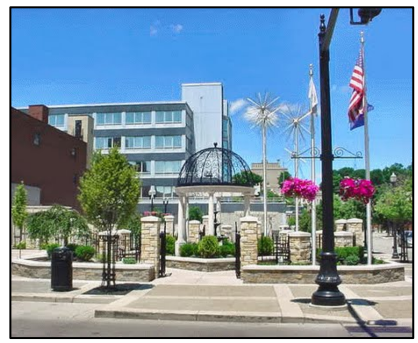
Municipalities Financial Recovery Act

Amended Recovery Plan

City of New Castle
Lawrence County, Pennsylvania



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

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PFM
The PFM Group
Public Financial Management, Inc.
PFM Asset Management LLC

ECKERT SEAMANS
ATTORNEYS AT LAW

Public Financial Management
Two Logan Square, Suite 1600
18th and Arch Streets
Philadelphia, PA 19103-2770
215 567 6100
www.pfm.com

Eckert Seamans Cherin & Mellott, LLC
600 Grant Street
44th Floor
Pittsburgh, PA 15219
412 566 6000
www.eckertseamans.com

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Executive Summary

Executive Summary

After five and a half years in the Commonwealth's oversight program for distressed municipalities, New Castle has made significant progress toward stabilizing its finances. More work remains to keep the City's finances in balance for the next three years and address a growing employee pension fund liability so the City can eventually exit Commonwealth oversight.

The Commonwealth of Pennsylvania declared New Castle distressed according to the criteria in the Municipalities Financial Recovery Act (Act 47 of 1987) in January 2007. At that point New Castle was in an extremely precarious position.

> *Borrowing to finance deepening annual deficits, burdened with debt and under funded pension plans, and faced with sluggish revenue growth, the City must change course or fail completely. The imminence of failure is not a debatable issue – without corrective action, the only question is when the City's finances will collapse.*[1]

In the summer of 2007, Mayor Wayne Alexander signed a City Council approved Recovery Plan as proposed by the Act 47 Coordinators, Eckert, Seamans, Cherin and Mellott, LLC and Public Financial Management, Incorporated. Since then the City's taxpayers, elected officials and many employees have contributed to the effort to pull New Castle back from the brink of financial ruin.

The City has stopped the trend of spending more money than it collects on an annual basis and has had positive year-end operating balances each year since 2009. The City has made its annual required contribution to the employee pension fund on time each year since 2007, paid off some of its large debt burden and built a $2.7 million reserve fund for contingencies.

That financial progress has not come without sacrifice. Residents in the City pay higher property taxes and earned income taxes than they did in 2007. People who work in New Castle but do not live there have also pay a higher portion of their earned income to support the New Castle's basic government operations and retire its debt. Police officers and employees that are not members of a union took wage freezes, receive fewer paid holidays and increased their contributions to the cost of their health insurance. Elected officials and department directors have made difficult decisions on a monthly basis to keep the City's budget in balance despite pressures to spend more than available revenues can support.

New Castle's progress is also the result of improved financial management. The City has the personnel, processes and information technology in place to more effectively monitor its cash flow, track its performance relative to budget and analyze key revenue trends. Spending is managed more closely, debt is used more judiciously and significant financial management liabilities have been eliminated.

As a result of these efforts, some required in the original Recovery Plan and others pursued outside of it, New Castle is more financially stable now than it was in 2007. That progress provides the foundation for the City to address three challenges over the three-year period covered in this Amended Recovery Plan.

[1] 2007 Act 47 Recovery Plan Executive Summary, page 4.

Challenge #1: The City's annual required contributions to its employee pension funds will double in the next five years, costing at least an extra $1.3 million per year beginning in 2015.

Like other Pennsylvania municipalities, New Castle is required to make an annual contribution to its employee pension fund, which is called the Minimum Municipal Obligation (MMO). The MMO is calculated by an external actuary based on the pension fund's investment performance, the level of benefits due to employees, the number of retired employees and several actuarial assumptions.

According to the actuary's projections, New Castle's MMO payment will rise dramatically in the next five years. The City will contribute $1.6 million to its employee pension fund in 2012. By 2015 the MMO will jump to $3.2 million. According to these projections, the payment will stay at that elevated level in future years absent corrective action or much better investment performance.

The spike in pension costs is partially driven by forces beyond City government's control. The 2008 national stock market crash severely reduced the value of many organizations' investments, requiring additional contributions to keep pension funds viable. New Castle was caught in that national trend. Because of temporary relief provided by the Commonwealth and timing issues related to how the MMO is calculated, the additional contributions required for the City's pension fund will reach their full impact in the next three years.

However, the City's pension problems are not solely related to the stock market crash. New Castle's pension fund has been distressed according to Commonwealth standards since at least 1987 and remained distressed even after the City issued pension bonds to address the problem in 1997 and again in 2005. Despite the distress and two attempts to address it through borrowing, prior City leaders negotiated to provide a level of benefits to retired employees and current employees that New Castle's limited tax base cannot support.

Plan pension initiatives: Increased contributions, restructured benefits

In the short term, the City has very few imperfect options for addressing this problem. The level of benefits that the City has negotiated to provide to past and current employees generally cannot be changed without the employees' consent. The City can put more money into the pension fund beyond the amount already required by Pennsylvania law and it can establish a cheaper plan for new hires.

Key Pension Initiatives

Use City reserves (PN04, p15)

Property tax increase (PN03, p14)

Direct additional funds to pension liability (AD01-AD02, p61-62)

No benefit improvements for retirees or current employees (PN06, p18)

Move new employees to a less expensive pension plan (PN07-PN09, p19-20)

The City has built cash reserves in its General Fund that will help cover the rising pension MMOs through 2015. The reserves will help the City make these rising payments without enacting severe tax increases or service cuts.

The reserves are not enough to cover the total MMO increase and they are not a sustained source of revenue. Once the reserves are spent, they are gone. So the City needs a recurring source of money for a recurring liability and its tax base is not growing enough to provide that money absent a tax increase.

So the City will need to increase real estate taxes by 1.0 mill in 2014 and another mill in 2015 with that money going into the employee pension fund. That translates to an 8.5 percent increase in 2014 (the first real estate tax increase since 2009) and an 8.1 percent increase in 2015. The Amended Recovery Plan also directs the City to explore other options for making additional contributions to the pension fund beyond the MMO, such as leasing its parking system to a private operator and monitoring the costs and benefits of issuing pension bonds. All else being equal, higher contributions to the pension fund eventually lead to a smaller unfunded liability and lower annual payments.

The City must also make changes now to provide a more affordable set of retirement benefits. That includes moving new employees in all collective bargaining units, including police and fire, to a pension plan that costs 20 percent less than the current plan.

Challenge #2: The City's largest revenues are not growing as fast as its largest expenditures.

Most of the money that funds City operations, like police and fire, comes from the real estate (or property) tax or the earned income tax (EIT). In 2011 these two sources accounted for nearly two of every three dollars that the City collected in its General Fund (63.4 percent).

The amount of tax revenue that the City collects is a product of its tax rates and its tax base. If the tax base grows, then the City will collect more money each year without increasing tax rates. If the tax base does not grow, the City will eventually have to increase tax rates to collect more money. Unfortunately the bases for the City's two largest tax revenues are not growing. The value of taxable property in the City has dropped since 2007 and the amount of money that the City collects for each 0.1 percent of resident earned income tax has not significantly changed in the last three years.

Meanwhile the City's largest operating expenses – the allocations for different types of employee compensation -- are growing. It is common for a city government to spend the majority of its budget on employee wages, health insurance and other kinds of compensation. New Castle spends two of every three General Fund dollars on employee compensation (67.1 percent in 2012), and that does not include the additional amounts spent on the required employee pension fund contribution. Compensation costs rise as employees receive raises and health insurance becomes more expensive.

That leaves New Castle with the fundamental structural problem that many other Pennsylvania governments face: The largest revenues are not growing as fast as the largest expenditures. Therefore, even with the tax increases discussed above, the City must address the structural deficit with substantial expenditure controls.

Plan initiatives: Cost control and prioritizing limited resources

Like the original Recovery Plan, this Amended Plan has initiatives for controlling the workforce costs that make up the majority of the City's budget. The Amended Recovery Plan does so under the new structure provided by Act 133 of 2012. That law empowers the Recovery Coordinator to allocate the maximum amounts that the City can spend on compensation for employees within each bargaining unit. The Amended Recovery Plan sets the maximum amount by bargaining unit and provides a sample structure that complies with that allocation, but gives the City and the bargaining unit flexibility to negotiate a different structure, so long as the total employee compensation stays under the annual maximum allocations.

Key Structural Balance Initiatives

Maximum employee compensation allocation for police officers (WF05, p50)

Maximum employee compensation allocation for firefighters (WF06, p53)

New structure for City contributions to employee health insurance (WF03, p48)

Fire department restructuring (FR01, p76)

Adjust refuse collection fees to maintain cost recovery (PW02, p96)

Improve current year property tax collection (RV03, p142)

Tax exempt property initiatives (RV04-RV06, p144-145)

The Amended Recovery Plan covers a three-year period so the initiatives are primarily focused on the Fraternal Order of Police, Lodge No. 21 whose contract expires in December 2012 and the International Association of Firefighters, Local No. 160 whose contract expires in December 2013.

For police officers, the Amended Recovery Plan allocation is based on a one-time bonus in 2013 for each employee that varies according to his or her 2012 salary; a 2.0 percent across-the-board increase and any applicable step increase in 2014; and a 2.0 percent across-the-board increase and any applicable step increase in 2015. The other elements of cash compensation (e.g. longevity, holidays, shift differential) are assumed to remain the same as they are in 2012, though the City and FOP can negotiate a different structure so long as the total employee compensation stays under the annual maximum allocations. The Amended Recovery Plan makes relatively few changes to cash compensation for police officers since they negotiated a contract under the provisions of the original Recovery Plan in 2008.

For firefighters, the Amended Recovery Plan allocation is based on a wage freeze in 2014; a one-time bonus in 2015 that varies according to the employee's 2013 salary; and a 2.0 percent across-the-board increase and any applicable step increase in 2015. The original Recovery Plan had a two-year wage freeze. The firefighters took a freeze in 2007, but their seven-year labor contract signed in late 2006 delayed the second year of the freeze until 2014. The City has followed a similar pattern for the non-uniformed employees who recently negotiated new collective bargaining agreements.[2]

The Amended Recovery Plan allocations also assume the City would negotiate the same changes to firefighters' other forms of cash compensation that are applied to police officers (e.g. frozen longevity levels and eligibility, frozen pay for certifications/special assignments). Again, the City and IAFF can negotiate a different structure so long as the total employee compensation stays under the annual maximum allocations.

Because the City's major expenditures are growing faster than its revenues, and since the City will need to increase taxes and deplete its reserves to handle the increasing employee pension cost, the City will have to make structural changes to its fire department to keep its finances in balance and eventually exit Act 47 oversight. The Amended Recovery Plan sets targets for the

[2] The union-represented non-uniformed employees took a wage freeze in 2007 and are taking another in 2012, the first year of their new contracts.

City to reduce fire department costs by approximately 20 percent beginning in 2014. Those targets are incorporated into the Plan's maximum annual allocation for IAFF employee compensation.

The Amended Recovery Plan discusses different options for achieving these savings, including bringing back the part-time (or "casual") firefighter position that the City used in the late 1990s. The collective bargaining agreement between the City and IAFF for 1998-2002 envisioned a department in which casual firefighters would gradually replace full-time firefighters. The Amended Recovery Plan encourages the City and IAFF to move in that direction again.

The Revenue chapter of this Amended Plan focuses on improvements that will increase the City's recurring revenues. As noted in the original Recovery Plan, the City struggles to collect property tax revenue by the end of the year in which it is due. New Castle's annual budget assumes the City will only collect 83 percent of the total amount due each year. The City's actual collection rate hovers around 81 percent of the total levy. Other Pennsylvania municipalities, including some of those in Act 47, collect 90-95 percent of the amount due. The Amended Recovery Plan requires the City's Treasurer as the elected official in charge of collecting this tax to recommend improvements to this process. The Revenue chapter also has three initiatives related to the City's tax-exempt properties.

Challenge No. 3: The City depends on the additional taxing authority granted under Act 47 to cover its annual operating and debt service expenses.

Pennsylvania law sets a maximum earned income tax rate of 1.0 percent that New Castle can levy on its residents and non-residents under its current form of government. If the Coordinator's Recovery Plan authorizes the City to seek a higher tax rate, the City can petition the Lawrence County Court of Common Pleas to levy a higher tax under the terms of Act 47 and its approved Recovery Plan. The City has successfully petitioned the Court to increase its EIT rate beyond 1.0 percent each year since 2007 according to the original Recovery Plan.

New Castle residents currently pay a total rate of 2.15 percent with 1.65 going to the City and 0.50 to the school district. The City uses the 1.65 percent to fund operations (1.05 percent), pay debt (0.5 percent) and help make the annual required contribution to the employee pension fund (0.1 percent). Under its current form of government, New Castle has to reduce its resident tax rate from 2.15 to 1.00 percent to exit Act 47 oversight.

People who work in New Castle and live elsewhere currently pay a total rate of 2.05 percent. The non-resident's home municipality receives whatever percent is levied under their local ordinances (usually 1.0 percent). New Castle receives the remainder (usually 1.05 percent) and uses it to fund operations (0.45 percent), pay debt (0.5 percent) and help make the annual required contribution to the employee pension fund (0.1 percent). To exit Act 47 oversight, New Castle has to eventually reduce the non-resident EIT rate from 2.05 to 1.00 percent which is almost always remitted back to the home municipality.

While the City has to reduce its EIT to exit Act 47 oversight, the City also relies on this Act 47-authorized revenue to balance its budget. Eliminating the Act 47 tax completely in 2013 would cost the City $3.0 million next year and $5.1 - $5.4 million in subsequent years. The City could not lose that revenue and maintain basic public services. Ideally the City should gradually reduce the EIT each of the next three years so that it gets closer to the maximum rates allowed outside of Act 47. Practically it will be very difficult for the City to do so because of the rising contributions to the employee pension fund and the stagnant tax base. The need to provide alternatives to the

City's dependence on the additional taxing authority provided by Act 47 drives several Amended Recovery Plan initiatives.

Plan initiatives: More local control over tax rates, aligning tax base with service needs

The City can gain more control of its earned income tax rate on residents by going through the Home Rule charter process to change its form of government. If the City adopts a Home Rule charter, which is akin to a local government constitution, City leaders will no longer have to reduce the earned income tax rate on residents to 1.0 percent to exit Act 47. Depending on how the Home Rule charter is written, The City could keep the resident EIT at its current rate, increase it or reduce it to something higher than 1.0 percent at local leaders' discretion. The Coordinator does not recommend a higher EIT rate on residents and has not increased the EIT rate in the Amended Recovery Plan. But the Home Rule charter would give the City flexibility to change two major tax rates (EIT and property) instead of one (property)[3] and eliminate one obstacle to exiting Act 47.

The Amended Recovery Plan requires the City to consider the Home Rule charter process that could lead to this increased taxing flexibility. The Home Rule process begins with an election to select citizens to form a Government Study Commission separate of City Council. That Commission reviews the City's form of government, proposes any changes and potentially drafts a new charter that is also subject to an electoral vote. The Coordinator recommends this process because of the flexibility it provides for setting the resident EIT rate, though the Commission could also change other aspects of City government.

Key Initiatives for Long Term Recovery

Consider Home Rule charter to increase local control over resident EIT rates (AD03, p63)

Restructure Department of Community and Economic Development (CE01, p114)

Revise ED Director position description (CE02, p115)

Electronically track code enforcement activity (CE03, p117)

Pursue intergovernmental cooperation (IG01, p67)

If the City works through the Home Rule process and gives itself more control over the resident EIT rates, it will still eventually have to reduce the EIT rate on non-residents to 1.0 percent, which usually goes back to the employee's home municipality. The non-resident EIT generates approximately $2.5 million per year that the City would no longer collect.

New Castle's tax base – the value of taxable property and the earnings of people living in the City -- must grow so that City government is less dependent on this non-resident tax revenue. New Castle also needs its tax base to grow to generate more money for the rising employee pension fund contribution and to cover the normal growth in the costs of providing basic local government services.

City government itself will not be a source for job creation or rising wages and it cannot single handedly stimulate New Castle's private sector, but it can create positive conditions for growth. City government must be more effective in the areas that are clearly under its purview, like code enforcement. It must be more thoughtful in how it uses its limited resources for demolition and modest community development investments. And it must be able to articulate a

[3] Pennsylvania state law also sets a limit on the maximum real estate tax rate, but New Castle is below that limit.

vision to others in the community and those who might move into it so they can see New Castle's potential.

