 in 2019 and 2020

	2019	2020	Change ($)	Change (%)
Q1	$1,959,346	$1,965,617	$6,271	0.3%
Q2	$1,839,971	$1,726,864	-$113,107	-6.1%
Q3	$1,839,369	$1,840,759	$1,390	0.1%
Q1 thru Q3	**$5,638,686**	**$5,533,239**	**-$105,446**	**-1.9%**

Since the City's revenues in the third quarter were essentially the same as 2019, the Coordinator projects EIT revenues in Q4 2020 to remain the same as in Q4 2019. Given the uncertainty regarding the trajectory of the pandemic and the economy at this time, the Coordinator projects EIT tax base to remain flat at 2020 levels from 2021 through 2024 and will review and revise the projection when additional data becomes available.

The following table shows total historical and projected EIT revenues, including the amount designated for capital projects as the City gradually shifts its operations Act 47 EIT toward capital uses. The projection also assumes the Act 205 EIT to drop from 0.70 percent in 2020 to 0.675 percent in 2021 and to 0.65 percent in 2022, although 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). In 2024, the City will lose the Act 47 taxing authority provided, but there will still be some prior year revenue for capital improvement projects from the tax levied in the prior year.

Historical and Projected EIT Revenues (All Funds)[13]



[12] Revenues received during Q2 2020 were based on resident and commuter earnings during Q1 2020, before the pandemic.

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

Projected EIT Revenues (All Funds)

	2020 budget	2021 proj.	2022 proj.	2023 proj.	2024 proj.
EIT for operations	5,874,837	5,750,469	5,265,482	5,103,879	4,897,809
EIT for capital	1,242,477	1,530,671	1,872,530	1,994,041	563,762
Total	**$7,117,314**	**$7,281,139**	**$7,138,012**	**$7,097,920**	**$5,461,571**

Other taxes

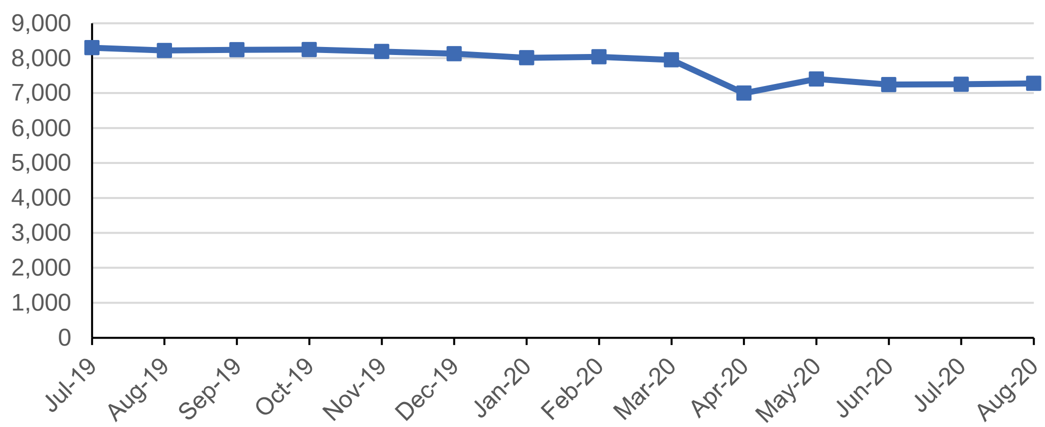
The City projects collecting $1.4 million (or 7.0 percent of the 2020 budget) from other taxes, the largest of which are the local services tax ($430,000) and the business gross receipts tax ($567,000), which includes both the mercantile and business privilege taxes. This category also includes $115,000 in real estate (or deed) transfer tax revenues, which vary depending on the number of residential and commercial property sales.

There are other, smaller amounts of tax revenues in the 2020 budget, including payment in lieu of taxes, interest and penalties related to the real estate tax, and delinquent EIT revenue that was due to the City before collection responsibilities shifted to Berkheimer in 2012.[14] These revenues totaled $271,000 in the 2020 budget.

From 2013 to 2019, the other tax revenue category dropped from $1.5 million to $1.4 million, driven primarily by a decline in business gross receipts tax. Based on the actual receipts, the City adjusted the projection in 2020 for the business gross receipts from $721,000 to $567,000, the approximate three-year averages from 2016 to 2018. With the COVID-19 pandemic, the baseline projects $522,000 for 2021 and assumes revenues to gradually return to historical averages in 2022.

Local services tax revenue projections are also reduced to account for the lower employment levels. Employment in New Castle dropped by 12.9 percent from 8,038 in February 2020 to 7,000 in April 2020 and, despite some rebound in May, remains lower than it was before the pandemic according to data released by the Bureau of Labor Statistics.

City of New Castle Employment, July 2019 – August 2020

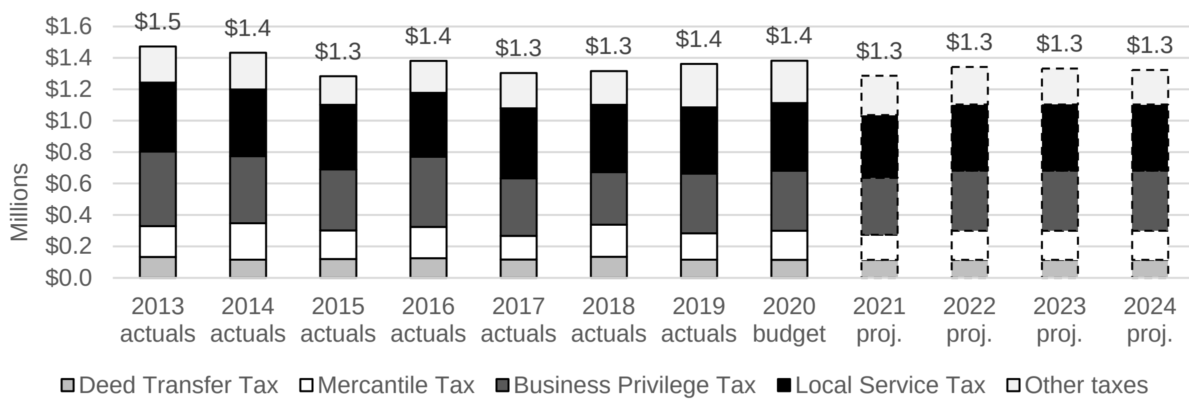


Source: Bureau of Labor Statistics, Local Area Unemployment Statistics (includes preliminary August 2020 data)

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

The Coordinator maintained the deed transfer revenue projection at $115,000 given that revenues have been flat according to results through June this year. Finally, the Coordinator reduced the projections for delinquent EIT revenues from before 2012. The baseline projection assumes that this revenue will drop from $55,000 in 2020 to $15,000 in 2024 as these revenues are related to older accounts and should gradually decline.

Other taxes, 2013 - 2024



Departmental earnings

Departmental earnings are largely service charges paid by an individual or organization that directly benefits from the service. This category totaled $1.2 million in the 2020 budget and accounts for 6.2 percent of the City's total revenues across the General, Sinking, and Pension funds. Departmental earnings dropped from $1.9 million in 2019 to $1.2 million this year largely because the City privatized its trash collection services in April 2020 as required by the 2019 Exit Plan.[15] The City's trash collection revenue dropped from $882,000 in 2019 to $200,000 this year, and the baseline projects this revenue to be zeroed out beginning in 2021.

This category also includes employee contributions to the cost of health insurance. They fluctuate depending on the cost of health insurance, which is discussed more fully in the next section on underlying expenditure assumptions.

Golf course revenues have been growing at an annual rate of 2.9 percent from 2013 to 2019, but the recent years' growth came after years of revenue decline. The baseline projection therefore projects the City to collect $202,000 in 2021, approximately twice the amount the City collected this year through June. Moving forward, the baseline projects golf course earnings to remain flat at $202,000 absent additional fee increases. The City also budgeted $80,000 in golf cart rental fees in 2020 that is also projected to remain flat.

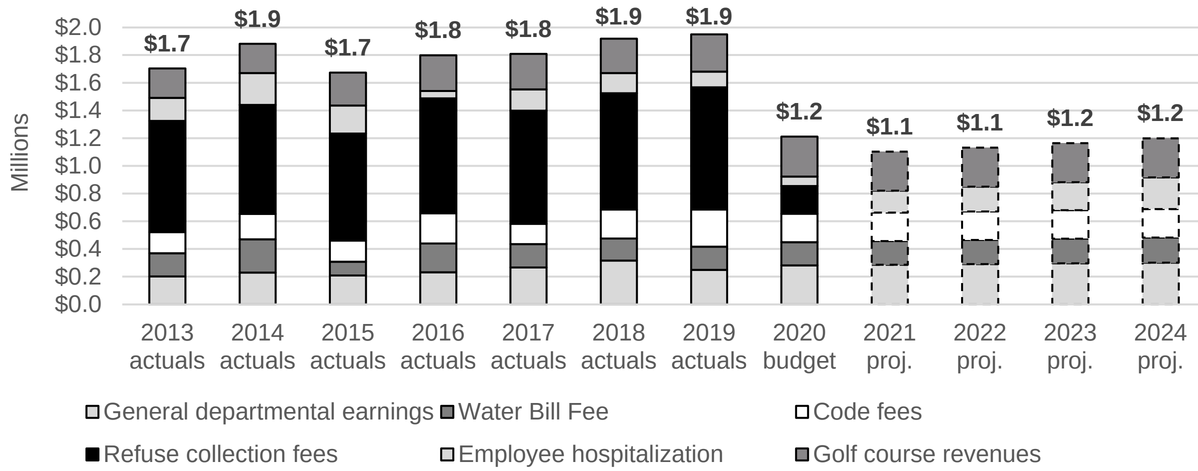
Code enforcement fees dropped from $205,000 in 2010 to $152,000 in 2013 and have fluctuated since then. Through Q2 2020, the City only collected $73,000 in code enforcement fees compared to $110,000 through the same period in 2019 in part because two full-time code officers were vacant for the first half of the year. The City also furloughed its two Code Enforcement Officers in April when the stay-at-home restrictions first began and brought them back on a full-time basis in August 2020. The baseline projection maintains the 2020 projected code enforcement revenues while maintaining the full salary allocation for the Code Enforcement Department.[16] If the City is unable to fill the current vacancies in the Department, the salary savings generated would be offset by lower revenues, as was the case in the first half of 2020.

[15] Please refer to initiative ED01 on p. 50 of the 2019 Exit Plan.

[16] Please refer to initiative WF08 in the 2020 Amended Exit Plan.