The Amended Recovery Plan requires the City to restructure its Department of Community and Economic Development so that the related functions are better coordinated and there is a much stronger focus on taking action in support of stated goals. Just as the original Recovery Plan defined a new Chief Financial Officer position to improve financial management, the Amended Recovery Plan redefines the Economic Development Director position to improve the City's effectiveness in this area.

The ideal scenario is that the City's local economy will grow, related tax revenues will rise and the City will eventually be able to fund local government functions without the additional taxing authority provided under Act 47. Practically it will be difficult for New Castle to reach that point in the foreseeable future without more sweeping changes. This is the same obstacle that keeps many other communities under Act 47 oversight for long periods. So the Amended Recovery Plan requires the City to explore opportunities to provide public safety and public works services outside of the traditional local government structure.

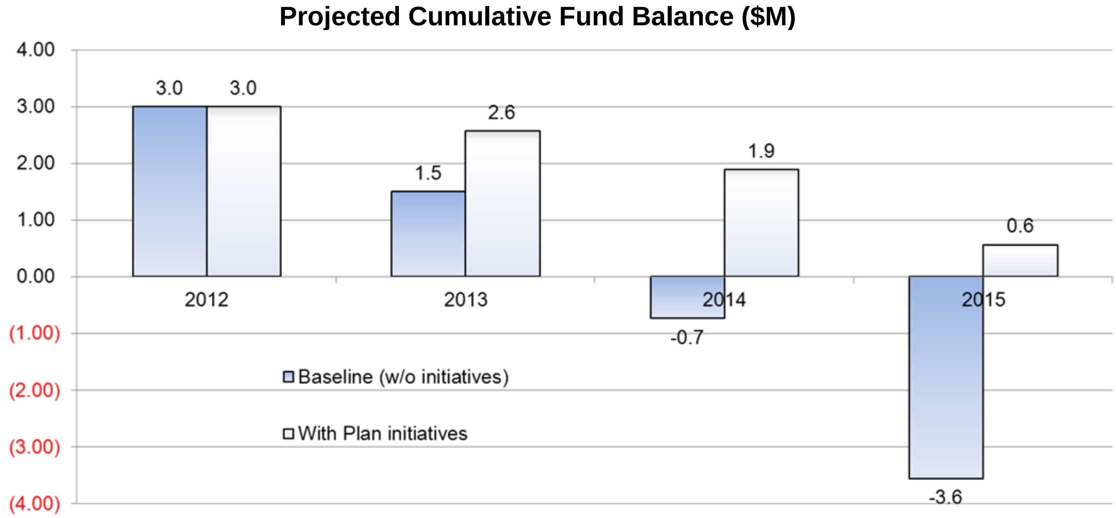
This could include regionalizing police or fire services, shifting public works functions to Lawrence County or working more closely with the New Castle Area School District on parks and recreation. The Coordinator recognizes the difficulty of making any of these changes, especially since they require the cooperation of other parties outside City government. However, many of the challenges that New Castle faces are regional in nature and are not confined to the City's borders. Those challenges should be addressed by a regional response where possible. The Coordinator is committed to starting discussions between City government and other organizations to explore these possibilities.

Projections: With and without the Amended Recovery Plan

Like the original Recovery Plan, this Amended Plan projects the City's revenues and expenditures absent any changes for the General Fund, Sinking (Debt Service) Fund and Pension Fund. These baseline projections assume no changes in the City's tax rates, employee headcount or service levels. The projections apply growth rates to each line in the City's budget based in part on historical performance. They take into account the City's debt schedule, its existing collective bargaining agreements and other known liabilities.

According to these projections, ***if the City takes no corrective action,*** the City would have to use most of its General Fund reserves to cover its expenses in 2013. The City would exhaust its reserves during 2014 and not be able to cover its obligations for the full year absent an unfunded debt loan or using its rainy day reserves. The deficit would grow in 2015 on a year-to-year and cumulative basis and much of the financial progress gained since 2007 would be lost. These are the baseline projections ***if the City takes no corrective action.*** The Amended Recovery Plan charts a path to avoid this scenario by implementing the Plan's initiatives through 2015.

The initiatives described in the Amended Recovery Plan would enable the City to meet its obligations, including the increased pension contributions, through 2015. The City would also make progress on the longer term issues that must be addressed to exit Act 47 oversight. And the City would avoid more severe tax increases and service cuts that will be necessary if the City waits too long to address the three challenges described above.



The Coordinator currently projects that the City will have a deficit of at least $1.0 million in 2016 and 2017 after the Amended Recovery Plan initiatives are applied. The higher pension fund contributions will continue according to the actuary's most recent projections after the City spends the remainder of its General Fund reserves in 2015.

The City can change that course by finishing 2012 ahead of budget, putting more money in its pension fund to lower the liability, paying off debt ahead of schedule or taking actions beyond those outlined in this Plan that result in recurring revenue growth or recurring expenditure savings. In the long term, New Castle needs its economy to grow or its method for providing government services to change to achieve the structural balance required to exit Act 47. The Coordinator will work with the City to achieve that ultimate objective.

Pensions

Pensions

Although the City has successfully addressed some of the pension-related financial problems identified in the original Recovery Plan, its three employee pension plans (for Police, Fire and Non-Uniformed employees) remain distressed and underfunded. The City's actuary projects that the City's annual required contribution to the pension plans will nearly double over the next five years, creating an additional $1.0 million in expenditures that the City will have to fund. This is the biggest financial challenge the City will face during the term of this Amended Recovery Plan.

Since the original Act 47 Plan was enacted, progress has been made in the following regards:

- Before entering Act 47 oversight, the City had struggled since 2002 to make its annual required contributions to the pension funds (known as the Minimum Municipal Obligation or MMO). As of 2007, the City owed $1.2 million in past-due MMOs for the years 2005 and 2006, and its ability to pay the 2007 MMO by the statutory December 31st deadline was in doubt. To comply with the Act 47 Recovery Plan, in 2007 the City completed an unfunded debt borrowing of $5.1 million with $941,000 designated to retire the delinquent pension obligations and associated penalties and pay the 2007 MMO in full before the December 31st deadline.

- The original Recovery Plan authorized the City to seek a higher earned income tax (EIT) on residents and non-residents to help fund annual pension obligations and retire debt on the City's 1997 and 2005 pension bonds. The City began levying a distressed pension EIT on residents and non-residents in 1987. In 2008 the City increased its pension-related EIT from 0.6 percent to 0.7 percent as provided in the Recovery Plan. With that tax increase, the City has met its MMO requirements for all three pension plans through 2011 and is expected to do so in in 2012.[1]

- The City has addressed several Recovery Plan initiatives related to pension plan investment strategy and administration. In August 2011, the City adopted an Amended Investment Policy Statement addressing pension plan objectives, asset allocation, prohibited investments, benchmarks and measurement of investment performance. On a quarterly basis, the City reviews the investment performance of the plan's investment managers. Pension plan documents have been regularly revised by legal counsel to the Pension Board.

In an effort to reduce costs, the original Recovery Plan mandated changes to all three pension plans. With reference to the police plan, the City's collective bargaining agreement with the Fraternal Order of Police, Lodge No. 21 for the term January 1, 2008 through December 31, 2012 now includes several of these changes:

- For employees hired on or after January 1, 2008, the retirement benefit is 50 percent (instead of 75 percent) of final average salary.

- For employees hired on or after January 1, 2008, the survivor benefit is 50 percent of the participant's accrued benefit (instead of 50 percent of the participant's average compensation).

- Pensions vest after 12 years of service (instead of 10 years of service).

[1] Please see the Debt and Revenue Chapters for more information on the City's distressed pension EIT.

In 2012 the City completed negotiations on new collective bargaining agreements with its public works and clerical employees (Laborers, Local No. 964) and code enforcement employees (Teamsters, Local No. 261). Each of these contracts contains a re-opener provision to negotiate pension changes for employees hired on or after January 1, 2012. The re-opener will allow the City to negotiate changes to the non-uniformed employee pension plan as set forth in the initiatives section of this chapter, below. The City's contract with the IAFF, Local No. 160 does not expire until December 31, 2013.

Deepening distress

Despite New Castle's positive efforts, the City's pension plans remain financially vulnerable. The proportion of active to retired employees funding the City's pension plans remains low. As of January 1, 2011, 115 individuals were actively paying into the pension funds while 173 individuals were receiving pension benefits. Looking just at this element of the pension fund, more people are drawing a benefit out of the pension fund than are contributing to it.

The City issued pension bonds in 1997 and 2005 to help boost the funding level. Although the 2005 pension bond proceeds[2] increased the funded ratio of all three pension plans to over 80 percent as of January 1, 2007, the funded ratios have since declined significantly as shown in the following chart.

Plan	Actuarial valuation date	Actuarial Value of Assets	Actuarial Accrued Liabilities	Funded Ratio
Police pension plan	1-Jan-07	$12,603,349	$15,326,736	82.2%
Police pension plan	1-Jan-11	$10,613,100	$18,019,078	58.9%
Fire pension plan	1-Jan-07	$11,835,320	$13,653,160	86.7%
Fire pension plan	1-Jan-11	$9,875,123	$15,272,308	64.7%
Non-uniform pension plan	1-Jan-07	$7,763,272	$9,218,895	84.2%
Non-uniform pension plan	1-Jan-11	$4,677,506	$10,187,209	45.9%

2007 figures come from the Pennsylvania Auditor General's report on December 31, 2008
2011 figures come from City auditor Mockenhaupt's valuation report as of January 1, 2011

The state's Public Employee Retirement Commission (PERC) determines whether a municipality's pension funds are financially "distressed" and, if so, to what degree using standards set in Commonwealth Act 205. Pension plans with a funding ratio of 70 to 89 percent are considered "minimally distressed." Pension plans with a funding ratio of 50 to 69 percent are considered "moderately distressed." So New Castle's plans have dropped from minimally to moderately distressed over four years using the Commonwealth's criteria.

The stock market crash severely reduced the value of many organization's investments. One media outlet estimated that as of 2009 the crash left public pension funds across the country with $1 trillion less than was needed to pay the benefits provided to retired and active government employees.[3] New Castle's pension fund was caught in this national trend.

[2] Please see the Debt Chapter for more information on the City's pension bond debt.
[3] David Evans. "Hidden pension fiasco may foment another $1 trillion bailout." *Bloomberg News.* March 3, 2009.

However, many pension funds – including New Castle's – were underfunded before the stock market crash. New Castle started using an extra earned income tax on its residents and non-residents working in the City in 1987 to help address the underfunding. The level of the distressed pension tax has varied but it remains in place into 2012, even after the 1997 and 2005 pension bonds.[4]

Projected pension payments

The City's annual required contribution to the employee pension funds, or its 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, the amounts that employees contribute, recent investment performance and life expectancy for covered employees. The MMO has three components:

- The **normal cost** is the amount that the City has to contribute to cover the value of benefits provided to employees in the current year. It is based in part on the size of the City's current payroll.
- The **amortization component** is the amount the City has to contribute to cover the unfunded liability from prior years' service. This is the largest component in the MMO.
- The **administrative expense** is the anticipated cost of running the pension plan.
- The **employee contribution** is the percentage of salary that each active employee contributes to the pension fund from their salary on an annual basis. The contribution amount is set through negotiation.

The actuary calculates the MMO by adding the first three items and subtracting the employee contribution to determine how much the City must pay each year to fund the pension. Pennsylvania Act 44 of 2009 allowed New Castle to contribute 75 percent of the amortization component for 2011 and 2012. The remaining 25 percent was not eliminated. It is added to the City's unfunded liability so the City must pay it back with interest later. The chart below shows a summary calculation of the 2012 MMO for all three pension plans.

2012 MMO Calculation Summary ($)

	Police	Fire	Civilian	Total
Normal cost (Current year cost)	249,113	225,771	215,163	690,047
Amortization cost (Past years cost)	636,499	431,619	249,305	1,317,423
Administrative expense	89,068	94,725	64,520	248,313
Employee contribution	(84,720)	(99,242)	(121,561)	(305,523)
Total MMO	**889,960**	**652,873**	**407,427**	***1,950,260***
City's 2012 MMO (75% of amortization)	***730,835***	***544,968***	***345,101***	***1,620,904***

[4] Please see the Revenue Chapter for more information on the distressed pension earned income tax.

The City's actuary projects that the MMO will nearly double from $1.6 million in 2012 to $3.0 million in 2017 assuming full payment of the City's MMO each year and retention of the current assumed 8.0 percent rate of return on investments.

MMO Year	MMO
2012	$1,620,904
2013	$2,377,000
2014	$2,841,000
2015	$2,951,000
2016	$2,990,000
2017	$3,010,000

The projected pension payments could change based on two assumptions:

- Because the City's pension plans are now "moderately distressed," the City has the option in 2013 and 2014 to pay 75 percent of amortization component, as it did in 2011 and 2012. That would lower the City's payments in 2013 and 2014 but increase the City's MMOs over the levels shown above in 2016 and 2017 since the City has to fund the remaining 25 percent with interest over several years.

- The actuary has recommended that the City reduce its earnings assumption from 8.0 percent to 7.5 percent to reflect the rate currently used in the vast majority of pension plans with similar portfolios. If the City's earnings assumption is higher than actual performance, then the City's pension contribution will be lower than it should be and the funding level will slip further, requiring even better earnings performance or additional contributions in the future. The opposite is also true: A lower earnings assumption leads to a higher MMO and an improved funding level.

Initiatives

In the short term the City has very few imperfect options for reducing its pension costs.

New Castle must make its MMO payment by December 31st of each year. Failure to do so triggers statutorily required interest and penalties that would make it difficult for the City to catch up on the delinquent pension obligations and keep its budget balanced in subsequent years. This was one of the factors that pushed the City into Act 47 oversight in 2007.

The City needs to take advantage of the temporary relief provided under Act 44, which will reduce the City's contribution in 2013 and 2014 at the expense of increasing it in later years. The City should also reduce its interest earnings assumption as its actuary recommended. Those two changes will result in an MMO that is projected to reach $3.23 million by 2015 and $3.36 million by 2017, more than double the City's $1.62 million contribution in 2012.

Given the current lack of options to reduce the pension payments, the City will have to make adjustments outside the pension fund – meaning service cuts for citizens, depletion of financial reserves and tax increases – to make its pension payments. In 2013 and 2014, the actuary will recalculate the City's MMO according to the pension's funding status as of January 1, 2013. That could result in slightly lower payments than currently projected for 2015 but is unlikely to change the overall picture absent a large contribution to the pension fund before the end of the 2012.

The City must make changes today in order to provide a more sustainable set of retirement benefits to retired employees so that it can continue to provide critical services to its residents. It will take several years for many of those changes to impact the City's pension contributions, but the long term viability of the City depends on taking action as soon as possible.

MMO calculation assumptions

PN01.	**Use 75 percent amortization for MMO in 2013 and 2014**	
	Target outcome:	Short term cost reduction
	Financial impact:	$965,000
	Responsible party:	Administration, City Council

Under the terms of Act 44 of 2009, the City paid 75 percent of the amortization component of its MMO in 2011 and 2012. The remaining 25 percent did not cease to be a City obligation. That delayed payment will be factored into the City's pension liability and added to the MMO in later years. This approach provided temporary relief for the City's annual budget at the expense of the City's overall pension funding level and higher long term costs.

Even with those drawbacks, the City shall take advantage of the 75 percent amortization option again in 2013 and 2014. This will result in a slower ramp up to the $3.2 million level MMOs projected by 2015, and will make it marginally easier to incorporate the growing pension contribution into the annual budget. The impact of using the 75 percent amortization as calculated by the actuary is shown below.

Financial Impact

2013	2014	2015
$432,000	$533,000	$0

PN02.	**Lower interest earnings assumption**	
	Target outcome:	Increase pension funding level
	Financial impact:	($561,000) *Higher costs due to higher contribution to pension fund*
	Responsible party:	Administration, City Council

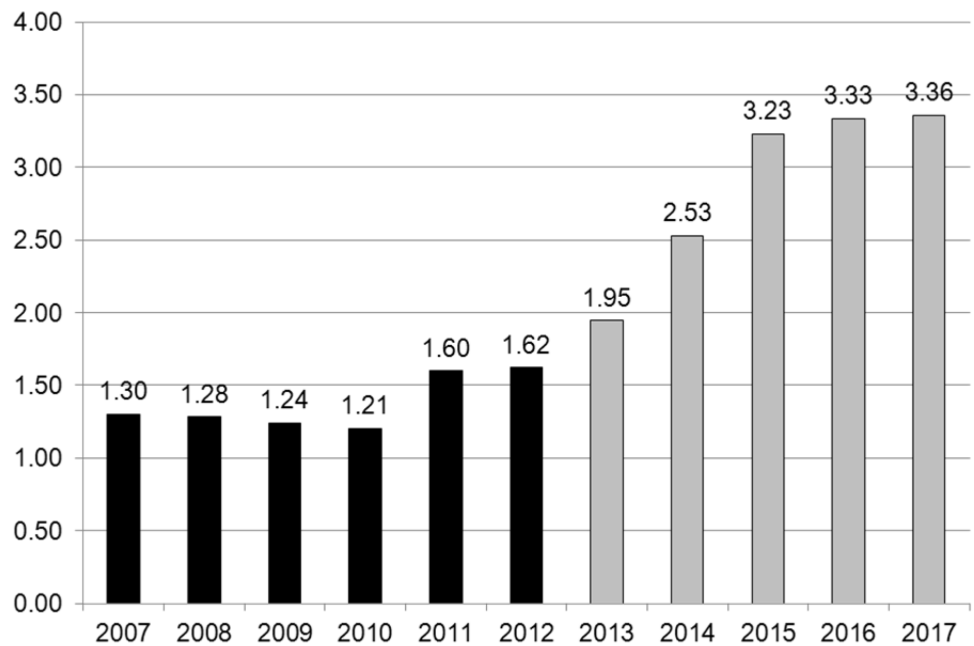
As the actuary recommends, the City shall lower the interest earnings assumption for its pension fund from 8.0 percent to 7.5 percent. Lowering this assumption will require the City to increase its MMO beginning in 2014, which will in turn improve the pension funding level. If the City outperforms the 7.5 percent earnings assumption in any year, the additional earnings will help lower future MMO payments. If the City underperforms the 7.5 percent earnings assumption in any year, than the difference between the actual and projected performance will be less than it would have been with the higher earnings assumption.

Financial Impact

2013	2014	2015
0	($279,000)	($282,000)

The two changes in PN01 and PN02 result in the projected MMOs shown in the graph below as provided by the City's actuary. Any additional contributions to the pension fund beyond the annual requirements, investment performance and other factors could change the MMOs from these levels.

Actual and Projected Annual Pension Contributions ($M)



Closing the pension gap

PN03.	**Property tax increases in 2014 and 2015**	
	Target outcome:	Increased revenue to cover pension gap
	Financial impact:	$1.2 million
	Responsible party:	Administration, City Council

While the City has options to reduce its pension liability associated with future hires, there are very few options to reduce the liability associated with current employees or those who have already retired. The best option for reducing that existing liability is to increase the pension funding. Given the lack of growth in the City's tax base absent rate increases and the higher annual contributions that the actuary projects will be necessary, the City shall increase its property taxes by 1.0 mill in 2014 and 1.0 mill in 2015. The revenues from the tax increase will flow to the City's General Fund and be transferred to the pension fund to cover the rising annual payments.

The City's total real estate tax rate is 11.726 so 1.0 additional mill translates to an 8.5 percent increase in 2014 and another 8.1 percent in 2015. The 2014 increase will be the City's first real estate tax increase since 2009. Using an average home value of $56,600,[5] the average home owner will pay an additional $56.60 for each additional mill.

Using the City's 2012 budget, each mill generates approximately $407,000 in current year revenue.[6] Holding other factors constant, the higher tax rate could eventually increase prior year property taxes as delinquent payments based on the higher rates are collected. Since the timing and amount for these additional delinquent collections are unknown, this initiative assumes the any increase in additional delinquent tax revenue will come at least two years after the first tax increase in 2014.

The City's elected officials have indicated a desire to find an alternate source of recurring, sustainable revenue to replace the property tax increase scheduled for 2014. If the City is able to identify additional recurring, sustainable revenue above the levels projected in the Amended Recovery Plan, then the City shall present that alternative to the Recovery Coordination for consideration. If the Recovery Coordinator, Mayor and Council agree that the alternative is a suitable replacement that provides recurring, sustainable revenue, then the Recovery Coordinator and City may amend this Plan to reduce or eliminate the 2014 property tax to account for the use of the alternative. The Plan must be amended by the introduction of the City's 2014 budget at Council's last meeting in November 2013.

Similarly, the 2015 tax increase is based in part on the actuary's MMO projections. As noted earlier, the actual MMO payment in 2015 could differ depending on whether the City is able to contribute more than the annual required amount, investment performance and other factors. If the City is able to identify additional recurring, sustainable revenue above the levels projected in the Amended Recovery Plan and the MMO is lower than projected in the Amended Recovery Plan, then the City shall present the revenue alternative to the Recovery Coordination for consideration. If the Recovery Coordinator, Mayor and Council agree that the alternative is a suitable replacement that provides recurring, sustainable revenue, then the Recovery Coordinator and the City may amend this Plan to reduce or eliminate the 2015 property tax to account for the use of the alternative. The Plan must be amended by the introduction of the City's 2015 budget at Council's last meeting in November 2014.

The total financial impact of the tax increase is shown below.

Financial Impact

2013	2014	2015
$0	$407,000	$814,000

PN04.	**General fund transfer to cover pension gap**	
	Target outcome:	Cover remaining pension gap through 2015
	Financial impact:	See below
	Responsible party:	Administration, City Council

[5] Estimate from the US Census Bureau's American Community Survey for 2006-2010.

[6] The 2012 budget shows 11.205 mills in the General Fund generating $4,564,197. Dividing the revenue by the mills gives $407,335.

The City has to make the full annual required contribution to the employee pension fund by December 31st under Commonwealth law. Any shortfall in the Pension Fund is a General Fund obligation, so the City will need to transfer money from the General Fund to the Pension Fund to make the projected annual required contributions. This transfer is in addition to the property tax described in the prior initiative.

The City has two sources to fund this transfer:

- The City has built a cash reserve in its General and Sinking Funds by outperforming budget expectations in recent years. Based on discussions with the Business Administrator, the Coordinator estimates that the City finished 2011 with $2.6 million in the General Fund and Sinking Fund. The City's 2012 budget and the Coordinator's adjusted projections would result in $2.9 million year-end balance in the General and Sinking Fund at the end of 2012. The City will need to spend this reserve down as the annual required contributions to the pension fund escalate.

- Other chapters in this Amended Recovery Plan outline initiatives for reducing expenditures in the General Fund. Those initiatives are an integral part of the City's ability to keep its annual budget balanced while making the increasing pension payments. If the City is not able to achieve the savings projected in those initiatives, it will still have to make the annual pension contributions, and the General Fund will risk falling into deficit.

The table below gives a general sense for the size of the City's transfer according to the projections described in the Amended Recovery Plan. This table understates the importance of the expenditure reductions since it focuses only on the pension fund gap through 2015, and not the gap in later years or the City's other challenges as described in this Plan's Executive Summary.

Pension Gap Closing Scenario

Revenues	**2013**	**2014**	**2015**	**2016**	**2017**
Earned income tax	451,000	461,000	472,000	482,000	494,000
State Aid	631,000	644,000	657,000	670,000	683,000
Investment reimbursement for admin costs	154,000	158,000	162,000	166,000	170,000
Real estate tax (PN03)	0	407,000	814,000	814,000	814,000
Gas lease payment (See AD01)	507,000	0	0	0	0
Transfer: Use of reserves	356,000	1,018,000	1,290,000	256,000	0
Total Revenues	2,099,000	2,688,000	3,395,000	2,388,000	2,161,000
Expenditures	**2013**	**2014**	**2015**	**2016**	**2017**
MMO Payment (PN01 + PN02)	1,945,000	2,530,000	3,233,000	3,334,000	3,357,000
Administrative costs	154,000	158,000	162,000	166,000	170,000
Total Expenditures	2,099,000	2,688,000	3,395,000	3,500,000	3,527,000
Surplus / Deficit	**0**	**0**	**0**	**(1,112,000)**	**(1,366,000)**

As the chart above shows, the combination of a property tax increase and using prior year reserves does not fill the City's pension funding gap beyond 2015. Increasing the property tax in 2014 and then again in 2015 covers 25-40 percent of the gap. The reserves and using $507,000 from the gas lease cover the remainder through 2015. Once those reserves are spent, there is still a projected deficit of $1.1 million in 2016 and $1.4 million in 2017.

Several factors could impact the size of that longer term deficit between now and 2016. As noted earlier, the MMO payments beginning in 2015 will change when the actuary completes their next pension valuation report, though it is unknown whether the payments will increase or decrease.

They will change again in 2017 after the next biennial actuarial study. While some factors in this calculation are largely beyond City government's control, the City's leaders can change this picture by making additional contributions to the pension fund beyond the annual required contribution. The Administration Chapter initiatives outline some possible sources for this additional contribution. The City also must control its General Fund expenditures so that it has enough money available to make its pension fund contribution. The Workforce Chapter initiatives are particularly critical for this objective.

PN05.	**Evaluate costs and benefits of pension bonds**	
	Target outcome:	Reducing pension costs
	Financial impact:	TBD
	Responsible party:	Business Administrator, Recovery Coordinator

Issuing pension bonds is another option for improving the City's pension funding level. As the City did in 1997 and 2005, it could issue debt and put the proceeds in its pension fund to reduce the MMO in future years. Issuing pension bonds in any situation involves risk. If the City puts pension bond proceeds in its pension fund and the investments lose value because of market factors beyond the City's control as happened in 2008, then the City would have the additional debt associated with the bonds *and* high pension costs. Pension bonds also do not address the long term structural problem that the City is providing a level of benefits it cannot sustain.

Given the undesirability of the tax increase, the Coordinator reviewed the costs and benefits of issuing pension bonds in 2012. The actuary provided information showing that, if the City borrowed enough money to eliminate the estimated $16.0 million unfunded liability in 2012,[7] it would save approximately $1.3 million in pension amortization payments in 2013. The cost of issuing $16.0 million in debt in 2012 given current market conditions and the City's credit rating is approximately $1.0 million per year starting in 2013 and running through 2044.[8] In its simplest terms, the City would trade $1.3 million in potential pension relief (depending on the City's investment performance and other factors in the MMO calculation) in return for $1.0 million in additional debt.

The City's experiences in 1997 and 2005 show that the benefits of pension bonds can be short lived while the related debt costs last decades. Given those experiences, the City's existing debt burden and the relatively small portion of the total pension hole that the bonds would fill, the Coordinator does not recommend issuing pension bonds in 2012.

Still, pension bonds are one of a limited set of options the City has for addressing its pension problem. With the Coordinator's support, the Business Administrator shall monitor the costs and benefits of issuing pension bonds during the term of this Recovery Plan. At Council's request, the Administrator and Coordinator will provide updates on the summary analysis described above.

[7] The City's unfunded liability as of January 1, 2011 (the last actuarial report) was $15,889,316.

[8] This assumes the City issues 30-year pension bonds.

Cost control

As discussed above, the City's pension obligations constitute its biggest financial challenge for the foreseeable future, nearly doubling in the next five years and increasing total City expenditures by $1.2 million per year. In order to meet its non-pension obligations and continue to provide reasonable services to its residents, the City must take steps now to significantly reduce its pension obligations over the long term. With "moderately distressed" pension plans, the City is legally authorized under Act 205 to establish revised benefit plans for new hires. Those new plan options include defined contribution (DC) plans, and the City must take advantage of this available relief.

A DC plan, applicable only to new employees, has advantages for both the City's taxpayers and employees. As to the City, the DC plan provides much more stable (and likely lower) contributions for its share of employee retirement costs. A DC plan will also reduce the City's administrative costs to manage a large and growing pool of assets. To the extent that younger employees may be willing to work for the City but are unwilling to commit long-term, the DC plan will aid City recruitment of new talent attracted by the portability and other advantages of the DC plan.

The portability of the DC plan is one of its major advantages for the employee. Since contributions are paid directly into individual employee accounts, it is easy for employees to take their accumulated funds with them to a new job. In addition, City contributions to a DC plan become the property of the employee upon payment with the result that those contributions "vest" immediately. Each employee's fund is under his own investment control.

PN06.	**Moratorium on benefit enhancements for current retirees and current employees**	
	Target outcome:	Avoid further cost increases
	Financial impact:	N/A
	Responsible party:	City Solicitor, Business Administrator, City Council

The City shall not take any actions to enhance benefits for current retirees or active employees. This prohibition extends to other post-employment benefits (OPEB) such as retired employee health insurance, another substantial cost.[9] 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 over a 30-year period. The City actuary's review is important since the actuary's calculations will determine the City's pension costs 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).

[9] Please see the Workforce Chapter for more information on this subject.

PN07.	**Police pension plan cost reduction**	
	Target outcome:	Reduce long term costs
	Financial impact:	N/A
	Responsible party:	City Solicitor, Business Administrator

During negotiations on the next succeeding collective bargaining agreement between New Castle and the Fraternal Order of Police, Lodge No. 21, the City shall, with the assistance of its actuary, establish a revised benefit plan for employees hired on or after January 1, 2013 with a normal cost which is at least 20 percent lower than the plan applicable to employees hired on or after January 1, 2008. The revised benefit plan shall be a defined contribution plan; provided, however, that if a defined contribution plan is held to be illegal by an unappealable order of court of competent jurisdiction, then the revised benefit plan shall be a defined benefit plan meeting the above cost criteria.

PN08.	**Firefighter pension plan cost reduction**	
	Target outcome:	Reduce long term costs
	Financial impact:	N/A
	Responsible party:	City Solicitor, Business Administrator

During negotiations on the next succeeding collective bargaining agreement between New Castle and the International Association of Firefighters Local No. 160, the City shall, with the assistance of its actuary, establish a revised benefit plan for employees hired on or after January 1, 2014 with a normal cost which is at least 20 percent lower than the plan applicable to employees hired on or after January 1, 2007. The revised benefit plan shall be a defined contribution plan; provided, however, that if a defined contribution plan is held to be illegal by an unappealable order of court of competent jurisdiction, then the revised benefit plan shall be a defined benefit plan meeting the above cost criteria.

PN09.	**Non-uniformed employee pension plan cost reduction**	
	Target outcome:	Reduce long term costs
	Financial impact:	N/A
	Responsible party:	City Solicitor, Business Administrator

The following actions shall be taken to reduce the costs associated with maintaining the New Castle City Non-Uniformed Employees Pension Plan (Plan). As part of the contract re-openers for pension changes referred to herein, the following changes shall be incorporated into the collective bargaining agreements between New Castle and the Laborer's District Council of Western Pennsylvania, on behalf of Local Union No. 964 (Clerical) of the Laborer's International Union of North America and the Laborer's District Council of Western Pennsylvania, on behalf of Local Union No. 964 (Public Works & Recreation) and the Laborer's International Union of North America and Teamsters, Local No. 261 (Code). The benefits for non-represented employees shall not be affected except to the extent permitted under the Distressed Level 2 provisions of Act 205.

With the assistance of its actuary, New Castle shall establish a revised benefit plan for employees hired on or after January 1, 2012, with a normal cost which is at least 20 percent lower than the plan applicable to employees hired on or after January 1, 1994. The revised benefit plan shall be a defined contribution plan; provided, however, that if a defined contribution plan is held to be illegal by an unappealable order of court of competent jurisdiction, then the revised benefit plan shall be a defined benefit plan meeting the above cost criteria.

Debt Management

Debt Management

This chapter describes New Castle's outstanding debt and identifies areas where changes may provide budget relief or improve overall financial management. The City generally issues debt to fund long-term investment in streets, buildings and other assets. The strategies described here will position the City to achieve the following:

- **Reduce the existing debt burden:** By monitoring market conditions for refunding opportunities, the City can achieve savings and reduce the cost of its existing debt.

- **Maintain capacity to issue debt:** Since long-term debt is repaid in the City's annual budgets, debt structure affects the City's operating budget now and well into the future. While the Coordinator does not anticipate the City will issue new debt before 2016, the City should have the ability to issue debt if it needs to do so.