The remaining departmental earnings, which include the water bill fee and security services for Taylor Township and the School District, are all projected to grow at the projected inflationary growth rate of 1.9 percent.[17]

Departmental Earnings, 2013 - 2024

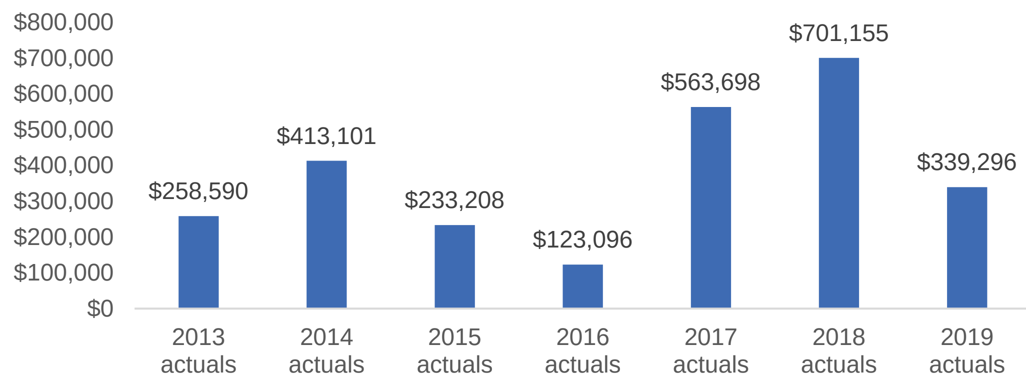


Licenses and permits

The City budgeted $688,000 for license and permit revenues in 2020, which consist primarily of the building permits and cable access television (CATV) permit revenues. From 2013 to 2017, the City's CATV permit revenues grew from $307,000 to $319,000, or an annual average growth of 1.0 percent. Since 2017, this revenue has been declining, dropping to $296,000 in 2019. The baseline projection therefore adjusts the 2021 projection from $315,000 in the 2020 budget to $300,000 and maintains this revenue flat throughout the projection period.

Building permit revenues have fluctuated depending on the number and scale of construction projects in the City. The City had more than $500,000 in revenues in 2017 and 2018 because of one-time construction and renovation projects. The following chart shows the City's building permit revenues from 2013 to 2019.

Buildings Permit Revenues, 2013 - 2019



[17] Q3 2020 Survey of Professional Forecasters published by the Federal Reserve Bank of Philadelphia projects 1.9 percent for the long-term average inflationary growth from 2020 to 2024.

Through Q2 2020, the City only collected $98,000 in building permit revenues. Based on the historical trends, the sporadic nature of this revenue, and the potential impact of the COVID-19 pandemic, the Coordinator adjusted the 2021 projection to $300,000 to exclude the one-time increase in 2018 and to account for the potential dampening of construction activities in the pandemic environment. Beginning in 2022, the baseline projects this revenue to return to the five-year average revenues from 2013 to 2018 ($318,000) and grow by 1.9 percent each year, equivalent to the projected inflationary growth.[18]

Intergovernmental revenues

The largest intergovernmental revenue the City collects is the Commonwealth pension aid, which is recorded in the City's Pension Fund. The amount of aid that New Castle receives is a byproduct of its employee headcount and the amount of revenue that the Commonwealth collects from taxes on out-of-state insurance policies. From 2005 to 2020, the Commonwealth aid unit value grew by 3.5 percent on an annual average basis. The baseline forecast therefore projects a 3.5 percent growth, assuming headcount remains the same throughout the projection period.

The City also collects a small amount of grants and gifts in the General Fund from the Federal, Commonwealth, and County governments. The City budgeted $89,000 in 2020 for grants and gifts, the largest grant of which is a $37,000 grant from the Federal Drug Enforcement Administration. The baseline projection maintains these grants and gifts at the same level as the 2020 budget.

Transfers

This category consists of interfund transfers from special funds to the General Fund. As of 2020, the City has three recurring transfers from other funds:

- **Transfer from liquid fuel**: This allocation from the Commonwealth helps cover street-related expenditures like road paving, road salting, and street lighting. The City budgeted $325,000 in transfers from liquid fuels and the baseline projection assumes that the transfers will remain at the same level.

- **Transfer from CDBG**: The City uses a portion of its Federal Community Development Block Grant (CDBG) funding to cover its administrative and code enforcement expenditures. The City also uses a part of its CDBG funding for building demolition. The City budgeted $150,000 in transfer from CDBG in its 2020 budget, even though the last time the City transferred that amount to the General Fund was in 2014. The baseline therefore reduces the transfer to $113,000, the average revenue from 2017 to 2019, and maintains it at the same amount throughout the projection period.

- **Transfer from Parking:** The City also budgeted a $84,000 transfer from its Parking Fund in 2020. These are revenues the City receives from the parking meters, surface lots, and the North Mercer Street garage. This revenue averaged $104,000 from 2012 to 2016 but has ranged between $70,000 and $94,000 since 2017. Given the revenue decline in recent years that was driven in part by the need for repairs and maintenance at the North Mercer Street garage, the baseline projection assumes the transfer to drop at an annual rate of two percent, equivalent to the average annual drop from 2016 to 2019.

Other revenues

This category includes miscellaneous revenues, including fines and forfeits, school district tax collection fees, and reimbursements from the Commonwealth for snow removal. It also includes the reimbursement to the General Fund from the Pension Funds' investment account for the cost of administering these plans. In aggregate, these revenues totaled $824,000 in the 2020 budget that includes $262,000 in one-time

[18] Q3 2020 Survey of Professional Forecasters published by the Federal Reserve Bank of Philadelphia projects 1.9 percent for the long-term average inflationary growth from 2020 to 2024.

revenues as a result of the debt refinancing in 2019. The baseline projection therefore eliminates those one-time revenues beginning in 2021 and projects this category to grow at 0.6 percent annually from $566,000 in 2021 to $576,000 in 2024.

Summary of revenues

Aggregating all the revenue categories, the baseline projection shows total operating revenues at a lower level in 2021 than budgeted for 2020. They remain flat in 2022 and have very modest growth in 2023, and then drop in 2024 when the City can no longer use the Act 47 authorized EIT.

Baseline Projection of the Three Primary Funds (Revenues), 2020 – 2024

Baseline Projection of the Three Primary Funds (Revenues), 2020 – 2024

	2020 budget	2021 proj.	2022 proj.	2023 proj.	2024 proj.	CAGR
Real Estate Taxes	7,052,725	6,915,668	6,923,734	6,926,304	6,894,406	-0.6%
Earned Income Tax	7,117,314	7,281,139	7,138,012	7,097,920	5,461,571	-6.4%
Other Taxes	1,383,116	1,286,561	1,343,238	1,333,238	1,323,238	-1.1%
Licenses and Permits	687,843	655,540	674,934	682,058	689,317	0.1%
Departmental Earnings	1,211,171	1,103,212	1,132,390	1,164,418	1,199,412	-0.2%
Intergovernmental	856,814	883,678	911,483	940,261	970,046	3.2%
Other transfers	558,849	519,875	518,231	516,621	515,043	-2.0%
Other Revenues	824,444	566,138	569,430	572,783	576,201	-8.6%
Total Revenues	**$19,692,275**	**$19,211,811**	**$19,211,452**	**$19,233,601**	**$17,629,233**	**-2.7%**

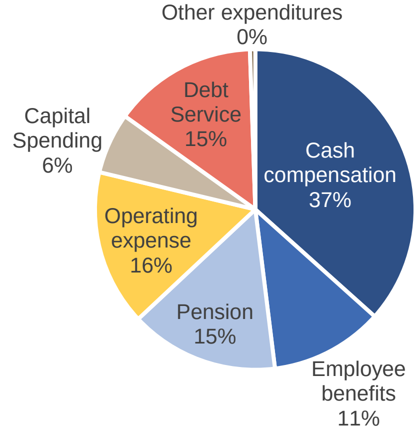
Major expenditure assumptions

Like other Pennsylvania local governments, the majority of New Castle's spending is on its employees. In the City's 2020 budget, almost two-thirds of its budget is allocated to employees' cash compensation, health benefits, and the City's contribution to the employee pension plan. Another 15 percent goes toward debt service payments, which totaled $2.9 million in the 2020 budget.

In aggregate, the City's operating expenditures grew at an annual average rate of 1.0 percent from 2014 to 2019, excluding capital spending.

The pie chart to the right shows the major categories of expenditures in the adopted 2020 budget, and the table below shows the City's expenditures in the three primary funds from 2014 to 2019.

2020 Expenditure Budget ($20.2 million)



Expenditures across the Three Primary Funds, 2014-2019

	2014 actuals	2015 actuals	2016 actuals	2017 actuals	2018 actuals	2019 actuals	CAGR
Cash compensation	7,154,914	7,219,669	6,973,744	6,933,886	6,980,208	7,064,734	-0.3%
Employee benefits	2,830,402	2,820,295	2,219,244	2,268,156	2,133,822	2,485,817	-2.6%
Pension	2,354,001	3,005,567	2,998,155	3,013,273	3,051,171	3,166,998	6.1%
Operating expenses	3,051,577	3,151,535	3,067,135	3,125,305	3,616,635	3,504,552	2.8%
Capital Spending	408,417	1,619,151	954,854	461,269	609,423	1,026,598	20.2%
Debt Service	2,636,227	2,354,784	2,296,840	2,956,133	2,878,029	2,736,993	0.8%
Other expenditures	82,696	79,002	86,223	97,796	91,542	86,732	1.0%
Total	**$18,518,234**	**$20,250,003**	**$18,596,195**	**$18,855,818**	**$19,360,829**	**$20,072,423**	**1.6%**
Expenditures excl. capital	**$18,109,817**	**$18,630,852**	**$17,641,341**	**$18,394,549**	**$18,751,406**	**$19,045,825**	**1.0%**

Cash compensation

This category includes employees' base salaries, longevity, holiday pay, incentive payments, clothing allowance, shift differential, and overtime. Since adopting the 2019 Exit Plan, the City has negotiated new collective bargaining agreements with its four bargaining units – the Fraternal Order of Police ("FOP"), International Association of Firefighters ("IAFF"), Laborers, Local No. 964 – Public Works, and Laborers, Local No. 964 – Clerical. All of those bargaining agreements complied with the 2019 Exit Plan provision and are set to expire at the end of 2022.