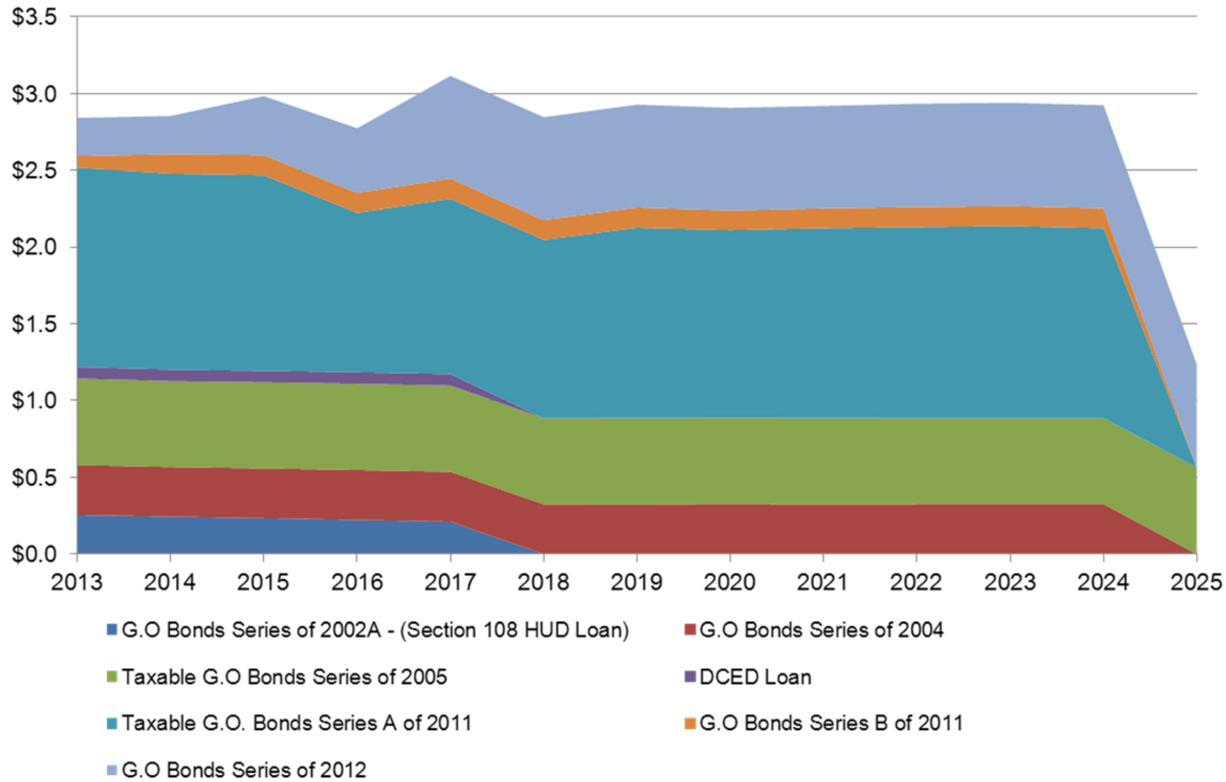
- **Improve the City's credit rating:** In January 2012, the rating agency Standard & Poor's (S&P) gave New Castle a AA- rating for its 2012 General Obligation issue because the City was able to secure third-party insurance for its bonds. The underlying rating (the City's creditworthiness without insurance) was lower at BBB with a stable outlook. In awarding this low-level investment-grade rating, S&P cited New Castle's "low income and property values, with a decreasing tax and population base; status as a distressed municipality under Pennsylvania's Act 47, due to several years of fiscal imbalance, liquidity issues, and failure to make minimum pension contributions; high fixed costs relative to the budget; and moderate-to-high direct debt burden." After years of no rating, Moody's Investor Service (Moody's) awarded New Castle a rating of Aa3 in March 2012, again with the benefit of bond insurance. However at the same time, Moody's put New Castle on watch for a possible downgrade. While these ratings signal that the City's underlying credit has reached investment grade as a result of the careful financial management and progress of the last few years, they also indicate that New Castle is judged to be at a higher risk than other local governments for non-repayment of debt. As a result, the City has to pay more to issue the debt it needs for its capital projects. Over the next several years, the City should work to improve its ratings to lower its capital costs and send a clear signal of financial health and managerial competence to potential bondholders.

Just as this chapter is part of a larger Amended Recovery Plan, the City's debt service exists within the broader context of its overall financial condition. The tax base which supports City debt service is the same base from which the City finances basic public services, such as public safety and public works. If the City increases its spending on debt service and the tax base does not grow, it will either have less money to spend on daily services or have to find ways to generate more revenue. As explained in the Introduction, the City is projected to run an operating deficit absent corrective action through 2015, creating an even greater need to achieve the objectives described above. Finally, debt is one of several tools the City can use to fund its long-term infrastructure investments, and this chapter should be reviewed in the context of those capital needs.

Existing debt service

New Castle has only one type of debt outstanding: general obligation (GO) debt. GO debt is secured by the pledge of the City's full faith, credit and taxing power, meaning the City has guaranteed to the debt holders that it will take whatever financial steps are necessary – including increasing taxes to sufficient levels necessary to make principal and interest payments on schedule. This guarantee is critical to the willingness of investors to lend the City money. The principal amount of New Castle's outstanding GO debt as of January 1, 2012 is $32.6 million. The remaining debt service payments on this amount, including principal and interest, are approximately $52.5 million in annual payments of about $2.8 - $3.1 million between 2013 and 2024, about $1.2 million between 2025 and 2030, and $560,000 between 2031 and 2035. As shown in the table below, New Castle maintains a relatively level GO debt structure. Between 2013 and 2024, annual debt payments fluctuate by no more than $341,000 annually. This structure is helpful for maintaining budgetary consistency from year to year, but also limits the ability to issue new debt in the short- and medium-term without increasing annual debt service costs.

Outstanding General Obligation Debt ($Millions)
Principal and Interest



The City's outstanding debt relates to the following issues:

- **General Obligation Bonds of 2002 A (Section 108 HUD Loan) -** $2.6 million issue intended to pay back a loan from the U.S. Department of Housing and Urban Development (HUD) to cover expenses for a downtown revitalization project. The City usually uses its annual Community Development Block Grant (CDBG) from the federal government to pay part of this debt service. Property tax revenue pays the rest.

- **General Obligation Bonds of 2004 -** $4.1 million issue to complete sewer projects.

- **Taxable General Obligation Bonds of 2005 -** $8.0 million issue to fund a portion of the unfunded actuarial accrued pension liability.

- **Commonwealth of Pennsylvania Loan of 2007 -** A $750,000 no-interest loan from the Pennsylvania Department of Community and Economic Development to aid the City in meeting cash flow needs through the Act 47 Recovery Program

- **Taxable General Obligation Bonds of 2011 A -** $12.6 million issue to refund Taxable G.O Bonds Series of 1997

- **General Obligation Bonds of 2011 B -** $1.2 million issue to fund capital improvements

- **General Obligation Bonds of 2012 -** $7.6 million issue to refund G.O Bonds Series A of 2005 (another series of pension bonds)

Under the current debt service structure, New Castle will retire 60.9 percent of its existing GO principal by December 31, 2022. This is a rapid amortization schedule according to Standard & Poor's, which stated in a January 2011 criteria report that it considers "the benchmark of 50 percent of principal repaid in 10 years to be average." New Castle's faster maturity schedule can be advantageous as it reduces the amount of interest paid. Since the rating agencies consider this ratio when analyzing municipal credits, the City should consider it when structuring future bond issues.

Resolving the forward option agreement

During the financial crisis that began in 2008, Pennsylvania cities and school districts were negatively affected by the collapse of bond insurers and financial institutions that marketed derivatives. The eventual result was that some governments had to make large, unexpected termination payments at the discretion of the financial institutions holding the options.

New Castle was caught in this trend. In 1998, the City entered into a Forward Refunding Agreement with Lehman Brothers Special Financing that provided an upfront payment to the City in exchange for an "option," at Lehman Brothers' discretion, for the City to refund its 1997 pension obligation bonds and forward the savings to Lehman Brothers. If the City was unable to refund the bonds under the terms of the agreement, then the City was liable to make a "termination payment" to Lehman Brothers.

When the market became favorable for refunding and Lehman exercised its option, the City's poor credit profile made it unable to refund the 1997 pension bonds under the terms of the agreement. The City eventually made a $1.3 million payment to Lehman Brothers to resolve the claim in 2011. While the payment amount was significant, it eliminated a complicated liability that could have resulted in larger losses for the City as discussed in the original Recovery Plan.

Given the continued availability of these complex financial products, infrequent issuers like New Castle should have clear policies for utilizing these debt management tools. This could range from a total ban on these instruments to a requirement that Council and the Mayor receive a formal evaluation of any derivative product from an independent expert before approving such a transaction.

Recent debt issuances

In 2010, New Castle sold its sewer lines to the New Castle Sanitation Authority and received approximately $17 million in proceeds. Approximately $3 million of the proceeds were used for capital projects $14 million was used to retire debt including the GO Series of 2001 and Series B and C of 2005 bonds, the 2008 unfunded debt borrowing and the 2007 unfunded debt borrowing, After years without access to the capital markets, New Castle was able to issue new debt in 2011. But it has only been able to secure reasonable interest rates by paying an additional premium for bond insurance. The City used this new access to take advantage of refunding opportunities. In 2011, the City issued Series 2011 A Taxable GO Bonds to refund its 1997 pension obligation bonds. The following year, it issued Series 2012 GO Bonds to refund its Series 2005 A Taxable Pension Bonds. In both cases, the transactions made financial sense because they provided the City with the opportunity to reduce interest payments on older outstanding debt to current historically low levels.

Although the City has no immediate plans to issue additional debt, there may be opportunities to refund existing debt in 2014, 2015, and 2016 at a lower interest rate, reducing annual debt payments over the long term.

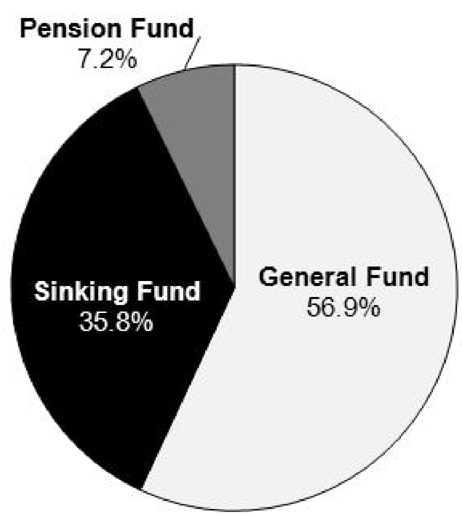
How does the City repay its debt?

New Castle maintains a single Sinking Fund specifically dedicated to debt service. Each GO bond issued by the City is paid from this Sinking Fund; supported by dedicated taxes at rates sufficient to cover scheduled debt payments.

Sinking fund revenues

The Sinking Fund is supported by real estate taxes, tax claims, a portion of the resident and non-resident earned income taxes, and other small revenue sources such as investment interest and small General Fund transfers. The majority of the City's outstanding debt (73 percent in 2011) is covered by the resident and non-resident earned income taxes. Real estate taxes are the second largest revenue source, accounting for 23 percent in 2011. Using the sewer system sale proceeds to reduce debt has allowed the City to use more of its property tax revenue for operations.

Earned Income Tax



Since 2010, a larger portion of New Castle's resident and non-resident earned income tax revenue has been allocated to the Sinking Fund to cover debt service. When the Commonwealth's General Assembly passed Act 44 of 2009, it prohibited municipalities from using revenue from any distressed pension earned income tax to repay pension-related debt.[1] At the time the City had a 0.6 percent distressed pension EIT that it used to repay pension bond debt. To comply with Act 44, the City shifted the pension bond debt repayments to the Sinking Fund and moved 0.5 percent of the distressed pension EIT to the Sinking Fund. Overall, as of 2012, about 35.8 percent of all City earned income tax revenues are dedicated to paying debt service.

[1] Please see this Plan's Revenue Chapter for more information on the different kinds of earned income tax rates.

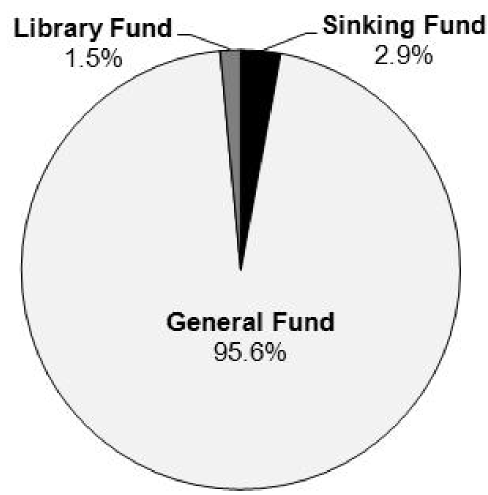
Sinking Fund property tax

Since 2007, New Castle's real estate tax millage has increased by 1.81 mills (or 18.3 percent), rising from 9.9 mills in 2007 to 11.7 mills in 2012. Despite this overall increase, the annual millage dedicated to debt actually decreased significantly, both in terms of total mills and percentage of the property tax levy due to the reduction in outstanding debt from the application of the sewer transaction proceeds and the shift of EIT revenue.

	2007		2008		2009		2010		2011		2012	
	Mills	Percent	Mills	Percent	Mills	Percent	Mills	Percent	Mills	Percent	Mills	Percent
Mills Dedicated to Sinking Fund	1.608	16.2%	3.332	32.2%	3.428	29.2%	3.386	28.9%	1.421	12.1%	0.344	2.9%
Mills Dedicated to All Other Funds	8.308	83.8%	7.01	67.8%	8.298	70.8%	8.34	71.1%	10.305	87.9%	11.382	97.1%
Total Mills	9.916	100.0%	10.342	100.0%	11.726	100.0%	11.726	100.0%	11.726	100.0%	11.726	100.0%

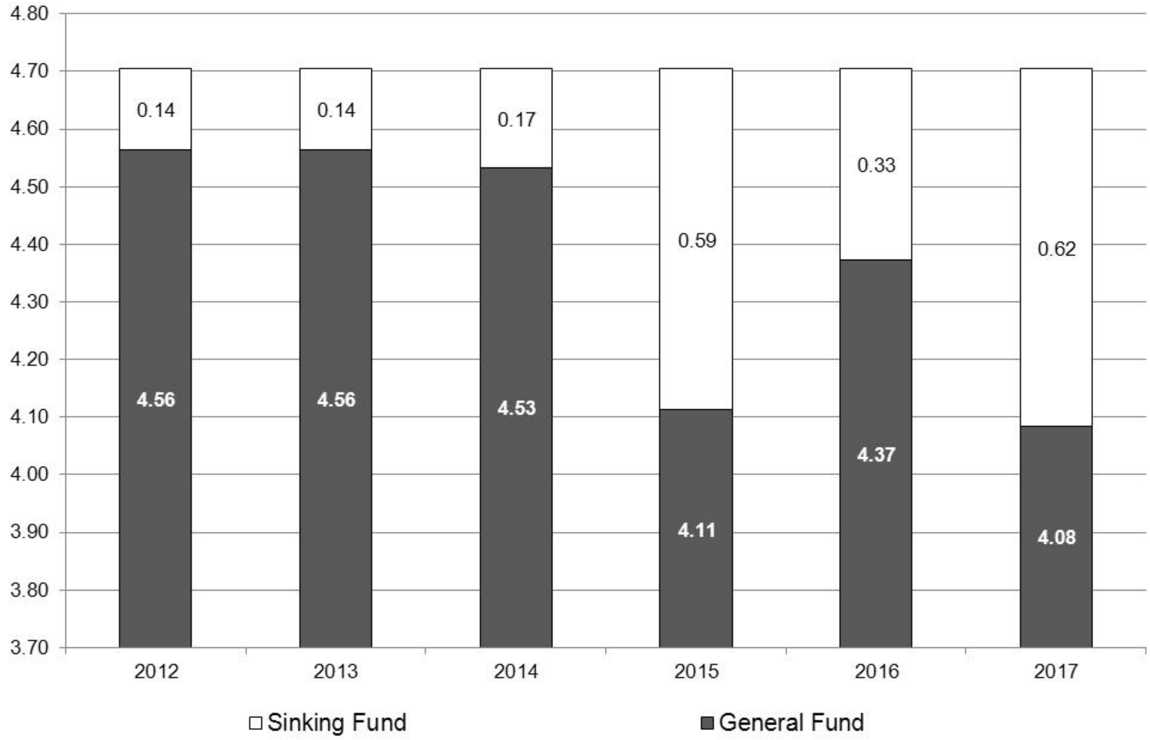
In 2012, only 2.9 percent of all City real estate tax revenues are dedicated to paying debt service. The City carried $1.1 million in Sinking Fund reserves into 2012 so it could reduce its Sinking Fund millage and increase the general fund millage for one year. Below is an illustration of how the 2012 real estate taxes are allocated amongst funds.

2012 Millage Allocation



During the Plan period, the City will need to use more of its property tax millage to repay debt service in 2015, which means it will have less available to support operations absent a tax increase. The bar graph below shows how the City's current year property tax revenue would need to be allocated to meet the City's debt obligations through 2017.

Baseline Allocation of Property Tax Revenue ($ Millions)[2]



Credit ratings: City debt from an external perspective

S&P Credit ratings
AAA
AA+
AA
AA-: Greensburg, Johnstown, McKeesport
A+: Hermitage
A:
A-: Washington
BBB+:
BBB: Oil City; ***New Castle***
BBB-:

There are three principal rating agencies – Moody's Investor Service, Standard & Poor's (S&P) Rating Service and Fitch Ratings – that evaluate local governments and assign a credit rating that is a measure of a government's ability to repay its debt. These credit ratings directly affect the cost of issuing debt: the higher the credit rating, the lower the interest rates governments will pay to issue the debt.

New Castle currently has no underlying rating from Moody's or Fitch and a BBB rating from S&P. New Castle's ratings are shown in the chart to the left along with those for some comparable cities in Pennsylvania.[3] Only one city shares the same rank as New Castle, and it sought financial recovery assistance through Commonwealth's Early Intervention Program.

[2] This is a projection using the other assumptions in the Amended Recovery Plan baseline. If the City's debt-related expenses or revenues change, then the revenue allocation would also change. It assumes total tax rates will remain constant.

[3] Fitch Ratings does not rate New Castle or many other comparable Pennsylvania cities, and not all cities maintain ratings from both S&P and Moody's.

In determining a municipality's credit rating, the rating agencies consider four factors: economy, debt, finances and administration/management strategies.

While probably the least controllable of the four credit factors, a City's economy is critical to credit analysis because the economic base ultimately generates the resources that governments use to repay municipal debt. The local economy in New Castle is based on various industries including health care, insurance, education and light manufacturing. As described in the Economic Development Chapter, in recent years the City's economy has not shown signs of growth. In addition, median household incomes, per capita incomes and home values in New Castle are all substantially less than the medians/averages for Pennsylvania as a whole and for comparable Pennsylvania cities, limiting revenue growth from property taxes.

Key Economic Metrics: New Castle vs. Comparable Cities[4]

	Median Household Income	*Rank (of 10)*	Per Capita Income	*Rank (of 10)*	Median Home Value	*Rank (of 10)*
Aliquippa	$31,023	6	$18,732	6	$71,100	6
Greensburg	$39,529	3	$25,051	2	$113,500	3
Hermitage	$49,320	1	$29,807	1	$129,000	1
Johnstown	$24,819	10	$16,383	8	$44,800	10
Lower Burrell	$47,073	2	$24,059	3	$124,900	2
McKeesport	$25,943	9	$15,992	9	$47,100	9
New Castle	**$30,690**	**7**	**$16,756**	**7**	**$56,600**	**7**
New Kensington	$36,652	4	$22,948	4	$90,200	5
Oil City	$30,000	8	$15,904	10	$48,000	8
Washington	$31,775	5	$18,829	5	$92,300	4
Comp City Median	**$31,775**		**$18,829**		**$90,200**	
Comp City Average	**$35,126**		**$20,856**		**$84,544**	
Pennsylvania	**$50,398**		**$27,049**		**$159,300**	

Rating agencies also focus on debt structure. Characteristics of debt structure include the amount of short-term debt outstanding, the extent of reliance on variable rate debt obligations and the overall structure of debt service payments (such as the pace of repayment, discussed earlier in this chapter).

When rating agencies review financial factors, they look at more than the most recent year-end financial statements. Although annual results are important, the agencies also examine trends in financial performance and control to determine the likelihood that bondholders will be repaid. As such, budgetary planning and accurate projections, as well as a municipality's policies on spending growth, use of surplus and shortfall contingency plans all affect a City's credit rating.

One important criterion reviewed by bond rating agencies is the percentage of operating expenditures allocated to principal and interest payments for outstanding GO debt. According to S&P this is an "important indicator as it indicates the level of inflexibility that debt places on the budget." Other commonly considered metrics include the percentage of outstanding direct debt per capita and the ratio of direct debt to assessed value.

[4] Source: US Census Bureau, American Community Survey 2006-2010 5 Year Estimates.

As shown in the table below, New Castle currently has a high debt burden as determined by these metrics. Moody's cites an average debt burden to be 3-4 percent of assessed value.[5] New Castle's ratio will likely be over twice that in 2012. In addition, New Castle also ranks high on the percentage of operating expenditures devoted to debt service. Fitch notes "debt service above 10 percent of budget for cities and counties can create budgetary competition"[6] and Moody's quotes a typical debt service ratio to expenditures to be from 5 percent to 15 percent[7] New Castle's 15.6 percent ratio in 2012 puts it in the high range according to both sets of rating agency criteria.

Key Debt Metrics[8]

	2012 Budgeted	2013 Projected	2014 Projected	2015 Projected	2016 Projected	2017 Projected
Direct Debt % of Assessed Value	9.6%	9.0%	8.4%	7.9%	7.3%	6.7%
Direct Debt Per Capita	$2,060	$1,941	$1,819	$1,696	$1,568	$1,449
Debt Service % of Operating Expenditures	15.6%	15.2%	14.4%	14.5%	13.3%	14.3%

Absent the issuance of any new debt, New Castle's performance on these metrics will improve in future years as debt is retired, improving its credit position. However the City should be cognizant of the impact on these metrics when considering issuing any additional debt.

Finally, rating agencies account for administrative factors such as an issuer's organization, division of responsibilities and professional qualifications. These organizational characteristics are measured by whether a municipality has adopted and adhered to sound financial and debt policies, such as a renewed focus on multi-year planning and improved financial reporting and management. Debt management policies and strategies are discussed in further detail in the next section.

Strategies for savings and budget relief

This section of the chapter covers possible methods for reducing the cost of the City's existing debt burden.

Fixed rate refunding

New Castle may continue to seek savings and budget relief by refinancing existing debt and issuing new debt at lower interest rates or with new interest rate structures. Refinancing existing debt is generally a good strategy in the current economic environment since interest rates remain low by historic standards. As a result, there are opportunities to enter into new debt service agreements that will be cheaper than those prevailing when the original debt was issued.

Refinancing of public debt is called refunding. In essence, it involves the same mechanics as refinancing a personal home mortgage. The proceeds from the sale of a new bond issue are

[5] Moody's Investors Service. The Six Critical Components of Strong Municipal Management. March 2004.

[6] Fitch Ratings. 12 Habits of Highly Successful Finance Officers. March 29, 2007.

[7] Moody's Investors Service. The Six Critical Components of Strong Municipal Management. March 2004.

[8] Population assumed to be constant and is as measured by the 2010 Decennial Census.

used to retire and replace an outstanding bond issue. Refunding is done to reduce interest costs, extend the maturity of the debt or relax existing restrictive covenants.

There are two types of refunding: current and advanced. A current refunding occurs when new bonds are issued within 90 days of the call date of the existing bonds. (When bonds are initially sold, issuers promise for a set period not to redeem or "call" the bonds to achieve more favorable financing. The call date is typically at least five to 10 years after issue). In contrast, an advance refunding occurs when new bonds are issued to repay an outstanding bond issue before its first call date. Since tax regulations changed in 1986, bonds can only be advanced refunded once whereas the number of current refundings is unlimited.

In 2011 and 2012, New Castle took advantage of low interest rates and issued two GO Bonds, Series of 2011 A and Series of 2012, to refund the prior 1997 and 2005 bonds at a lower cost. The table below details which bonds have already been refunded.

Bond	Purpose of Issue
Taxable General Obligation Bonds of 2011 A	Current refund Taxable GO Bonds Series of 1997 (pension bonds)
General Obligation Bonds of 2012	Current refund GO Bonds Series A of 2005 (non-taxable).

New Castle has three opportunities to "call debt" and refund bonds before the end of 2016 as shown below. The amount of debt that is callable in 2016 may be too small at that point to achieve much savings.

Bond	Call Date	Outstanding Principal as of Call Date	Outstanding Debt as of Call Date
General Obligation Bonds, Series of 2004	October 1, 2014	$2,695,000	$3,572,151
General Obligation Bonds, Series of 2005 (Taxable)	November 15, 2015	$6,750,000	$11,802,213
General Obligation Bonds, Series B of 2011	November 15, 2016	$975,000	$1,171,164

Redemption provisions

Redemption provisions should be included in the basic structural requirements of every transaction. For example, in Pennsylvania the current market allows for a five year call with no premium required for issues $10 million or under and an eight to 10 year call with no premium for issues over $10 million. Without call options, issuers cannot take advantage of fixed rate refunding opportunities when interest rates decline, such as in today's low interest rate environment.

Tax-exempt debt

Most City bond issues were issued as tax-exempt, allowing the City to pay lower interest rates than would be necessary on taxable bonds. GO Series A of 2002, GO Series of 2004, GO Series of 2007, GO Series B of 2011, and the GO Series of 2012 were issued as tax-exempt debt.

Taxable debt

New Castle has two series of taxable bonds: Series A of 2011 and GO Series of 2005. The 2005 series of taxable bonds was issued to finance the City's unfunded actuarial accrued pension liability with deposits to the City pension funds. The Series A of 2011 bond was issued to refund Taxable GO Bonds Series of 1997, also a pension bond.

Initiatives

DB01.	**Monitor debt refinancing opportunities**	
	Target outcome:	Reduced debt payments
	Financial impact:	TBD
	Responsible party:	Business Administrator

The City can refinance its Series 2004 bonds in 2014 and Series 2005 Taxable bonds in 2015. Given the current market conditions and the terms of those bonds, it is unclear whether those refinancings would produce significant savings. With the Recovery Coordinator's support, the City shall monitor these opportunities and any others that arise but no savings are projected from them at this time. The City shall also evaluate any proposed refinancing or new debt issuances according to the debt policies described in the next initiative.

DB02.	**Adopt debt policy**	
	Target outcome:	Improved financial management; improved credit rating
	Financial impact:	N/A
	Responsible party:	Administration, City Council, City Solicitor,

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

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

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

- Establish processes for how the City will issue new debt, including procurement of special professional services (bond counsel, financial advisor) and whether it will do competitive or negotiated bond issuances; and

- Provide guidelines for when the City will issue new debt, when it will pursue refinancing opportunities and whether it will use any swaps or derivative products after it exits Act 47.[9]

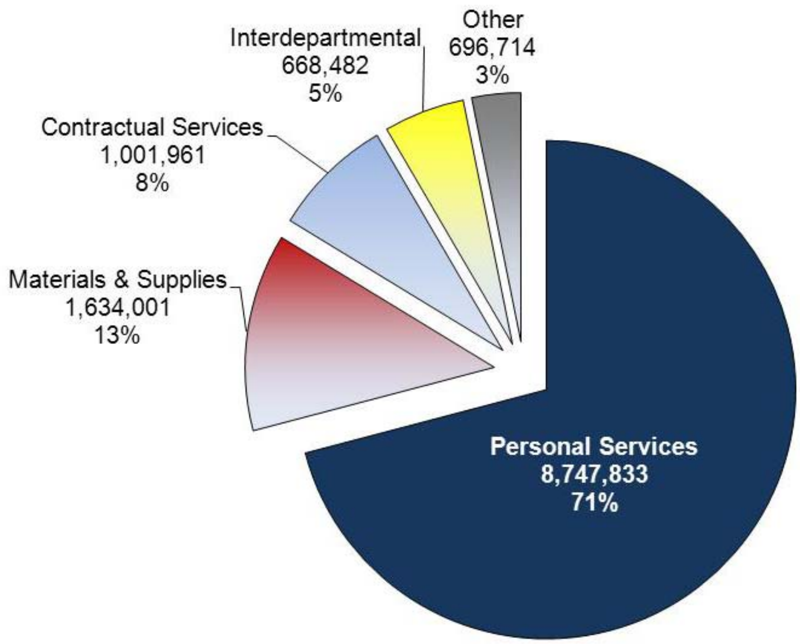
As an example of an issue that the City's debt policy should address, the City may have a policy that it will only pursue debt refinancing if it produces a minimum net present value of the bonds being refunded. That will help prevent the City from rushing into a refunding that would have yielded higher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

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

Workforce

Workforce

Municipal government is labor intensive. Important local services such as police patrol, fire suppression and prevention, tax collection and road maintenance depend on effective personnel. Personnel costs commonly account for the majority of a local government's spending and that is the case in New Castle. Of the $12.7 million that the City spent on operations in 2011, 71 percent was related to employee compensation.



The City budgeted another $1.7 million for its employee pension funds and $1.8 million for pension-related debt in 2011. Pension and debt issues are addressed in separate chapters.

Because employee compensation accounts for such a large part of the City's budget, any strategy to achieve long-term financial stability and exit Act 47 oversight must address these expenses. This chapter lays out the strategy for changing and managing employee compensation so that the City can sustain critical public services while dealing with the financial challenges outlined in the Introduction.

Workforce composition

The 2012 budget has 112 full-time positions and 29 part-time positions for a total headcount of 141 at a total base salary of $5.8 million. The original Recovery Plan noted 158 total positions in May 2007. The 17-position reduction is largely due to fewer non-represented employees (56 versus 41), a group that mostly consists of elected officials, senior administrators and part-time positions. Most full-time City employees (100 of 112) are members of one of five collective bargaining units.

Group	Covered positions include	2012 Budgeted Employees	Contract term
FOP, Lodge 21	All full-time sworn officers except the Police Chief	35	1/1/08 - 12/31/12
Laborers, Local No. 964 - Public Works	Laborers, equipment operators refuse collectors, tradesmen	25	1/1/12 - 12/13/16
IAFF, Local No. 180	All fire fighters except the Fire Chief	24	1/1/07 - 12/31/13
Laborers, Local No. 964 – Clerical	Most clerical and administrative support positions including treasury and records clerks and financial and legal assistants	10	1/1/12 - 12/13/16
Teamsters, Local 26	Code enforcement employees and health officer	6	1/1/12 - 12/13/16
Non-represented	Department directors, administration, elected officials, part-time employees	12 full-time 29 part-time	N/A
Total		**112 full-time 141 total**	

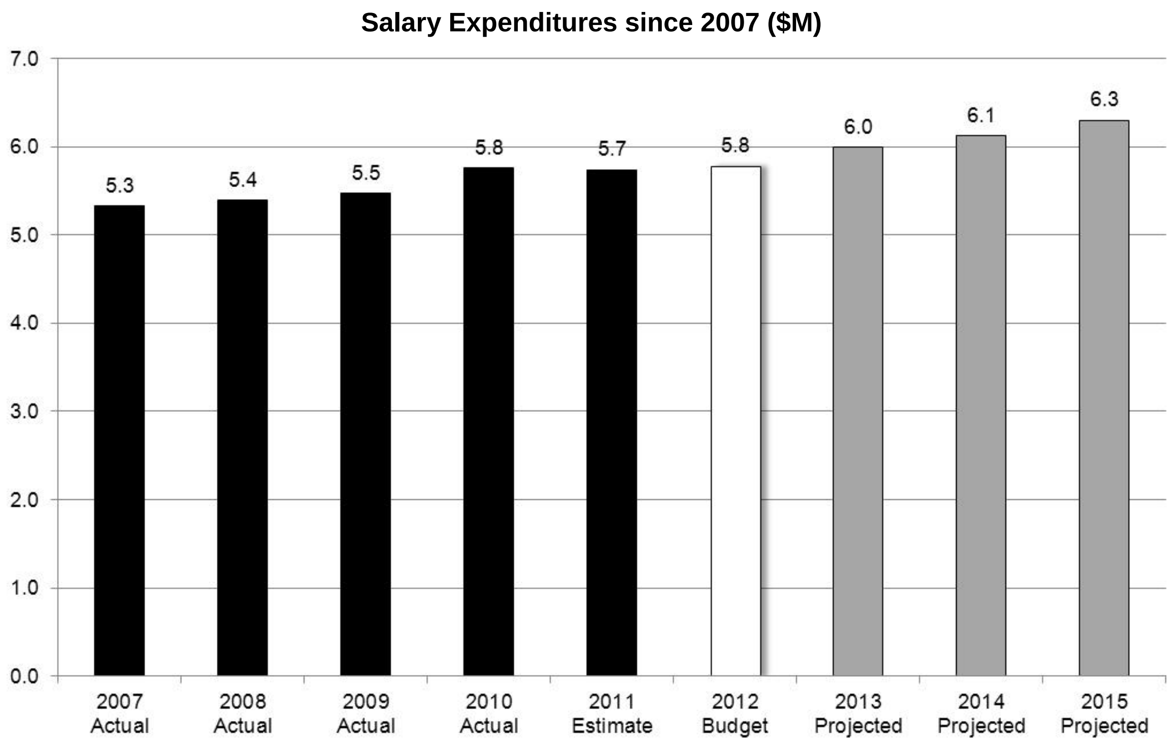
While the City is five years into the Act 47 process, a substantial number of its employees had not yet become subject to the original Recovery Plan's cost savings measures as of 2011. Shortly before the Secretary of Pennsylvania's Department of Community & Economic Development (DCED) declared the City distressed and subject to Act 47 oversight, the prior Mayor reached agreements with four of the five labor unions that extended their contracts for five or, in the case of the IAFF, seven years. As described in the original Act 47 Plan, those late 2006 agreements had some provisions to moderate costs but those savings were offset by other compensation increases. The City is not able to apply the terms of the Recovery Plan to collective bargaining agreements until the expiration of the agreements already in place when the City enters Act 47. So the late 2006 agreements effectively stalled the City from applying the critical cost savings measures for five or seven years. The City instead had to rely more heavily on tax increases to balance its budget in the short-term.