Employee Group Contract Term and Headcount

Group	Covered positions include	2020 budgeted positions	Contract term
FOP, Lodge 21	All full-time police officers except the Chief	36	1/1/20 - 12/31/22
Laborers, Local No. 964 - Public Works	Laborers, equipment operators, refuse collectors, tradesmen	23	1/1/20 - 12/31/22

Group	Covered positions include	2020 budgeted positions	Contract term
IAFF, Local No. 180	All full-time fire fighters except the Chief	20	1/1/20 - 12/31/22
Laborers, Local No. 964 - Clerical	Most clerical and administrative support positions including treasury and records clerks and financial and legal assistants	10	1/1/20 - 12/31/22
Non-represented[19]	Department directors, elected officials, code officers, part-time employees including police and fire	19 full-time 36 part-time	N/A
Total		**108 full-time** **36 part-time**	

From 2015 to 2019 employee cash compensation dropped by $155,000 (or 2.1 percent) even though employees received either annual wage increases of 2.0 percent or one-time bonuses in each of those years. Part of the reason cash compensation growth was lower than the annual wage increases is because the City eliminated positions to control expenditure growth. Between 2015 and 2019, the City eliminated the economic development director position and one firefighter position. Since the establishment of the stormwater fee, the sewer operator position was moved to the Sanitation Authority.

The second reason for the cash compensation trend was because the City reduced overtime spending in the Fire Department. During the labor negotiations with IAFF in 2017, the City and IAFF agreed that while the minimum manning level of on-duty firefighters continues to remain at five, part-time firefighters shall be counted toward that minimum manning level. Part-time firefighters previously were not counted toward the five-person minimum. In part due to this new provision, Fire Department overtime dropped from $242,000 in 2015 to $171,000 in 2019, representing a 29.4 percent decrease. The City also saw savings from turnover in recent years, particularly in the Clerical and Public Works union.

As a result of these efforts, the City's total cash compensation dropped from $7.2 million in 2015 to $7.1 million in 2019.

Total Cash Compensation, 2015 - 2019

	2015 actuals	2016 actuals	2017 actuals	2018 prelim	2019 actuals
Salaries and Longevity	6,169,718	6,004,667	6,009,004	6,047,292	6,160,819
Other Cash Compensation	506,754	450,529	478,998	469,964	467,509
Overtime	543,197	518,548	445,884	462,952	436,406
Total Cash Compensation	**$7,219,669**	**$6,973,744**	**$6,933,886**	**$6,980,208**	**7,064,734**

The 2020 budget allocates $7.4 million for employee cash compensation, which is $331,000 (or 4.7 percent) higher than actual spending in 2019 in part because of wage and step increases for employees. The City also does not assume any vacancy or attrition savings in the adopted budget. Actual spending in 2020 will be lower than budgeted because the City furloughed 20 full-time and 5 part-time employees in April and had seven full-time employees working at 50 percent capacity when the statewide stay-at-home restrictions were in place as a result of the COVID-19 pandemic.

The City gradually brought back the furloughed employees and, as of October 2020, still had five full-time vacancies that result in additional salary savings. As a result, the City only spent 45.2 percent of its budget for cash compensation midway through the year.

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

Looking forward, the baseline projection assumes headcount to stay at the 2020 budgeted level over the projection period. All employees, apart from elected officials, are projected to receive annual across-the-board wage increases according to the provisions in the current collective bargaining agreements, which expire at the end of 2022. Beginning in 2023, the baseline projects all employees, apart from elected officials, to receive across-the-board wage increases of 2.0 percent. The projection also assumes that police officers and firefighters who are not already at the maximum step will continue to receive step increases.

Employee benefits

This category includes the City's payments for employee health and life insurance, Social Security, Medicare, unemployment compensation, and workers' compensation. Health insurance spending for active and retired employees represents over 70 percent of the spending in this category. From 2015 to 2019, the City's health insurance expenditures, net of the employees' contribution, dropped from $1.8 million to $1.5 million.[20]

Health Insurance Cost, 2015 - 2019

	2015 actuals	2016 actuals	2017 actuals	2018 actuals	2019 actuals
Gross health insurance (active employees)	1,694,775	1,372,264	1,322,224	1,270,417	1,269,853
Gross health insurance (retirees)	338,772	212,775	301,232	308,145	342,275
Employee contributions (revenues)	202,776	52,885	153,826	145,020	113,712
City net cost	**$1,830,771**	**$1,532,153**	**$1,469,630**	**$1,433,541**	**$1,498,417**

The City's expenditures on employee health insurance have been stable since 2017 partly because the number of covered employees has dropped. The number of employees opting out of City coverage increased from 12 in 2015 to 25 in 2020. The baseline projects gross health premiums to grow at 7.0 percent annually based on the national health trend survey published by Segal Consulting.[21] The baseline also assumes the City's contribution to the cost of health insurance increases by five percent a year.

Pension

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

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

- The **normal cost** is the amount that the City contributes 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.

[20] Part of the reason health insurance growth was lower than projected was because the City now has fewer employees and has more employees who elect not to use City health insurance coverage and opt to receive an annual payment of $2,500 "in lieu of" coverage. In 2020, there are 25 employees who opted to receive "in-lieu" payments, compared to only 12 employees in 2015.

[21] The 2020 Segal Health Trend Survey projects that high-deductible health plan (HDHP) costs will grow at 7.0 percent and PPO and POS plan costs will grow at 6.8 percent to 7.2 percent depending on accessibility.

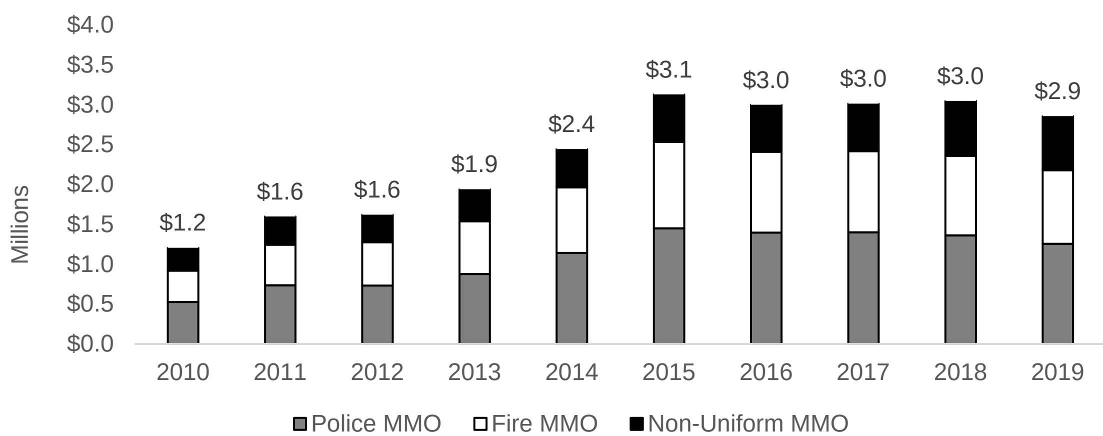
- The **amortization component** is the amount the City contributes to cover the unfunded liability from prior years' service. This is the largest component of the MMO.

- The **administrative expense** is the anticipated cost of running the pension plan.

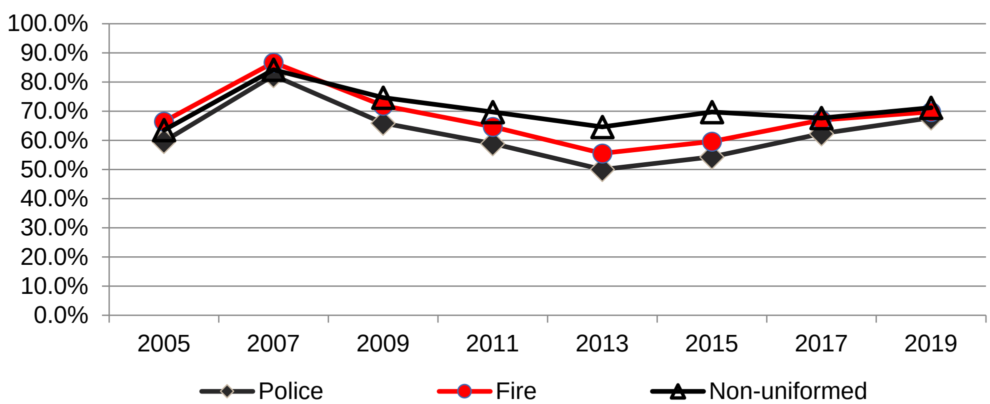
The MMO calculation also accounts for employee contributions to the pension plans. Employees contribute a percentage of their earnings as determined through negotiation and law.[22]

After increasing by an annual rate of 21.0 percent from 2010 to 2015, the City's MMO costs have stabilized since 2016, and, according to the most recent actuarial valuation, the funding ratio for the Police and Fire Department plans have increased from 62.3 and 66.9 percent to 67.7 and 69.8 percent respectively. The funding ratio of all three pension plans in aggregate was 69.3 percent as of January 1, 2019, which is considered moderately distressed based on the levels of distress set forth in Act 205.[23]

Minimum Municipal Obligations (MMOs), 2010 - 2019



Funding Ratio, 2005 - 2019



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[22] 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.

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

Moving forward, the City's actuary projects that the MMO will decline by small amounts through 2024 using the assumptions and investment performance as of the January 1, 2019 valuation. The actuary's MMO projections as shown in the chart below are included in the baseline projection and do not assume any future experience gains or losses.

Minimum Municipal Obligation projection, 2020 – 2024[24]

	2020	2021	2022	2023	2024
Police	1,290,435	1,301,292	1,317,000	1,334,000	1,351,000
Fire	1,014,548	1,014,808	1,019,000	1,028,000	858,000
Other	676,257	637,295	568,000	592,000	597,000
Total Projected MMO	**$2,981,240**	**$2,953,395**	**$2,904,000**	**$2,954,000**	**$2,806,000**

<u>Operating expense</u>

The largest spending in this category is contracted services, which includes the City's payments to vendors for building inspections, legal and engineering services, vehicle repairs, and the City's annual contribution to the New Castle Area Transit Authority. Prior to 2020, this category also included the City's refuse bag packaging and waste disposal fees.

Operating Spending, 2014 - 2019

	2014 actuals	2015 actuals	2016 actuals	2017 actuals	2018 actuals	2019 actuals	CAGR
Contracted services	1,343,537	1,493,423	1,528,305	1,506,275	1,876,041	1,858,083	6.7%
Utilities	1,014,228	946,556	888,089	919,682	949,515	890,611	-2.6%
Materials and supplies	693,813	711,556	650,742	699,348	791,079	755,858	1.7%
Total operating expense	**$3,051,577**	**$3,151,535**	**$3,067,135**	**$3,125,305**	**$3,616,635**	**$3,504,552**	**2.8%**

From 2014 to 2017, the City's annual operating spending essentially remained the same at approximately $3.1 million. Operating expenses then increased from $3.1 million to $3.6 million in 2018 because of higher spending on engineering services, which were offset by higher building permit revenues. In 2019, the City's sanitary landfill costs increased by 14.7 percent because its recycling fees increased from $68.50 to $150 per ton in the first half of the year before the City entered into an agreement with a different landfill. The City also spent more on vehicle repairs in both 2018 and 2019 because several vehicles in the Police and Public Works Departments were at the end of their life cycles.

With the privatization of trash collection in April 2020,[25] the City anticipated spending $3.2 million (or 15.7 percent) on these expenses in 2020. With a couple of noteworthy exceptions, the baseline projection assumes that most operating expenses will increase according to the inflationary growth rate of 1.9 percent projected by the Survey of Professional Forecasters.[26] Based on the long-term projections by the US Energy Information Administration, the baseline forecast projects vehicle gasoline costs to grow at 2.9 percent and electricity to grow at 2.2 percent annually. The baseline projection also accounts for legal fees

[24] 2020 and 2021 shows actual MMO provided by the actuary. Projection from 2022 to 2024 was provided by the City's actuary in October 2020.

[25] Please see 2019 Exit Plan initiative ED01.

[26] The Coordinator projects vehicle spending to grow at the inflationary growth instead of the higher historical growth (4.2 percent on average from 2015 to 2019). Without the need to maintain and repair the garbage trucks, the City's vehicle spending should grow at a lower rate than historical trends.

rising in years where the City has collective bargaining (like 2019 and 2022) and falling in years when it does not.

Capital spending

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

Since the City cannot afford to issue large amounts of new debt, it has relied on a “pay-as-you-go” approach to funding capital projects. Since 2017, the City has used a portion of the Act 47 EIT for capital projects according to the provisions in the 2016 and 2018 Plan Amendments and the 2019 Exit Plan.

As stated in the Revenue section of this chapter, the baseline projection assumes that the City would gradually shift the operations portion of the Act 47 EIT toward capital uses. This shift should provide some funding for the City’s capital improvement projects, including vehicle replacements, building maintenance, and road paving. The baseline forecast projects that the Act 47 capital EIT levy will provide revenues growing from $1.2 million in 2020 to $2.0 million in 2023. Beginning in 2024, the City will lose its additional taxing authority provided by Act 47, but there will still be a small amount ($564,000) of prior year revenues available for capital improvement projects from the Act 47 levy in the prior year.

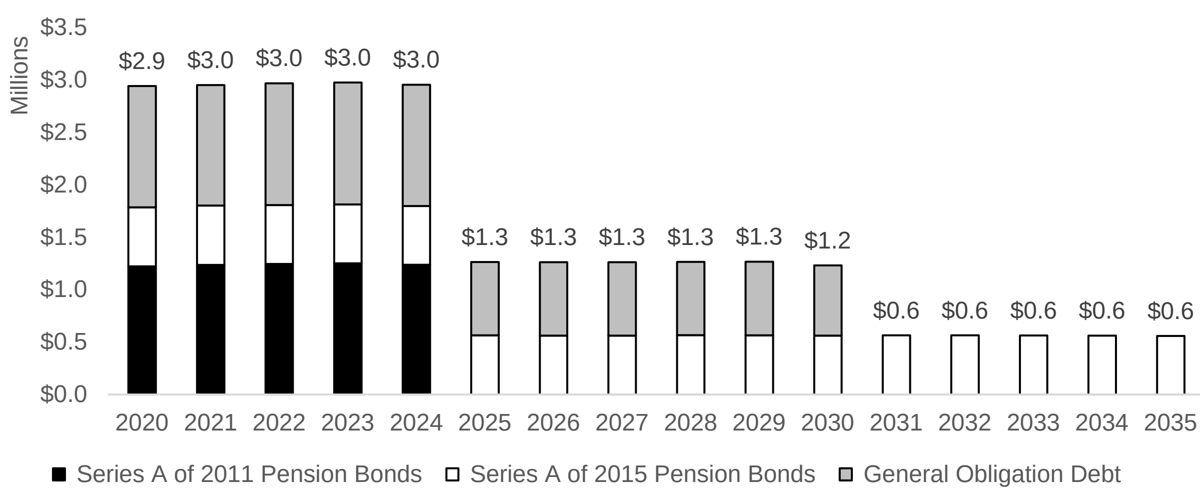
Act 47 Capital EIT

	2020	2021	2022	2023	2024
Resident Act 47 Capital EIT	0.30%	0.30%	0.40%	0.40%	0.00%
Commuter Act 47 Capital EIT	0.20%	0.25%	0.30%	0.30%	0.00%
Capital EIT Revenues	**$1,242,477**	**$1,530,671**	**$1,872,530**	**$1,994,041**	**$563,762**

Debt service

According to the City’s current debt schedule, the City’s debt service will remain at approximately $3.0 million annually through 2024, as shown in the chart below.

Debt Schedule, 2020 - 2035



Debt Service Payments, 2020 - 2025

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

According to the existing debt schedule, debt service payments will remain at approximately $3.0 million through 2024. In 2025, the City's debt is scheduled to drop from $3.0 million to $1.3 million, largely because one of the pension bonds (Series A of 2011) will be paid off by the end of 2024. Because that pension bond is currently funded by the distressed pension EIT revenues, and the City cannot use those revenues for purposes unrelated to pensions, the practical result is that the City will lose the $1.2 million in distressed pension EIT revenues after the pension bonds are paid off. However, the adoption of the Home Rule charter (see 2019 Exit Plan initiative RV02) and gaining the flexibility to set its resident EIT rate would allow the City to shift the money generated by the resident portion of the distressed pension tax to the General Fund. In other words, the combination of a Home Rule charter and the 2025 "debt cliff" would give the City some financial relief the year after Act 47 oversight ends.

<u>Other expenditures</u>

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

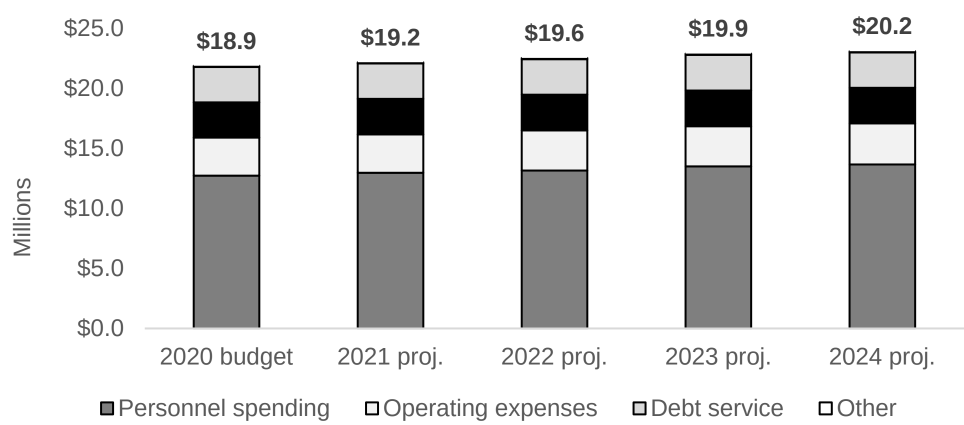
Library Contribution

	2020 budget	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.
Library levy	0.177 mills	0.177 mills	0.177 mills	0.177 mills	0.177 mills
Library contribution	$74,180	$73,809	$73,440	$73,073	$72,707

Summary of expenditures

Aggregating all expenditure categories, the baseline projection shows the City's total operating expenditures (excluding capital spending) growing by 1.6 percent annually from $18.9 million in 2020 to $20.2 million in 2024. That is a little higher than the 1.0 percent compound annual growth in expenditures from 2014 to 2019 because the baseline does not assume the types of headcount reductions that the City has made in recent years.

Baseline Projection of the Three Primary Funds (Operating Expenditures), 2020 – 2024



	2020 budget	2021 proj.	2022 proj.	2023 proj.	2024 proj.	CAGR
Cash compensation	7,396,188	7,469,032	7,646,864	7,831,159	8,008,280	2.0%
Employee benefits	2,303,660	2,464,204	2,582,054	2,707,202	2,839,894	5.4%
Pension	3,025,509	3,044,492	2,933,091	2,967,195	2,819,459	-1.7%
Operating expense	3,174,765	3,200,466	3,342,686	3,348,823	3,425,997	1.9%
Capital Spending	1,242,477	1,530,671	1,872,530	1,994,041	563,762	-17.9%
Debt service	2,941,996	2,951,091	2,968,878	2,975,681	2,955,164	0.1%
Other expenditures	107,680	107,480	107,287	107,101	106,923	-0.2%
Total	**$20,192,275**	**$20,767,435**	**$21,453,390**	**$21,931,202**	**$20,719,478**	**0.6%**
Expenditures excl. capital	**$18,949,798**	**$19,236,765**	**$19,580,860**	**$19,937,161**	**$20,155,716**	**1.6%**

Administration

Section 256 of Act 47 provides four elements that the Exit Plan shall contain, as necessary or appropriate, to ensure the termination of New Castle's distressed status in 2024. Those elements include:

1. The sale, lease, conveyance, assignment or other use or disposition of the assets of the distressed municipality;
2. Functional consolidation of or privatization of existing municipal services;
3. The execution, approval, modification, rejection, renegotiation or termination of contracts or agreements of the distressed municipality; and
4. Changes in the form of municipal government or the configuration of elected or appointed municipal officials and employees as permitted by law.

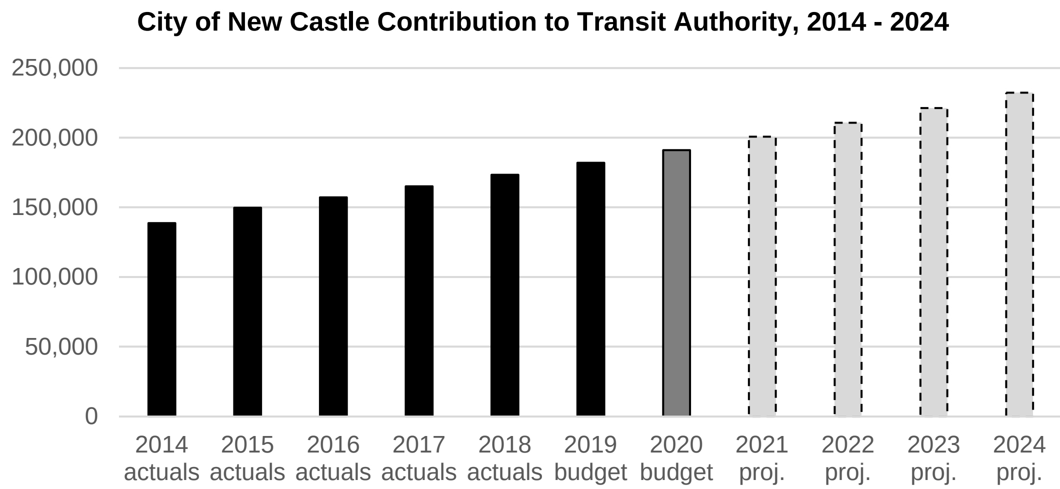
The baseline forecast projects that, absent corrective action, the City's deficit will grow from $0.5 million in 2020 to $3.1 million in 2024 and the City will run out of fund balance by 2023. To close part of the projected deficits and help the City bolster its chance of exiting oversight by 2024, this chapter covers two of the four components of the Exit Plan strategy provided under Act 47 – the termination of agreements and the sale of assets.[27] To ensure that the City can continue to meet its cash flow needs, this chapter also discusses the City's need to maintain adequate reserves throughout the Amended Exit Plan period.