The original Recovery Plan provisions took effect for non-represented employees in January 2008. The Fraternal Order of Police, which was the only labor union not to receive a late 2006 extension, negotiated with the City on a new agreement in 2008 that complied with the original Recovery Plan. The employees in those groups have had their compensation subject to the original Recovery Plan's savings provisions for years, which has helped the City balance its annual expenditures with its annual revenues in the short term.

The union representing the clerical employees negotiated a new agreement that complies with the Recovery Plan for 2012 through 2016. At the time of publication the City had tentative agreements with the Teamsters and the public works employees. Those tentative agreements also complied with the Recovery Plan through 2016. The City's contract with the IAFF expires at the end of 2013. All employees must be part of the solution to restore the City's long term financial stability as the FOP and non-represented employees have been since 2008.

Salaries

The City's 2012 budget allocates $5.8 million for employee wages and salaries.[1] Across all employees, salary expenditures increased by 1.9 percent per year from 2007 to 2011.



Employees receive two kinds of salary increases – base increases and step increases. The base increase is an across-the-board increase that all employees in a bargaining unit receive, regardless of tenure. This is the wage increase most commonly referenced in media accounts ("Employees receive an X percent increase over five years"). Some employees also receive step increases which are tied to an employee's progression through a tenure-based wage scale.

The combined impact of step and base increases is significant. For example, a firefighter hired in June 2007 had a base salary of $22,500. In January 2008 he received a wage increase along with all other firefighters (base increase). Then he received a second wage increase when he reached his one-year anniversary in June 2008 (step increase). According to the current IAFF wage scale, that pattern of two raises per year continues through his first nine years of employment. The chart below shows how this pattern leads to a 42.2 percent wage increase over a five-year period.

[1] This includes the wages the City pays to employees while they are on worker's compensation.

Wage progression of a Hypothetical Firefighter hired in 2007

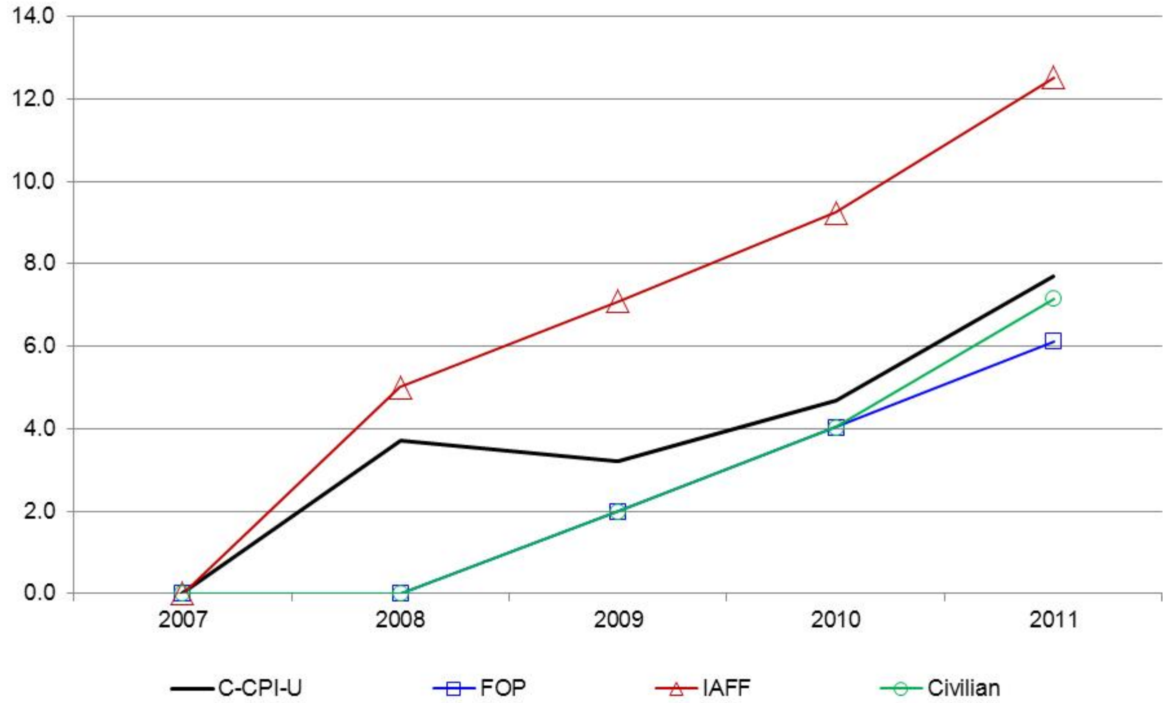
Rank	2007	2008	2009	2010	2011
Firefighter E 4-5 years of service					$32,000
Firefighter D 3-4 years of service				$30,000	$31,000
Firefighter C 2-3 years of service			$28,000	$29,000	$30,000
Firefighter B 1-2 years of service		$24,500	$27,500	$28,500	$29,500
Firefighter A <1 year of service	$22,500	$24,000	$27,000	$28,000	$29,000
	Base increase			**Step increase**	

In 2007 most employees had their base salaries frozen for one year. Civilian employees represented by the Laborers and Teamsters and IAFF members had a base wage freeze under the late 2006 agreements. The FOP was subject to the Recovery Plan's wage pattern (two years of base wage freezes, two years without step increases). Through negotiations, the City and FOP achieved the same savings through a one-year base freeze in 2008 and three years without step increases (2008-2010). Non-represented employees had wage freezes in 2008 and 2009 as required by the original Recovery Plan. Some non-represented employees, including City Council members, the Business Administrator and the Director of Community and Economic Development, have taken additional freezes in subsequent years not required by the Recovery Plan.

The IAFF had a wage freeze in 2007 followed by a 3.0 - 5.0 percent wage increase in 2008,[2] 2.0 percent in 2009 and 2010 and 3.0 percent in 2011. With this pattern, the IAFF is the only bargaining unit where base wages have grown faster than the chained Consumer Price Index (C-CPI-U), a benchmark for national cost of living growth. As noted earlier, employees who received additional raises through step increases did better than the chart below shows.

[2] The percentage amount varied by position. Employees at Firefighter A received a 6.7 percent increase.

Base Wage Growth versus C-CPI-U since 2007



Workers' compensation

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

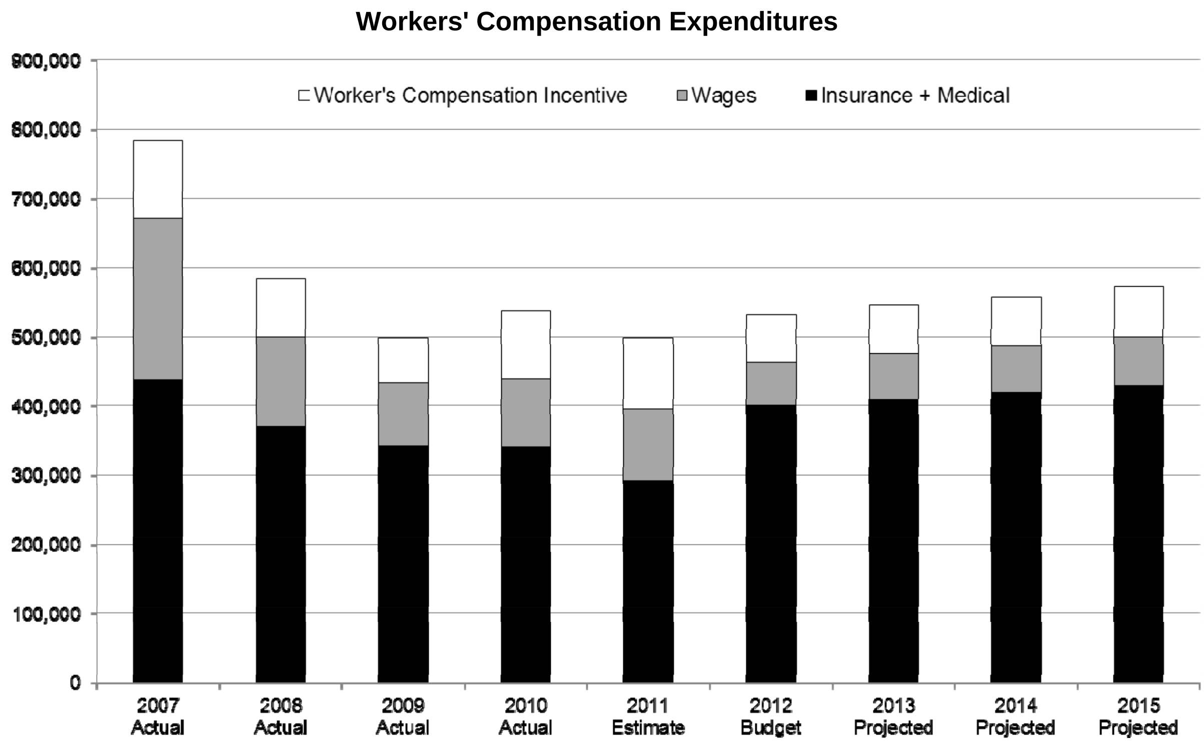
The City pays most of its employees an annual Workers' Compensation incentive if they do not miss more than one day of work due to injury in a calendar year.[3] Police officers receive $1,500 for completing a year without missing one day due to injury. Public Works employees receive $1,000 if they miss one or less in a year. Code employees receive $400 and firefighters receive $1,500 if they miss one or less in a year. The City has spent $93,000 a year on this program since 2007.

The City's total spending on workers' compensation has decreased by 57.5 percent (or $287,000) since 2007. In that year the City spent $438,000 on insurance and medical claims and $234,000 on injured employees' wages. That included $144,000 on workers' compensation wages for injured police officers. In 2011 the City spent $292,000 on insurance and medical claims and just $103,000 on injured employees' wages.[4] The City only spent $16,000 on recent police injuries and none on firefighter injuries.

The City's total expenditures for workers' compensation including the incentive are shown below.

[3] Clerical union employees do not have this provision in their contract.

[4] Most of the $103,000 is for a small number of old cases that are cost prohibitive to resolve according to the City's workers' compensation attorney.

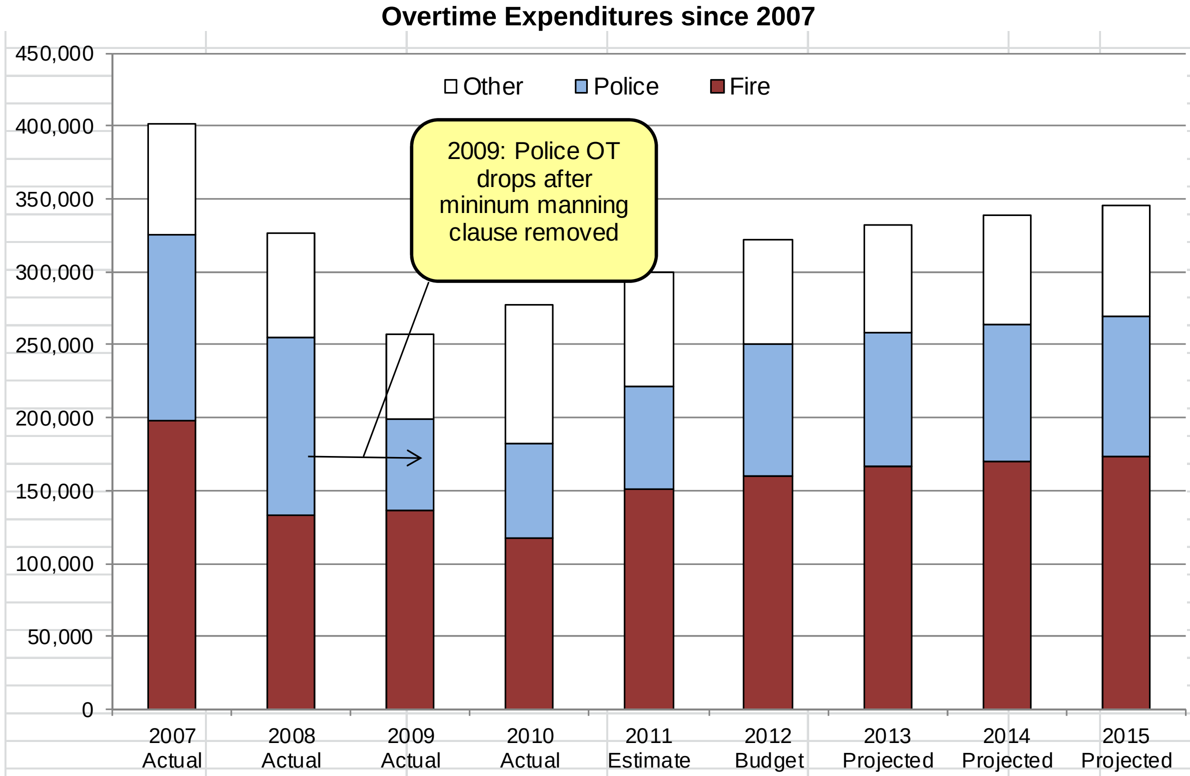


Overtime

The City's 2012 budget allocates $322,000 for overtime, most of it for fire ($160,000) or police ($90,000)[5]. The Streets and Bridges unit has the highest overtime budget for civilian employees ($50,000 in 2012) because its employees handle snow removal outside of their scheduled hours.

The City reduced its overtime spending by 18.6 percent (or $75,000) in 2008 largely due to a drop of $65,000 in the Fire Department's overtime spending. Overtime spending dropped an additional 21.1 percent (or $69,000) in 2009 due to a drop in Police overtime ($59,000). The reduction in police overtime followed the elimination of the minimum manning clause in the FOP contract. Until 2007 the City had to deploy a minimum of five officers on each shift except the Sunday daylight shift when the City could drop to four officers. Eliminating the minimum manning clause has allowed the City to better manage its workforce and reduce overtime costs.

[5] This does not include the overtime where the City is reimbursed by a grant or through an arrangement with an outside organization, like the Lawrence County Housing Authority.



New Castle police officers also receive payment at their overtime rate for off-duty appearances at court or magistrate hearings. The City's spending for this hearing pay has dropped from $66,000 in 2007 to $36,000 in 2011 because of the Recovery Plan mandated changes to the provision governing this additional compensation. As required in the Recovery Plan, the labor agreement negotiated in 2008 reduced the minimum payment for court appearances from four to two hours and prohibited "double booking" (scheduling several court appearances for the same day and receiving the minimum payment for each appearance).

Other cash compensation

In addition to salaries and overtime, employees are also eligible for other kinds of cash payments related to tenure, shift schedule and unused paid leave.

- **Longevity:** All employees hired before 2008, including those who are not represented by a union, are eligible for additional pay based on the number of years they have been employed by the City. For example, police officers receive $120 for each year of service. Firefighters receive $60 - $105 per year of service depending on their date of hire. Clerical employees and non-represented employees receive a flat annual payment based on the number of years and public works employees receive an additional amount in their hourly wage.

  The original Recovery Plan froze eligibility for longevity so that only those employees who earned the stipend by the end of their last labor agreement were eligible for the payment in future years and the amount of the stipend paid to each employee was frozen.

- **Holiday pay:** Each police officer receives a lump sum payment equal to the daily rate of pay for 10 holidays.[6] Officers hired before 2008 also receive a $500 holiday bonus payment.

[6] The original Recovery Plan reduced the number of paid holidays from 11 to 10 for police officers.

Firefighters hired before 2003 have a similar arrangement in which they receive their hourly rate of pay plus $4.50 an hour multiplied by 112 hours for the holidays. Firefighters hired after 2007 receive 84 hours of extra pay at their hourly rate for the first two years and then receive the same incentive as the more senior firefighters. Firefighters with more than four years of service receive an additional $500 per year.