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

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

NCATA was incorporated on September 1, 1965 as a mass transportation project financed by the Federal Housing and Home Finance Agency, the City of New Castle, Shenango Township, Union Township, Neshannock Township and the Commonwealth of Pennsylvania. The City makes an annual contribution that NCATA uses for the local match requirements necessary to receive Federal and state funding. The City's annual contribution increases by five percent a year, so it has grown from $103,000 when New Castle entered Act 47 oversight in 2007 (0.2 mills worth of real estate tax) to $191,000 in 2020 and will continue to grow to $232,000 by 2024 (0.6 mills worth of real estate tax).

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



Public transit is a regional asset

Even though the City of New Castle makes almost 80 percent of the required local match to the New Castle Area Transit Authority (NCATA) annually, the transit system itself is a regional asset that serves all of Lawrence County. The Authority employs 51 full-time and 5 part-time employees and operates 34 motor buses.[28] While some routes run solely within the City, several bus routes either benefit Lawrence County businesses outside the City limits or are also used by non-city residents. For example:[29]

- The Walmart/Union Township route runs every hour during the day from Monday through Saturday. It departs from the New Castle Transit Center and has six main stops before arriving at the Walmart Supercenter located in Union Township. Of the six main stops along the route (Transfer Center, Harbor Heights, Westgate Plaza, Sherwin Williams, Scotland Lane, and Sears), only two main stops are in New Castle and the remaining four are in Union Township.

- The weekday commuter service to Pittsburgh is one of the most popular routes provided by NCATA. The route begins in the City and stops at each of the five Park-N-Rides before reaching downtown Pittsburgh. Two Park-N-Rides are in the City (265 parking spaces), one is in Shenango Township (188 parking spaces), and the remaining two are in Butler County. Because Park-N-Rides are available to all riders, whether or not they are City residents, non-city residents who live near New Castle can also drive to the Park-N-Rides located in the City and still use this commuter service by paying a $4.00 one-way fare.

- NCATA provides transit service to the Grove City Outlets on Saturdays. That route departs from the Transit Center in the City and makes one main stop (Transfer Center) in New Castle. It then passes through Neshannock Township, Wilmington Township, New Wilmington Borough, and Volant Borough before arriving at Grove City.

- There are five additional long-distance routes that primary service areas outside the City.[30] These bus routes have stops in Union Township, Neshannock Township, Ellwood City, Mahoning

[28] Pennsylvania Public Transportation Performance Report, Fiscal Year 2018 -19

[29] Based on information provided on NCATA's website, accessed on September 25, 2020. All bus stop information includes the main stops listed on the NCATA's website, even though transit buses may also make additional stops along the route. For example, for the Walmart/Union Township route, NCATA indicated that the bus makes 10 stops in the City and 9 stops in Union Township including the additional stops not listed on the bus schedule even though the bus schedule shows buses to spend less transit time in New Castle (15 minutes) than in Union Township (25 minutes).

[30] These five routes are the Ellwood City route, the Hermitage route, the Boyer/Iron Mountain route, the Villa Maria/Ohio route, and the New Wilmington/Volant route.

Township, Scott Township, Pulaski Township, Hickory Township, Wilmington Township, New Wilmington Borough, and Volant Borough, and go as far as Hermitage City (23 miles north of the City), Slippery Rock Township (20 miles northeast of the City), and Marion Township (28 miles northeast of the City).

Funding public transit is typically a responsibility of County governments

It is not unusual that NCATA serves several communities in Lawrence County, beyond New Castle itself. Transit systems are regional by nature and, as such, *funding* public transit is typically the responsibility of County governments in Pennsylvania, not individual municipalities. As shown in the table below, several western Pennsylvania municipalities have public transit with little or no contribution from the municipality, with a few exceptions. Altoona makes 85 percent of the local match, but the actual contribution is less than New Castle's. Erie makes a $340,000 contribution, but that amount is less than one-third of the local match and Erie's General Fund budget is four times that of New Castle's. Johnstown's and Hermitage's contributions were a small portion of the required local match, and Beaver County made the full local match contribution so neither Aliquippa nor Beaver Falls made any contribution.

Regional Municipalities' Transit Contribution

Municipality	Population	Transit System	2019 General Fund Transit Contribution	FY2019 Required Local Match	City Contribution as a % of the Local Match
Erie	96,459	Erie Metropolitan Transit Authority	$340,000	$1,046,610	32.5%
Altoona	44,372	Altoona Metro Transit	$139,700	$165,377	84.5%
New Castle	22,188	NCATA	$182,010	$232,567	78.3%
Johnstown	19,812	CamTran	$50,894	$847,826	6.0%
Butler Township	16,698	Butler Transit Authority	$0	$52,417	0.0%
Butler City	13,182	Butler Transit Authority	$0	$52,417	0.0%
Washington	13,590	Washington County Transit Authority	$0[31]	$228,731	0.0%
Hermitage	15,812	Shenango Valley Shuttle Service	$12,522	$64,872	19.3%
Sharon	13,378	Shenango Valley Shuttle Service	$0[32]	$64,872	0.0%
Meadville	12,949	Crawford Area Transit Authority	$0[33]	$71,212	0.0%
Aliquippa	9,066	Beaver County Transit Authority	$0	$592,386	0.0%
Beaver Falls	8,547	Beaver County Transit Authority	$0	$592,386	0.0%

Given the deadline to exit Act 47 oversight, the elimination of the Act 47 commuter tax, and the limited opportunities to reduce expenditures, the City will work with the County during the Amended Exit Plan period to end the City's contribution to NCATA. There is regional precedent for a county absorbing the regional transit costs previously paid for by municipalities located in it. Prior to 2018, Butler Township and Butler City split the required local match for the Butler Transit Authority and each municipality appointed three of the seven-member Transit Authority Board. The remaining Board member was appointed by Butler County. In 2018, the two municipalities transferred the responsibility of the required local match to Butler County. Butler Township and Butler City's contributions both dropped to zero beginning in 2019 and the County started making the full local match contribution in the same year. The County now appoints five of the seven Transit Authority Board members and Butler City and Butler Township each appoint one member.

The City has already committed to a contribution for 2021, so the following table shows the fiscal impact the City may be able to achieve if it successfully negotiates with the County to end the contribution beginning

[31] Washington City made a $98,078 contribution from its Local Shared Account Fund that is funded by the City's portion of slots/casino assessments revenue.

[32] Sharon City made a $13,648 contribution from its CDBG Fund in 2019.

[33] Allegheny College contributed $9,836 to Meadville City in 2019 for a bus route that primarily services Allegheny College students. Meadville then passes through that contribution to the Crawford Area Transit Authority, resulting in a zero net contribution.

in 2022. Because the City may lose the reimbursements that it currently receives for City services provided to NCATA, which is projected to be $100,000 in the 2020 budget, the fiscal impact accounts for the loss of the reimbursements and shows the net fiscal impact.

Projected Fiscal Impact

	2020	2021	2022	2023	2024
City's transit contribution	0	0	211,000	221,000	232,000
Reimbursements from Transit Authority	0	0	(100,000)	(100,000)	(100,000)
Total Net Fiscal Impact	**0**	**0**	**$111,000**	**$121,000**	**$132,000**

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

During the period covered by this Amended Exit Plan, the City may benefit from financial windfalls, which are unexpected, significant, short-term revenue increases above projected levels or spending reductions below projected levels. With the Coordinator's guidance, the City shall use asset sale proceeds and financial windfalls of at least $100,000[34] for one of the following priorities, if not needed to address an unexpected short-term decrease in revenues or increase in expenditures within the same year:

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

Using one-time proceeds in this manner will ensure the City matches a non-recurring cost with a non-recurring benefit. It will also keep the City focused on the goal of successfully exiting Commonwealth oversight and maintaining long-term financial stability. Having an adequate level of reserves will strengthen the City's case to exit oversight in 2024. Reducing the existing debt burden and pension liability will enable the City to spend more of its current year revenues on operations without raising taxes. Funding capital projects will help New Castle maintain and build its tax base so revenues remain in balance with expenditures over the long term.

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

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

One of the City's successes since entering Act 47 oversight has been its ability to establish and maintain General Fund reserves. The reserves provide a buffer against unexpected revenue shortfalls or unbudgeted expenditures.

Since adopting the 2015 Amended Recovery Plan, the City has incrementally replenished its Rainy Day reserve (officially called Act 47/Mayor/Council Reserves). As of the end of 2018, the City had a Rainy Day reserve of $2.6 million, fulfilling the 2015 Plan requirement.[35] In addition to the Rainy Day reserve, the City also had $5.1 million in unassigned fund balance, equivalent to 25.9 percent of the City's operating revenues.[36]

City of New Castle Rainy Day Reserve and Unassigned Fund Balance

	As of December 31, 2018	2018 Reserves as a % of Revenues
Rainy Day Reserve	$2,559,493	13.0%
Unassigned Fund Balance	$5,116,024	25.9%

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

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

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

New Castle's reserves are currently higher than the 16.7 percent (or two months) of operating expenditures as recommended by GFOA. The City's had $5.1 million in unassigned fund balance at the end of 2018, equivalent to almost 26 percent of its operating expenditures. The Amended Exit Plan anticipates the City will use $3.6 million in unassigned fund balance over the next four years to fund its annual operations. This approach is not a sustainable long-term solution to correct the City's financial problems, but it does mitigate

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

[36] The $5.1 million figure used in this table is higher than the $4.5 million as shown in the 2018 financial statements. In 2020, the City's auditor made adjustments to the City's statement of revenues, expenditures, and changes in fund balances and indicated that the unassigned fund balance as of December 31, 2018 should be adjusted to $5.1 million.

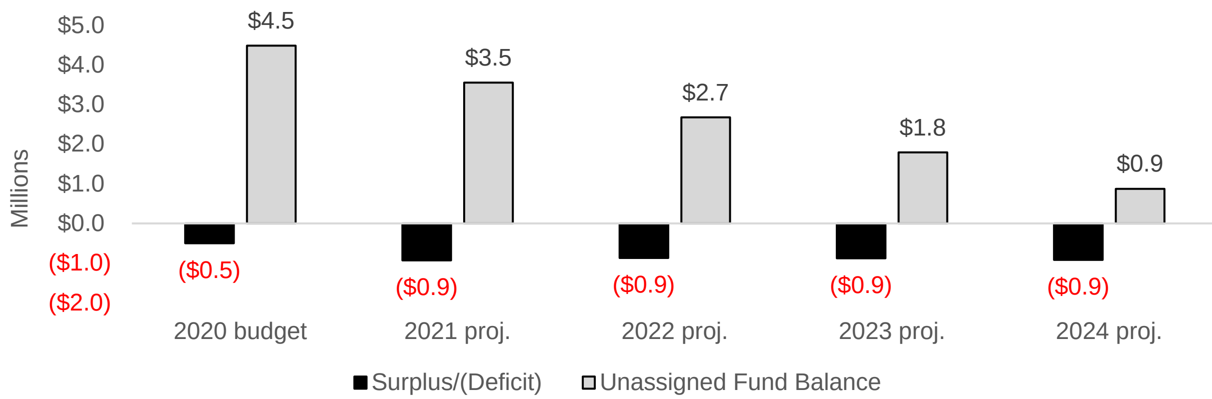
the need for even higher tax increases or further expenditure reductions than are already included in the Amended Exit Plan.

The City's best chance to close its financial deficit in the long-term is the adoption of the Home Rule charter and the use of the powers granted thereunder to keep the resident earned income tax at the level in place in 2024. In 2025, the City's debt payments will drop by $1.2 million when the debt on the 2011 pension bonds is fully repaid. Home Rule would allow the City to shift part of the money currently used to repay that pension debt into the General Fund, giving the General Fund a $623,000 boost without any tax increase.[37] The General Fund reserves provide a bridge until the City can get this debt relief.

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

The $2.5 million in Rainy Day reserve, in tandem with the $0.9 million projected for the unassigned General Fund balance at the end of 2024, will put the City approximately at the GFOA's 16.7 percent target at the end of 2024,[38] just before the City's debt payments drop in 2025.

Plan Projection (Includes the General, Sinking, and Pension Funds), 2020 – 2024



	2020 budget	2021 proj.	2022 proj.	2023 proj.	2024 proj.
Revenues	19,692,275	19,834,755	20,368,141	20,828,292	19,566,205
Expenditures	20,192,275	20,767,435	21,242,691	21,709,968	20,487,183
Surplus/(Deficit)	**($500,000)**	**($932,680)**	**($874,551)**	**($881,676)**	**($920,978)**
Unassigned Fund Balance	**$4,481,245**	**$3,548,564**	**$2,674,013**	**$1,792,337**	**$871,360**

Except as otherwise specifically provided by the terms of this Amendment, all terms and conditions of the Exit Plan adopted by City Council and approved by the Mayor on August 23, 2019 shall remain in full force and effect.

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

[38] The projected operating expenditures, inclusive of Plan initiatives, in 2024 are $20.5 million so $3.4 million would be equivalent to 16.7 percent.

Revenues

The City's tax revenues, which represent more than three quarters of total revenues across the three primary funds,[39] had minimal growth (less than one percent on average) from 2013 to 2019 despite real estate tax increases in 2016, 2017, and 2018. Absent those tax increases, the City's total tax revenues would have remained flat because the real estate tax base (taxable assessed values) fell by 3.0 percent from $500.9 million in 2013 to $486.1 million in 2019. Any growth in the earned income tax revenue would have been offset by a decline in the real estate tax.

Tax Revenues from 2013 - 2019

	2013	2014	2015	2016	2017	2018	2019	2013-19 CAGR
Real Estate Taxes	5,973,356	5,704,190	5,955,032	6,491,399	6,366,008	6,742,229	6,583,491	1.6%
EIT (on a cash basis)[40]	7,218,634	6,963,216	6,950,759	6,904,936	6,854,527	7,039,947	7,459,635	0.6%
Business Gross Receipts Tax	671,781	659,766	570,342	646,173	516,686	539,376	549,226	-3.3%
Local Services Tax	438,767	424,159	411,831	407,184	445,674	428,467	421,348	-0.7%
Deed transfer tax	132,329	115,072	119,226	123,882	116,043	133,641	114,838	-2.3%
Other taxes	229,411	233,763	181,677	203,526	225,154	214,455	276,112	3.1%
Total tax revenues	**$14,664,277**	**$14,100,166**	**$14,188,868**	**$14,777,100**	**$14,524,093**	**$15,098,115**	**$15,434,651**	**0.9%**

The City's largest source of revenue is the earned income tax and those receipts were flat from 2014 to 2018 before having an uptick in 2019. Total revenues dropped from 2013 to 2017 because of a small rate reduction in 2016.[41] Even after accounting for that rate reduction by calculating the amount of revenue each 1.0 percent generates on a cash basis, the long-term tax base growth from 2013 to 2019 was still minimal, as shown in the table below.

Revenues per 1.0% in EIT (on a cash basis), 2013 - 2019

	2013	2014	2015	2016	2017	2018	2019	2013-19 CAGR
Resident revenues	2,583,915	2,499,679	2,552,147	2,673,090	2,624,817	2,703,110	2,836,791	1.6%
Commuters revenues	2,814,452	2,703,567	2,609,253	2,627,993	2,654,821	2,714,970	2,950,769	0.8%
Total	**$5,398,366**	**$5,203,246**	**$5,161,400**	**$5,301,082**	**$5,279,637**	**$5,418,081**	**$5,787,560**	**1.2%**

As described in the Baseline Projection chapter, the City's total revenues are projected to drop from $19.7 million in 2020 to $17.6 million in 2024 primarily because of the phasing out of the Act 47 EIT. The ongoing COVID-19 pandemic is also projected to reduce the City's revenue growth. While controlling expenditure

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

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

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

growth is essential to maintaining fiscal balance, the City must also find ways to grow its revenues to fund ongoing operations.

Baseline Projection of the Three Primary Funds (Revenues), 2020 – 2024

	2020 budget	2021 proj.	2022 proj.	2023 proj.	2024 proj.	CAGR
Real Estate Taxes	7,052,725	6,915,668	6,923,734	6,926,304	6,894,406	-0.6%
Earned Income Tax	7,117,314	7,281,139	7,138,012	7,097,920	5,461,571	-6.4%
Other Taxes	1,383,116	1,286,561	1,343,238	1,333,238	1,323,238	-1.1%
Licenses and Permits	687,843	655,540	674,934	682,058	689,317	0.1%
Departmental Earnings	1,211,171	1,103,212	1,132,390	1,164,418	1,199,412	-0.2%
Intergovernmental	856,814	883,678	911,483	940,261	970,046	3.2%
Other transfers	558,849	519,875	518,231	516,621	515,043	-2.0%
Other Revenues	824,444	566,138	569,430	572,783	576,201	-8.6%
Total Revenues	**$19,692,275**	**$19,211,811**	**$19,211,452**	**$19,233,601**	**$17,629,233**	**-2.7%**

This Chapter describes one of the components of an Exit Plan according to Act 47 – changes in the form of municipal government – and requires the City to reorganize itself under the Home Rule charter during the Exit Plan period. Initiative RV02 in the 2019 Exit Plan describes this requirement, which, at this time, is New Castle's best chance to balance its budget in the near term and may be its best chance to close its deficit in the long term. If the Home Rule process fails, the City will have to offset the lost Act 47 EIT revenues with significant real estate tax increases (Initiative RV03 describes this alternative). In either scenario, the first initiative extends the City's use of the Act 47 taxing powers through the end of this Amended Exit Plan.

RV01.	**Petition the Lawrence County Court of Common Pleas each year to use the additional taxing authority provided by Act 47**	
	Target outcome:	Ensure sustainable revenues to fund expenditures
	Financial Impact:	$6.5 million
	Responsible party:	Business Administrator, City Solicitor, City Council

With the 18-month extension provided by Act 23 of 2020, the City's new deadline to exit Act 47 oversight is February 2024. The City will lose its Act 47 EIT on residents and commuters beginning in 2024 because the deadline to exit Act 47 oversight means the City will lose the additional taxing authority related to that statute. To help prepare for this eventuality while still providing the necessary capital funding that the City needs to maintain its infrastructure, the City shall continue to gradually shift the operations portion of the Act 47 EIT toward capital uses as shown below. The receipts from the capital portion of the Act 47 EIT shall not be used to support operations, retire existing debt, or cover the City's pension costs, but shall only provide funding for capital improvement projects such as vehicle replacement, building maintenance, and road paving.

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

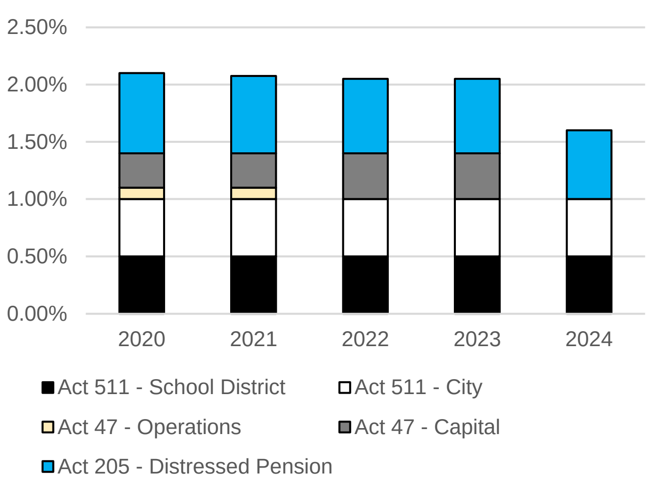
Resident EIT Rate

	2020	2021	2022	2023	2024
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 - Operations	0.10%	0.10%	0.00%	0.00%	0.00%
Act 47 – Capital (Paving)	0.30%	0.30%	0.40%	0.40%	0.00%
Act 205 - Distressed Pension	0.70%	0.675%	0.65%	0.65%	0.60%
Total	**2.10%**	**2.075%**	**2.05%**	**2.05%**	**1.60%**