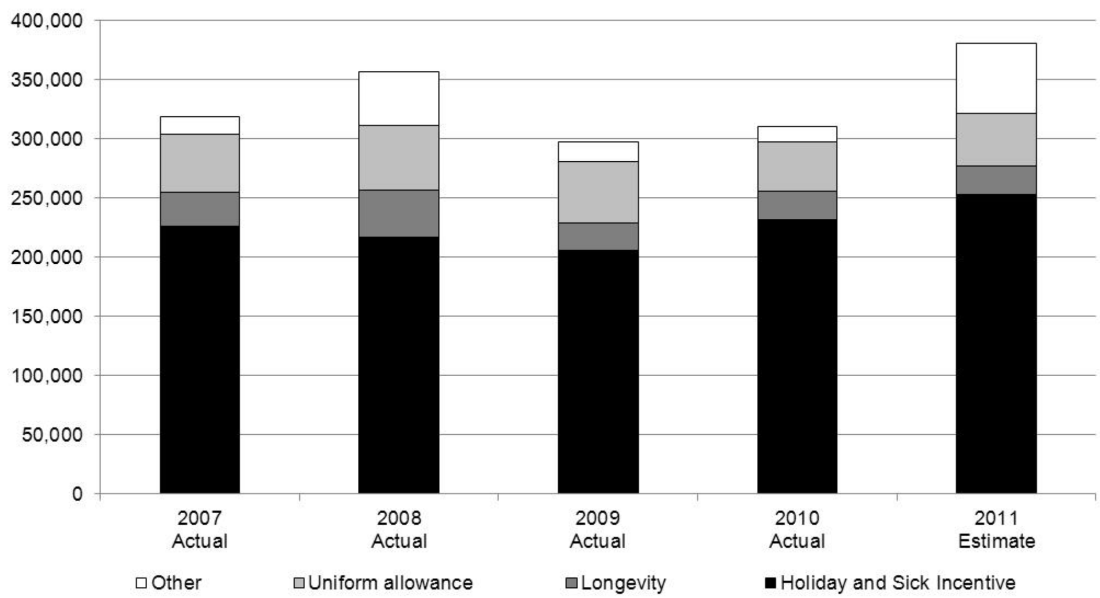
- **Sick incentive:** The City provides additional pay or time off to employees in all five collective bargaining units based on the number of sick days they use. Police officers hired after 2007 are no longer eligible for the sick incentive.

- **Shift differential:** Police officers and certain Public Works employees have their hourly pay rates increased if they work shifts that begin in the afternoon or evening. For example, police officers who work the afternoon shift receive an additional $0.50 per hour and officers on the evening shift receive an additional $0.70 per hour.

- **Uniform allowance:** Police officers receive $500 - $800 per year depending on their hire date and assignment for uniforms and uniform maintenance. Firefighters currently receive $600 for the same purpose.

While the amounts paid to individual employees for each stipend may not seem large, the amount paid to all employees for all of these premiums is significant. In 2011 the City spent at least $381,000 on these premiums. This excludes the City's longevity payments to public safety employees which the City did not budget separately until 2012.

Other Cash Compensation



The City's 2012 budget shows public safety longevity and shift differential payments separate of base wages. The City budgets $445,000 for these premium payments across all employees.

Health insurance

City employees have access to health insurance through two plans. Employees in the clerical and public works bargaining units are covered by the Laborers' District Council of Western Pennsylvania Welfare Plan. All other employees are covered under a Highmark Plan provided through the Teamsters Welfare Fund. The City also provides dental and vision coverage through the primary medical insurance or a supplemental provider. Active employees who elect not to use City health insurance coverage can receive a payment of $2,500 or $3,000 “in lieu of” coverage.[7]

Coverage for retired employees varies by bargaining unit.

- Retired civilian employees do not receive health insurance coverage.

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

- Firefighters who retire after 1977 and their spouses receive medical, dental, vision and prescription drug coverage until they are eligible for Medicare. Those employees do not contribute to the premium costs. Employees who retire after 2006 make the same copayments as active employees. Employees who retired before 1977 do not receive retiree health insurance.

In 2011 the City spent $1.7 million to provide health insurance to its active and retired employees, which was only 15.4 percent (or $232,000) more than the City spent in 2007. Given that the national increase in medical plan costs has been 8.0 – 12.0 percent per year, the City’s 4.0 percent annual growth rate is considerably lower. Several factors have contributed to the City’s lower-than-anticipated growth:

- The City has had three years with rate freezes (no premium cost increases) for its most common health insurance plan provided through the Teamsters Welfare Fund. The City had two large premium increases sandwiched between the freezes (20.0 percent in 2009 and 12.5 percent in 2011), but freezes in three of five years have resulted in an annual premium growth rate of 6.2 percent.

- The other health insurance plan provided through the Laborers had annual premium increases each year since 2007, but the average increase was 5.2 percent between 2007 and 2012.

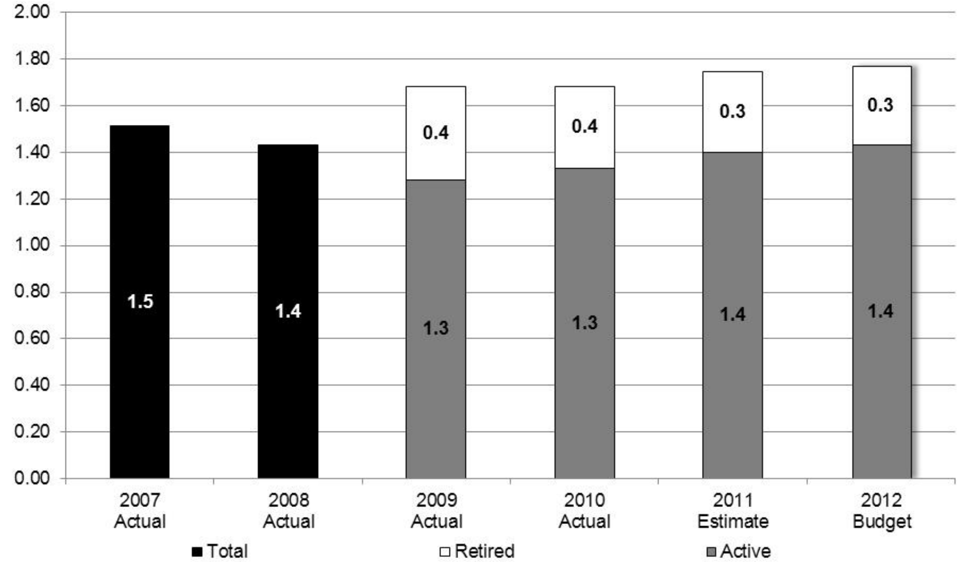
- The City implemented the original Recovery Plan provisions related to health insurance for its non-represented employees in 2008 and FOP members in 2009, including more substantial employee contributions to the annual costs and a cap on the City’s growth in premium costs. This is covered in more detail below.

- Other post-employment benefit costs are often a major liability for governments since retired employees tend to have relatively generous benefit packages, make small or no premium contributions and use their benefits more often than active employees. New Castle’s other post-employment benefits (OPEB) have some of the same features. For example, police officers who retired after 1977 have the same level of coverage as active police officers without making any premium contribution. However, New Castle’s annual expenditures on health insurance for retired employees have declined slightly since 2009.[8]

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

[8] The City did not track retired employee health insurance costs separately before 2007.

Employee Health Insurance Expenditures since 2007 ($M)



This unusual trend does not mean that the City does not have a large OPEB liability. The City's external actuary cited a $9.5 million liability for retired employee health insurance as of January 1, 2008 in the City's 2010 audit, which is larger than the City's liability to the police, fire or civilian pension plan.[9] But that liability has not translated into higher annual expenditures at this point.

Employee cost sharing

Most employees contribute to the cost of their health insurance coverage by paying a portion of the monthly premium that is charged by the insurance company providing the coverage. In 2011, among firms with less than 200 employees, 65 percent of the employees with single coverage and 86 percent of the employees with family coverage contributed to the premium cost.[10] On average employees of these firms contribute $762 per year ($63.50 per month) for single coverage and $4,946 ($412.17 per month) for family coverage. For State and local governments in 2011, employees paid 11-13 percent of the premium for single coverage and 15-32 percent of the premium for family coverage, depending on the plan type.

As governments around the country struggle to manage rising health insurance costs, their employees are making higher contributions to the cost of their health insurance. Elsewhere governments and employees are redesigning their health insurance plan to provide less costly benefits or shift more of the cost to employees as they use coverage through higher copayments for office visits or prescription drug coverage.

The original Recovery Plan increased employee contributions to 15.0 percent and capped the amount that the City's health insurance costs could grow by 5.0 percent per year for each bargaining unit. Because of the labor agreements' staggered expiration date, these provisions have not yet been applied to all employees. Employees who are not members of a bargaining unit began paying 15 percent of their hospitalization costs in 2008. Later that same year FOP members began paying 10 percent of their hospitalization costs with a provision that caps the growth of the City's health insurance costs at 5.0 percent per year. The other bargaining units are making the smaller – and in many cases capped – contributions to health insurance as of 2012.

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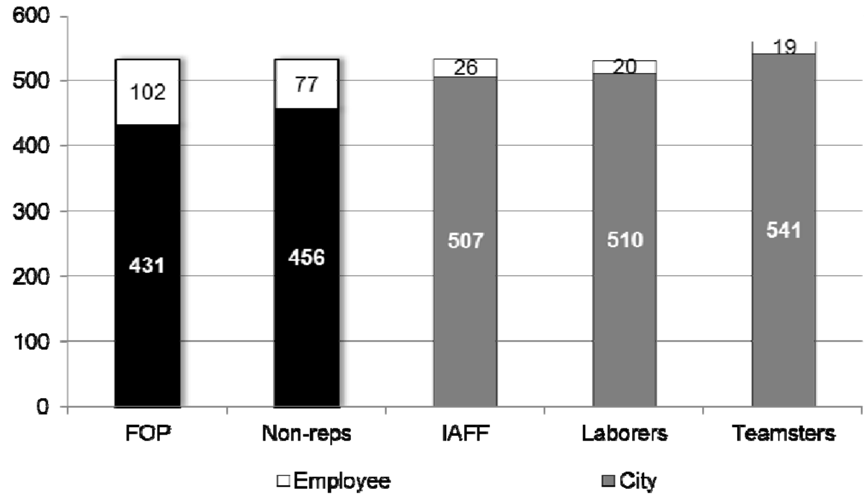
[9] City of New Castle Financial Statements for Year ended December 31, 2010; see page 62.

[10] The statistics in this paragraph come from the 2011 Annual Survey on employer health benefits published by the Kaiser Family Foundation and Health Research and Educational Trust.

The chart below shows how much employees with single coverage contribute to the cost of health insurance in 2012. The FOP and non-represented employees are contributing a higher share according to the Recovery Plan. The Teamsters and Laborers (includes clerical employees) will increase their contributions next year under the recently negotiated labor agreements.

Monthly Premium Contributions for Single Coverage in 2012 ($)



The breakdown for family coverage is similar. FOP members and non-represented employees are contributing a higher percentage of the total premium cost since they are complying with the original Recovery Plan. Other employees nominally contribute 5.0 percent of the premium cost, but their contracts establish a maximum dollar amount that the employees will contribute. In many cases the employees reached their maximum contribution level years ago. For example, the Laborers (clerical and public works employees) reached their maximum contribution amounts in 2008. So any subsequent premium increases were covered entirely by the City, leaving the employees' contributions short of 5.0 percent. Firefighters with family coverage are contributing 3.5 percent of the monthly premium cost in 2012. Teamsters and Laborers are contributing 3.7 percent.

Monthly Premium Contributions for Family Coverage in 2012 ($)

The recently negotiated contracts with the three civilian employee unions will reduce the variation in premium contributions. The initiatives section in this Amended Plan will further reduce the inequality across employee groups.

Paid leave

Paid leave is another important component of an employee's compensation package. Most full-time City employees can take paid time off for vacation, sick leave, jury duty and personal days. The original Recovery Plan outlines the amount of leave provided to members of each bargaining unit (see pages 105-109). The key changes made since the City entered Act 47 oversight are as follows.

- **Vacations:** Police officers hired after 2007 will receive a maximum of 20 days of vacation after 13 years of service according to the new contract. Officers hired under older labor agreements are eligible for 25 days of vacation if they reach the requisite years of service. The City retains the right to prohibit more than one police officer from taking vacation on the same day, which is an important tool for the City to manage its overtime costs.

  Civilian union employees can accrue no more than 20 vacation days per year under their new labor agreement, instead of 30 that was previously allowed.

- **Holidays:** Police officers have 10 paid holidays per year, down from the 11 granted under the prior labor agreement.[11] Civilian employees have 10 paid holidays instead of the 13 under the previous labor contracts or City ordinances.

- **Personal leave:** Police officers hired after 2007 receive a maximum of two personal days per year for their career instead of the maximum of four granted under the prior labor contract.

- **Sick leave:** Police officers hired after 2007 receive one day of sick leave for every month they work up to an annual maximum of 12 days. Officers hired before 2008 can receive up to 18 sick days per year. Under the prior labor contract, officers hired before 2003 could accumulate a maximum of 21 sick days per year.

  Under previous labor contracts, civilian union employees could accrue up to 250 unused sick days and then, upon retirement, convert up to 240 of those days to cash at $60 for each unused day. The new labor agreements reduce the maximum amount that can be accrued from 250 to 220, though existing employees who already had more than 220 are allowed to keep the additional days. Even at the lower amount, the retiree sick leave payout can reach $13,200 per employee.

Initiatives

In June 2012 Governor Corbett signed Act 133 into law, changing how Act 47 Recovery Plans impact employee compensation. The Act provides that a Recovery Plan may provide "limits on projected expenditures for individual collective bargaining units that may not be exceeded by the distressed municipality..."

This Amended Recovery Plan was written to comply with Act 133. It contains the "limits" in the form of maximum annual allocations for employee compensation for each bargaining unit with a contract expiring between December 31, 2012 and December 31, 2015. The Amended Recovery Plan provides the City and unions with flexibility to negotiate a different pattern of compensation from the one suggested, provided the total employee compensation does not exceed maximum annual allocations for that bargaining unit.

To understand how the Coordinator set the limits in the Amended Recovery Plan, the reader has to consider the City's broader financial picture. The City faces difficult decisions as it tries to keep its annual finances in balance while doubling its annual required contribution to the employee pension

[11] As noted earlier, police officers and firefighters also receive an additional cash bonus related to holidays.

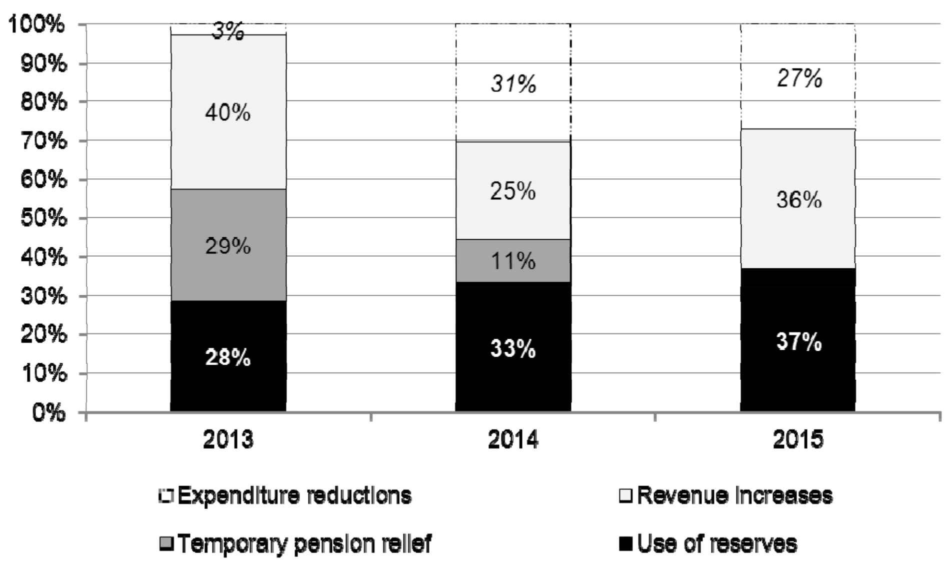
fund from $1.6 million in 2012 to $3.2 million in 2015 and beyond. That increase will be gradual since the City can pay a portion of the annual required contribution in 2013 and 2014 under Act 44 of 2009.[12] The City also has built a reserve that will help it cover the rising pension contributions. Those two factors will help the City avoid more drastic tax increases or service cuts over the next couple years.