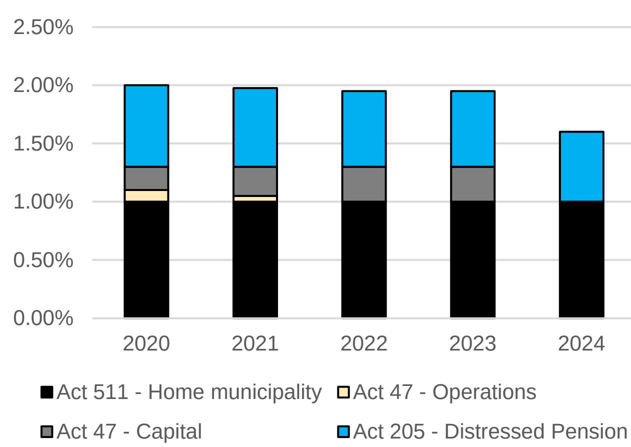
Non-Resident (or Commuter) EIT Rate

	2020	2021	2022	2023	2024
Act 511 - Home municipality	1.00%	1.00%	1.00%	1.00%	1.00%
Act 47 – Operations	0.10%	0.05%	0.00%	0.00%	0.00%
Act 47 – Capital (Paving)	0.20%	0.25%	0.30%	0.30%	0.00%
Act 205 - Distressed Pension	0.70%	0.675%	0.65%	0.65%	0.60%
Total	**2.00%**	**1.975%**	**1.95%**	**1.95%**	**1.60%**

Projected Resident EIT rates[42]



Projected Commuter EIT rates



Pursuant to Act 47, the City shall petition the Lawrence County Court of Common Pleas each year to use the additional taxing authority in Act 47 to increase the rate of earned income taxation upon residents by the Act 47 amounts listed in the Resident EIT rate table shown above (0.40 percent in 2021, 2022, and

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

2023). 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 listed in the Non-Resident EIT rate table shown above (0.30 percent in 2021, 2022, and 2023). 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.

RV03.	**Real estate tax increases**	
	Target outcome:	Maintain balanced financial results for exiting Act 47 oversight
	Financial Impact:	$5.5 million
	Responsible party:	Business Administrator, City Solicitor, City Council

If the City fails to adopt a Home Rule chapter and gain the flexibility to set its resident EIT rate as described in 2019 Exit Plan initiative RV02, the City will have to significantly increase its real estate tax to help cover the projected deficits.

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

Real Estate Tax Increases

	2020 (Current)	2021	2022	2023	2024
Real estate tax	15.476	16.976	18.476	19.476	20.226
YOY % increase	N/A	9.7%	8.8%	5.4%	3.9%

Based on recent years' collection rates, the Coordinator assumes that the collection rate will remain at 87 percent, the current collection rate assumed in the baseline projection. From 2016 to 2018, even when the City increased its tax rate, the collection rate has continued to increase from 84 percent to 89 percent, in part because of the change in how delinquent real estate taxes were collected. The Coordinator assumes that the collection rate will continue to remain stable even as the City increases its tax rates over the next four years. Applying the collection rate assumption to the baseline projection, the following table shows the increases in total revenues, inclusive of both current and prior year revenues.

Projected Fiscal Impact

2020	2021	2022	2023	2024
0	623,000	1,257,000	1,695,000	2,037,000

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

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

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

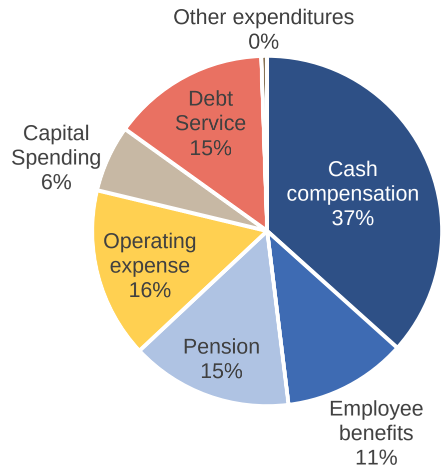
Except as otherwise specifically provided by the terms of this Amendment, all terms and conditions of the Exit Plan adopted by City Council and approved by the Mayor on August 23, 2019 shall remain in full force and effect.

Workforce

Like many Pennsylvania local governments, the majority of New Castle's spending is on its employees. In the City's 2020 budget, almost two-thirds of its budget is allocated to employees' cash compensation, health benefits, and the City's contribution to the pension plan.

Because employee compensation accounts for such a large part of the City's budget, any strategy to achieve long-term financial stability and exit Commonwealth oversight must address these expenditures. This chapter sets forth the strategy for managing employee compensation so the City can sustain critical public services while balancing revenues against expenditures to provide New Castle with a chance to exit Commonwealth oversight in 2024.

2020 Expenditure Budget ($20.2 million)



Employee Group Contract Term and Headcount

Group	Covered positions include	2020 budgeted positions	Contract term
FOP, Lodge 21 ("FOP")	All full-time police officers except the Chief	36	1/1/20 - 12/31/22
Laborers, Local No. 964 - Public Works	Laborers, equipment operators, refuse collectors, tradesmen	23	1/1/20 - 12/31/22
IAFF, Local No. 180 ("IAFF")	All full-time fire fighters except the Chief	20	1/1/20 - 12/31/22
Laborers, Local No. 964 - Clerical	Most clerical and administrative support positions including treasury and records clerks and financial and legal assistants	10	1/1/20 - 12/31/22
Non-represented[43]	Department directors, elected officials, code officers, part-time employees including police and fire	19 full-time 36 part-time	N/A
Total		**108 full-time** **36 part-time**	

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

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

The City and each union can negotiate a different pattern of compensation from the one proposed in this Plan, provided that the total employee compensation does not exceed the maximum annual allocation for that bargaining unit. If the City cannot reach a negotiated agreement with the FOP or IAFF, and the parties go to interest arbitration, the subsequent arbitration award may not exceed the Plan's maximum annual allocation for that bargaining unit unless the arbitration panel finds it to be arbitrary, capricious, or established in bad faith. The award also may not further jeopardize New Castle's financial stability and it cannot be inconsistent with the policy objectives described in Act 47 itself.[44]

To understand how the Coordinator set the maximum annual allocations, the City's broader financial picture must be considered. New Castle must eliminate the portion of the resident and non-resident earned income tax that is tied to its Act 47 status to comply with the statutory deadline for exiting Act 47.[45] As described throughout the 2019 Exit Plan and this Amended Exit Plan, that mandatory reduction will cost the City millions of dollars.

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

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

While the City needs to continue controlling its workforce cost growth to give itself a chance to exit Act 47 oversight in 2024, the Coordinator's preference is that the City and its employees achieve that objective without wage freezes in the coming years.

The City's capacity to provide regular wage increases through 2024 is predicated in part on its ability to control the growth in spending on other forms of compensation, like health insurance and pension benefits. The Amended Exit Plan therefore takes the cost-sharing structure established in the 2015 Amended Recovery Plan, including the five percent cap on growth in the City's share of those healthcare costs, and applies it to the workforce allocation from 2020 through 2024. For the City to afford regular wage increases and to give itself a chance to exit Act 47 oversight successfully in 2024, it must keep its pension costs at least at the projected level. Therefore, this Plan continues to prohibit increases to the pension or retiree medical benefits for current, future or retired employees.

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

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

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

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

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

Furthermore, no collective bargaining agreement, reached through negotiations or interest arbitration, shall extend past 2024.

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

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

Maximum City Monthly Contributions[46]

	2020	2021	2022	2023	2024
Single	$555	$583	$612	$643	$675
P/C	$1,108	$1,163	$1,221	$1,282	$1,346
H/W	$1,171	$1,230	$1,292	$1,357	$1,425
Family	$1,449	$1,521	$1,597	$1,677	$1,761

The City's maximum contribution includes medical, prescription drug, vision and dental coverage. The City's maximum contribution applies to all forms of City contribution (e.g. premiums, deductibles, copayments). The City's maximum contribution also includes any taxes, surcharges, penalties, assessments, and other charges or costs which the City may be required to pay under federal or state laws, including the Patient Protection and Affordable Care Act of 2010 ("ACA"), or any other federal or state amendments, regulations, statutes or regulations.[47]

The 2020 maximum contributions are based on the maximum contribution in 2019 as governed by the 2015 Amended Recovery Plan, increased by 5.0 percent in accordance with the growth cap described above. The contribution amounts from 2021 through 2024 are approximately 5 percent higher than the prior year.

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

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

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

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

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

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

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

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

2020	2021	2022	2023	2024
$3,057,000	$3,160,000	$3,268,000	$3,367,000	$3,474,000

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 2020 budget allocates approximately $3.0 million for active FOP members' compensation. The Amended Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases plus any applicable step increase each year through 2024.
- Employees who receive longevity pay would continue to do so at the current rate for the duration of this Amended Exit Plan. The allocation assumes no longevity payments for employees who are not currently eligible for them, including new hires.
- Existing elements of cash compensation that are indexed to base salary, like the portion of holiday pay that all officers receive,[48] 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.

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 2020 budgeted amount, adjusted to account for future salary growth. If the City and FOP do not change the factors that determine these payments, the City shall be deemed in compliance with the Amended Exit Plan, even if the actual amounts paid are higher than projected. If the City and FOP do make changes through negotiation or an arbitration award that impact these payments, the City and FOP shall project the cost or savings of those changes and count them against the allocation.

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

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

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

Grants or external funding

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

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

The City and FOP may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Amended Exit Plan maximum annual allocations. Should the City and FOP negotiate such a different compensation package, they shall conduct a full cost analysis of any changes for each year through 2024 to determine and ensure that the resulting compensation does not exceed the maximum allocations. They shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum allocations, it shall be returned to the City and FOP for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's annual allocations or if the analysis is not provided in a timely manner.

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

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

2020	2021	2022	2023	2024
$1,784,000	$1,849,000	$1,897,000	$1,921,000	$1,973,000

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

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

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

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

The City's 2020 budget allocates approximately $1.8 million for active IAFF members' compensation. The Amended Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases plus any applicable step increase each year through 2024.
- Employees who receive longevity pay would continue to do so at the current rate for the duration of this Amended Exit Plan. The allocation assumes no longevity payments for employees who are not currently eligible for them, including new hires.
- Existing elements of cash compensation that are indexed to base salary, like the portion of holiday pay that all firefighters receive, would grow with base salaries. Existing elements that are paid at fixed amounts established in the collective bargaining agreement, like uniform allowance and heart and lung incentive, would not change.
- The City would not enact any new forms of compensation.

Certain elements of compensation are based on factors that are very hard to predict, like the sick leave incentive that is based on the number of sick leave days firefighter uses and whether the firefighter decides to convert any bonus into cash or additional vacation. For these elements, the allocation uses the 2020 budgeted amount, adjusted to account for future salary growth. If the City and IAFF do not change the factors that determine these payments, the City shall be deemed in compliance with the Amended Exit Plan, even if the actual amounts paid are higher than projected. If the City and IAFF do make changes through negotiation or an arbitration award that impact these payments, the City and IAFF shall project the cost or savings of those changes and count them against the allocation.

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

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

Grants or external funding

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

The City and IAFF may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Amended Exit Plan maximum annual allocations. Should the City and IAFF negotiate such a different compensation package, they shall conduct a full cost analysis of any changes for each year through 2024 to determine and ensure that the resulting compensation does not exceed the maximum allocations. They shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum allocations, it shall be returned to the City and IAFF for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's annual allocations or if the analysis is not provided in a timely manner.

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

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

2020	2021	2022	2023	2024
$507,000	$520,000	$533,000	$561,000	$576,000

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

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

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

The City's 2020 budget allocates approximately $0.5 million for compensating the employees in this bargaining unit. The Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases plus any applicable step increase each year through 2024.
- 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 2020 budgeted amount, adjusted to account for future salary growth. If the City and union do not change the factors that determine these payments, the City shall be deemed in compliance with the Exit Plan, even if the actual amounts paid are higher than projected. If the City and union make changes through negotiation or mediation that impact these payments, the City and union shall project the cost or savings of those changes and count them against the allocation. This same principle applies to overtime, though employees in this bargaining unit rarely receive overtime compensation. The 2020 budget does not have an overtime allocation for any employees in this bargaining unit.

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

Grants or external funding

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

The City and union may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Amended Exit Plan maximum annual allocations. Should the City and union negotiate such a different compensation package, they shall conduct a full cost analysis of any changes for each year through 2024 to determine and ensure that the resulting compensation does not exceed the maximum allocations. They shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum allocations, it shall be returned to the City and union for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's annual allocations or if the analysis is not provided in a timely manner.

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

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

2020	2021	2022	2023	2024
$1,366,000	$1,402,000	$1,440,000	$1,441,000	$1,481,000

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

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

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

The City's 2020 budget allocates approximately $1.4 million for compensating the employees in this bargaining unit. The Amended Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases plus any applicable step increase each year through 2024.
- 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 2020 budgeted amount, adjusted to account for future salary growth. If the City and union do not change the factors that determine these payments, the City shall be deemed in compliance with the Amended Exit Plan, even if the actual amounts paid are higher than projected. If the City and union make changes through negotiation that impact these payments, the City and union shall project the cost or savings of those changes and count them against the allocation.

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

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

Grants or external funding

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

The City and union may negotiate a different compensation package so long as the Coordinator in its discretion verifies that the package will not cause the bargaining unit to exceed the Amended Exit Plan maximum annual allocations. Should the City and union negotiate such a different compensation package, they shall conduct a full cost analysis of any changes for each year through 2024 to determine and ensure that the resulting compensation does not exceed the maximum allocations. They shall provide the full cost analysis information to the Coordinator in form and content acceptable to the Coordinator as soon as possible for review and verification. If the Coordinator determines that the proposal exceeds the maximum allocations, it shall be returned to the City and union for modification. The Coordinator will not approve any cost analysis if inadequate information is provided to verify that the costs do not exceed this Plan's annual allocations or if the analysis is not provided in a timely manner.

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

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

2020	2021	2022	2023	2024
$1,302,000	$1,333,000	$1,365,000	$1,345,000	$1,377,000

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

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

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

The City's 2020 budget allocates approximately $1.3 million for compensating these employees. The Amended Exit Plan allocation is based on the following assumed adjustments:

- Employees would receive two percent annual base wage increases through 2024.
- Employees who receive longevity pay would continue to do so at the current rate. The allocation assumes no longevity payments for employees who are not currently eligible for them, including new hires.
- Existing elements of cash compensation that are indexed to base salary, like the sick leave incentive, grow with base salaries. Existing elements that are paid at fixed amounts established in the collective bargaining agreement, like the payment employees can receive in lieu of health insurance, would not change.
- The City shall not enact any new forms of compensation.

Certain elements of compensation are based on factors that are very hard to predict, like the sick leave incentive. For these elements, the allocation uses the 2020 budgeted amount, adjusted to account for future salary growth. If the City does not change the factors that determine these payments, the City shall be deemed in compliance with the Amended Exit Plan, even if the actual amounts paid are higher than projected. If the City does make changes that impact these payments, the City shall project the cost or savings of those changes and count them against the allocation.

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

The stipend or wages paid to part-time elected officials shall not increase by more than two percent in any year through 2024.

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 2024.

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

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

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

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

Capital and Debt Management

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

To ensure that the City has capital funding beyond 2023, the City shall establish a capital reserve fund beginning in 2020. Because the Act 47 capital EIT rate will gradually increase over the next three years according to the scenario outlined in initiative RV01, the City shall dedicate one-third of the capital EIT revenues toward the capital reserve fund beginning in 2021 so that those funds can be available for capital uses in the years beyond 2023. Based on the schedule as outlined in the table below, the capital reserve fund will have $2.4 million in available funds by the end of 2023, including the $662,000 the City dedicated to the capital reserve in 2020.

Revenues from the Act 47 Capital EIT[49]

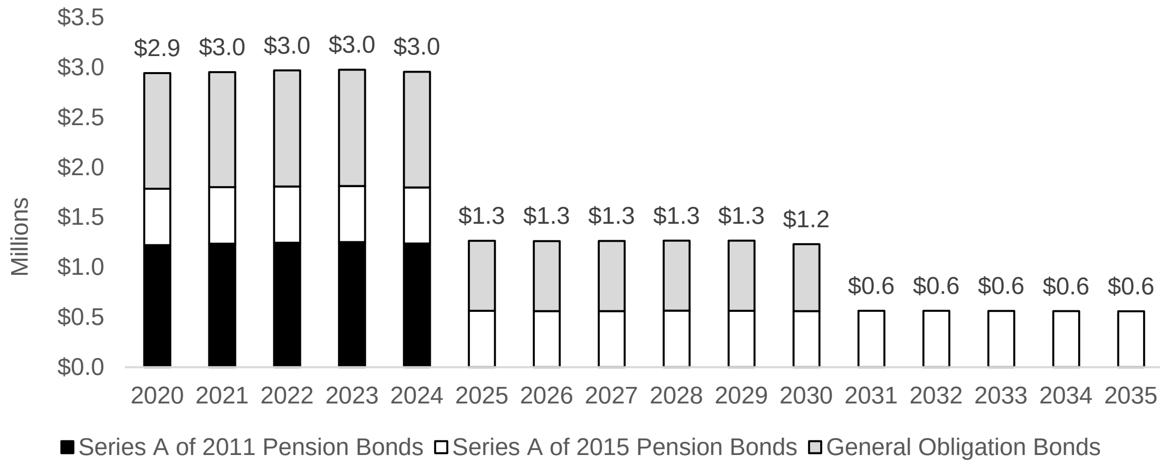
	2020	2021	2022	2023	2020-2023 Total
Capital budget	$662,000	$1,021,000	$1,249,000	$1,329,000	$4,221,000
Capital reserve	$662,000	$510,000	$624,000	$665,000	$2,421,000
Total	**$1,244,000**	**$1,531,000**	**$1,873,000**	**$1,994,000**	**$6,642,000**

The amount of funding the City will have available for capital projects in the next three years in this scenario is still limited, but it provides a modest amount for urgent needs through the Amended Exit Plan period, and provides funding for future capital projects in 2024 and beyond.

Beyond 2024, the City may need to issue new debt to address some of its backlogged capital needs. According to the City's current debt schedule, debt service payments will remain at approximately $3.0 million through 2024, after which it will drop to $1.3 million.

[49] Initiative CD01 of the 2019 Exit Plan required the City to dedicate half of the capital EIT to a capital reserve, which is why the City dedicated $662,000 to the capital reserve and used the remaining $662,000 for capital projects in 2020.

Debt Schedule, 2020 - 2035



Debt Service Payments, 2020 - 2025

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

= *Debt service payment drop from 2024 to 2025*

In 2025, the City's debt is scheduled to drop from $3.0 million to $1.3 million, largely because one of the pension bonds (Series A of 2011) will be paid off by the end of 2024. Because that pension bond is currently funded by the distressed pension EIT revenues, and the City cannot use those revenues for purposes unrelated to pensions, the practical result is that the City will lose the $1.2 million in distressed pension EIT revenues after the pension bonds are paid off. However, the adoption of the Home Rule charter (see 2019 Exit Plan initiative RV02) and gaining the flexibility to set its resident EIT rate will allow the City to shift the money generated by the resident portion of the distressed pension tax to the General Fund.[50]

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

If the City is successful in adopting a Home Rule charter that allows the City to set its own resident EIT rate, the City could also choose to adopt a capital-designated EIT and use the associated revenues for pay-as-

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

you-go capital funding or debt repayment. This would provide the City a recurring source of revenue to pay for improvements to the roads, facilities, parks and other assets it owns.

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

Based on the total area of City roads and average resurfacing costs, $2 million was the estimated level of investment needed per year to keep up with life-cycle resurfacing.[51] From 2013 to 2019, the City spent, on average, $258,000 annually on paving. While the City has increased its spending paving in the last two years, the increase in 2018 was primarily because the project that was scheduled in 2017 was not executed until 2018, and the increase in 2019 was because the City used its 2018 operating surplus to fund additional paving projects on a one-time basis.

Capital Spending on Paving, 2013 – 2019

	2013	2014	2015	2016	2017	2018	2019
Paving funded by the General Fund	62,128	200,000	245,463	377,945	54,450	227,310	394,667
Paving funded by the stormwater fee	0	0	0	0	0	120,459	120,113
Total Spending on Paving	**$62,128**	**$200,000**	**$245,463**	**$377,945**	**$54,450**	**$347,769**	**$514,780**

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

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

Capital Budget Allocation, 2020 - 2023

	2020	2021	2022	2023	Total
Public Infrastructure (excl. vehicle or equipment purchases)	311,000	510,500	624,500	664,500	**$2,110,500**
Other capital projects	311,000	510,500	624,500	664,500	**$2,110,500**
Total Annual Capital budget	**$622,000**	**$1,021,000**	**$1,249,000**	**$1,329,000**	**$4,221,000**
Amount dedicated to capital reserve according to initiative CD01	**$622,000**	**$510,000**	**$624,000**	**$665,000**	**$2,421,000**

Except as otherwise specifically provided by the terms of this Amendment, all terms and conditions of the Exit Plan adopted by City Council and approved by the Mayor on August 23, 2019 shall remain in full force and effect.

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