However, those factors provide temporary relief for a problem that is projected to recur. The actuary's projections show the City's annual required pension contribution rising from $3.2 million in 2015 to $3.3 million in 2016 and $3.4 million in 2017. If the City only relies on the short-term tools and does not make any structural changes in the next three years, it will still be vulnerable to massive tax increases or service cuts when those short-term tools are no longer available. Therefore the City needs to make changes in the next three years so it is as ready as possible to shoulder the full burden of the higher pension contributions once the reserves are gone.

Although New Castle already has the highest property taxes in Lawrence County and a tax base that is slowly shrinking, additional tax increases will be necessary. This Plan calls for a 1.0 mill property tax increase in 2014 and another mill in 2015. The City's other primary source of revenue is the earned income tax, which is also higher in New Castle than anywhere else in Lawrence County. The Plan directs the City to consider adopting a Home Rule charter that would give City officials more control over the earned income tax rate on residents. But the Home Rule charter process takes time and, because it is directed by popular elections, the end result is unknown.[13] Plus, even with higher property or resident earned income taxes, the City still has to eventually reduce the earned income tax on non-residents to exit Act 47 oversight.

The temporary pension relief, use of reserves and tax increases cover a portion of the City's projected hole, but not all of it. The portion that they cover drops as the City spends down the reserves and the temporary pension relief expires. That means the City will have to reduce expenditures to cover the remaining gap.

Distribution of Plan Initiatives[14]



[12] Please see the Pension Chapter for more information.

[13] Please see the Administration Chapter for more information on the Home Rule process.

[14] The temporary pension relief that expires in 2014 has a negative impact (i.e. increases the hole) in 2015. The City will have to make higher payments in 2015 to account for the lower payments in 2013 and 2014. Please see the Pension Chapter for more information on this relief. The impact of the expiring relief (-10.0%) has been combined with the use of reserves in 2015 for graphing purposes.

The Amended Recovery Plan initiatives fill the projected deficit by changing both sides of the City's financial performance. The revenue initiatives increase the amount of money the City has to meet its obligations while the expenditure reductions decrease those obligations. The pension relief and prior year reserves provide a temporary buffer against having to use those two strategies to fill the entire hole immediately.

Like other local governments, most of New Castle's expenditures in the General Fund are for employee compensation. The 2012 budget allocates two of every three General Fund dollars to pay for employee wages, health insurance and other personnel costs.[15] So reducing or controlling the growth of expenditures means reducing or controlling the growth of employee compensation.

There are two ways to achieve that objective – change the amount of compensation for each employee or change the number of employees receiving compensation. The City has done both since 2007, starting with the wage freezes and increased employee contributions to health insurance that took effect for non-represented employees in January 2008.

Later that year the City negotiated a new collective bargaining agreement with the FOP under the terms of the original Recovery Plan. The City eliminated the minimum manning provision, which helped cut police overtime costs in half from 2007 to 2009. The City added part-time police officers to boost the police capacity in the absence of enough money to hire more full-time officers. The City and FOP agreed to those changes in addition to the compensation related concessions that FOP members made (e.g. three years of step freezes, ongoing longevity payment freezes, increased employee contributions to health insurance, fewer holidays).

The collective bargaining agreements that the City signed with its civilian employees in late 2006 prevented from the City from changing their compensation until those agreements expired in 2011. Despite this limitation, the City found other ways to save money. It used day laborers to supplement full-time refuse collection employees. Clerical positions were eliminated as the City became more efficient or shifted tax collection responsibility to other organizations. The City recently negotiated new agreements with all three civilian unions that include the cost containment provisions in the original Recovery Plan.

The three collective bargaining agreements with the civilian unions set their compensation through 2016. Therefore, most of the Plan initiatives related to expenditure reductions focus on the FOP, IAFF and non-represented employees.

The reader will note that the impact of the Amended Recovery Plan initiatives related to the Fire Department and IAFF is larger than the impact of the initiatives related to the Police Department and FOP. This is partly because employee compensation for the FOP members has already changed under the terms of the original Recovery Plan and those changes have been in effect for almost four years. In contrast, compensation for IAFF members has not changed since the City and union signed a seven-year contract in late 2006. The Amended Recovery Plan's allocation for the IAFF is based on the premise that the City and IAFF would negotiate the kinds of changes in cash compensation that took effect for the police officers in 2008, though there is flexibility to modify the specific elements so long as total employee compensation does not exceed the Recovery Plan's maximum annual allocations.

In addition to the initiatives in this chapter, the Amended Recovery Plan requires the City to restructure its fire department to achieve additional savings. This initiative is contained in the Fire Department Chapter and its impact is reflected in this Workforce Chapter. This restructuring is consistent with changes to the Fire Department that the City and IAFF negotiated before the City

[15] This does not include the City's contribution to the employee pension fund or the payments for debt related to the pension fund since those expenditures are budgeted outside the General Fund. If a portion of these annual costs were allocated to each bargaining unit, their maximum annual allocations for each bargaining unit would be lower than proposed in this Amended Plan.

entered Act 47 oversight. The 1998-2002 collective bargaining agreement between the City and IAFF included a part-time (or "casual") firefighter position and a provision to gradually replace full-time with part-time firefighters. This initiative encourages the City and IAFF to consider that option again and provides a savings target based on the City moving to a structure with part-time firefighters described in the Fire Chapter. The Amended Recovery Plan gives the parties flexibility to create another structure so long as total employee compensation does not exceed the Recovery Plan's maximum annual allocations.

Because health insurance costs are driven by external factors outside the City's control, the Amended Recovery Plan allocates a maximum amount that the City will contribute to each employee's health insurance. That amount varies by coverage level (i.e. the City contributes more dollars for family coverage than single coverage) and grows by 5.0 percent each year. The 5.0 percent maximum annual growth in the City's share of the costs carries over the cost containment provision from the original Recovery Plan that is incorporated in the collective bargaining agreements for the FOP and all three civilian unions.

Other initiatives cover elements of employee compensation that cannot be quantified completely in a three-year period. For example, increasing pension benefits for current employees would increase the City's annual required contribution even more than is already projected. The full cost of that increase would extend into the next couple decades as employees retire and receive the higher levels of benefits. For compensation with that kind of long term cost, the Amended Recovery Plan prohibits benefit enhancements for retirees or current employees and requires reductions for new employees.

General workforce management

WF01.	**Professional assistance for negotiations governed by Act 111**	
	Target outcome:	Improved management capacity
	Financial impact:	N/A
	Responsible party:	Administration, Solicitor

In 2007-2008 the City retained the support of professional external public employment labor counsel for its negotiations with the FOP. That process resulted in a negotiated collective bargaining agreement that complied with the original Recovery Plan.

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

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

Since the City is a member of the Pennsylvania League of Cities and Municipalities, it has access to reduced hourly rates provided through the League's Public Employer Labor Relations Advisory Service (PELRAS). With the support of its labor counsel, the City shall make every good faith effort to achieve negotiated labor agreements consistent with this Amended Recovery Plan.

The City and FOP shall negotiate a new collective bargaining agreement that only covers the period January 1, 2013 – December 31, 2015. The City and IAFF shall negotiate a new collective bargaining agreement that only covers the period January 1, 2014 – December 31, 2016.

No person or entity, including (without limitation) the City, any union representing City employees, or any arbitrator appointed pursuant to Act 111 or otherwise, shall continue in effect past the stated expiration date of any current labor agreement the wages, benefits or other terms and conditions of the existing labor agreement if such wages, benefits or other terms or conditions are inconsistent with the initiatives in this Amended Recovery Plan.

All collective bargaining agreements, interest arbitration awards, settlements, memoranda and agreements of any kind issued or entered into after the adoption of the Recovery Plan must be effective as of the current expiration date of the current collective bargaining agreements and interest arbitration awards. This shall apply even if the agreement is entered into or the arbitration award is executed subsequent to the effective dates, thus requiring that the agreements or awards be retroactive. No collective bargaining agreements, interest arbitration awards, settlements, memoranda and agreements of any kind issued or entered into after the adoption of the Recovery Plan may extend the current expiration dates of the existing agreements and awards. Specifically, these dates are as follows:

Union Agreement/Award	Expiration Date	Effective Date of Subsequent Agreement or Award
Fraternal Order of Police, Lodge No. 21	December 31, 2012	January 1, 2013
International Association of Firefighters, Local No. 160	December 31, 2013	January 1, 2014

WF02.	Establish a labor/management committee for all employee groups	
	Target outcome:	Improved labor-management relations; improved efficiency; potential service improvements
	Financial impact:	N/A
	Responsible party:	Administration, Solicitor

The City's collective bargaining agreement with the FOP, Lodge 21 requires a Labor/Management Committee comprised of the Mayor or his/her designee, the Police Chief, the City Council President or his/her designee, and one member of the FOP. The City shall establish a similar structure with the IAFF during its negotiations on the next collective bargaining agreement. The City should use the Area Labor Management Committee (ALMC) structure as a resource. The Office of Labor-Management Cooperation in the Pennsylvania Department of Labor and Industry promotes labor-management collaboration by supporting and coordinating with ALMCs. ALMCs are neutral non-profits comprised of representatives from labor and industry, management, and government who work cooperatively to retain jobs and promote economic growth. Services provided by ALMCs include third-party mediation, consulting, training, and educational programming.

Health insurance

WF03.	**Incorporate specific City contributions to employee health insurance into collective bargaining agreements**	
	Target outcome:	Reduced costs; stability for budgeting purposes; simplification for administration
	Financial impact:	$452,000 through 2016
	Responsible party:	Business Administrator, City Solicitor

As in other cities, containing the growth in the cost of employee health insurance is critical to New Castle's financial recovery. The provision negotiated into the FOP collective bargaining agreement has generated critical savings for the City since 2009 and the provisions in the newly negotiated agreements with the clerical employees and Teamsters will also be helpful.

The City currently makes a monthly premium contribution toward the cost of each employee's medical, prescription drug, dental and vision coverage that ranges from $431 to $510 for single coverage and $1,216 to $1,514 for family coverage. As noted earlier, the City's contribution amount varies widely by bargaining unit since the FOP and non-represented employees are generally making contributions according to the original Recovery Plan provisions and the other bargaining units are not.[16]

To simplify the City's contribution amounts and provide more uniformity across bargaining units, the City shall make the following maximum monthly contributions to employee health care coverage for each active employee enrolled in City provided health insurance. The City's maximum monthly premium contribution includes medical, prescription drug, vision and dental coverage. The maximum costs to be paid by the City toward health insurance costs shall be fixed at the following monthly rates.

Maximum City Monthly Contributions

	2013	2014	2015	2016
Single	476	499	524	551
Parent + Child	1,077	1,131	1,187	1,246
Employee + Spouse	1,210	1,271	1,334	1,401
Family	1,286	1,350	1,418	1,489

Employees shall be responsible for covering any additional monthly premium costs associated with employee health insurance (including medical, prescription drug, vision and dental coverage). Because the City's contribution includes prescription drug coverage, the City shall no longer reimburse FOP or IAFF members for the cost of any prescription drug coverage deductible or the cost of non-generic prescriptions above $5.[17]

The maximum City contributions shown above shall also include all payments toward any taxes, surcharges, penalties, assessments, and other charges and costs which the City may be required to

[16] The civilian union employees will increase their contributions in 2013 according to their new agreements.

[17] See Section 803.1 of the FOP agreement for the referenced provision.

pay under any new federal health care legislation, and any amendments, regulations, or other such State or federal statutes and regulations.

The contribution amounts shown above shall apply to all employees in all bargaining units, regardless of the health plan they choose. Employees may choose to keep the level of benefits they currently receive and pay any differences between the total premium cost and the City's maximum monthly premium contribution. Alternatively, employees may choose to reduce their monthly premium contributions through plan redesign including increased office visit and prescription drug copayments, coinsurance or other cost sharing mechanisms, or changing the kind of coverage.[18] The employee's monthly contributions will also depend on the year-to-year growth in total premium costs. The City's share of any annual increase in total premium cost shall not exceed 5.0 percent. Therefore, if the total premium cost grows by less than five percent, then the City will cover a higher portion of the total premium costs than in the previous year.

Contribution calculation and impact

The City's contributions are based on the total premium cost in 2012 for the Teamsters Plan, which covers the most City employees.[19] The City's contribution is set at 85 percent of the 2012 total premium cost and allowed to grow by 5.0 percent each year. The 5.0 percent cap on the growth in City contributions is incorporated in the City's agreement with the FOP, clerical employees and Teamsters. The calculation for single coverage follows below.

Single Coverage City Contribution Calculation

2012 Total Monthly Premium Cost	**$533**
85% of Total (City contribution)	**$533 x 0.85 = $453**
5% growth for 2013	**$453 x 1.05 = $476**
5% growth for 2014	**$476 x 1.05 = $499**
5% growth for 2015	**$499 x 1.05 = $524**
5% growth for 2016	**$524 x 1.05 = $551**

This initiative's impact on individual employees will vary depending on their bargaining unit status since each bargaining unit currently has a different cost sharing arrangement. Depending on the insurance company's annual premium rate increases, police officers and non-represented employees will not be impacted as much since they are already contributing more to the cost of their health insurance under the original Recovery Plan's structure and current collective bargaining agreement as applicable. The total impact on projected baseline health insurance costs is shown below, including the impact of eliminating the City's reimbursement for FOP and IAFF prescription drug copayments.

Financial Impact[20]

2013	2014	2015	2016	Total
0	$106,000	$148,000	$198,000	$452,000

[18] The Teamsters Welfare Fund has different, less costly options for coverage other than the one that employees currently use.

[19] The calculation also accounts for the cost of dental and vision coverage.

[20] As noted above, the impact of this initiative will depend on the annual premium rates offered by the insurance companies. The impact will also change as the mix of employees with single/family/parent-child coverage changes.

WF04.	**Contain post-retirement health care costs**	
	Target outcome:	Reduced long-term costs
	Financial impact:	N/A
	Responsible party:	Business Administrator, City Solicitor

As noted above, the City is carrying a $9.5 million liability for retired employee health insurance as of January 1, 2008, which is larger than the City's liability to the police, fire or civilian pension plan.[21] To help deal with this liability, the City added a provision to its collective bargaining agreement with the FOP that eliminated retiree health insurance for police officers hired after December 31, 2007. Civilian employees also do not receive retiree health insurance.

To further contain the costs associated with these benefits, the following modifications shall be made:

- The City shall no longer provide retiree healthcare to employees represented by the IAFF, Local No. 160 who are hired after the expiration of the current collective bargaining agreement.

- The City shall not provide retiree healthcare to employees represented by the FOP, Lodge 21 who are hired after December 31, 2007 (continuation of original Recovery Plan provision).

- For all employees retiring after the date of adoption of this Plan (or following the expiration of the IAFF agreement), any increases in healthcare, dental and vision coverage premiums after retirement shall be paid by the retiree.

- The City shall maintain the level of benefits provided to existing FOP and IAFF retirees but shall retain the right to change the provider.

Fraternal Order of Police

WF05.	**Fraternal Order of Police employee compensation allocation**	
	Target outcome:	Reduced costs
	Financial impact:	See below
	Responsible party:	Business Administrator, City Solicitor

The Amended Recovery Plan allocates the following maximum amounts for employee compensation for active members of the Fraternal Order of Police, Lodge No. 21. This allocation does not include compensation for the Police Chief, part-time police officers, the animal warden or the two clerical staff in the Department's 2012 budget.

2013: $2,709,000
2014: $2,780,000
2015: $2,892,000

[21] City of New Castle Financial Statements for Year ended December 31, 2010; see page 62.

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 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.[22]

- Uniform or special assignment allowances and all other new or existing forms of cash compensation.

The allocation does not include the City's costs for retired employee health insurance or pension payments for current, retired or future employees.

The allocation shown above includes an amount for health insurance coverage, including medical, dental, vision and prescription drug coverage. That allocation is based on the 2012 budget figure and the application of initiative WF03 beginning in 2013. If the City and union make any changes to health insurance coverage outside of WF03 through negotiation or an arbitration award, the City and union shall project the cost or savings of those changes and count them against the allocation shown above.

The allocation shown above includes an amount for severance payments including converting unused leave to cash upon retirement. That allocation is based on the 2012 budget figure. If the City and union do not make any changes to the factors that determine severance payments, the City shall be deemed in compliance with the Recovery Plan, even if the severance payments are higher than projected as retirement activity changes. If the City and union do make changes to the factors that determine severance payments, the City and union shall project the cost or savings of those changes and count them against the allocation shown above.

The allocation shown above includes an amount for overtime and court hearing compensation based on the 2012 budget. While the City's overtime spending is partially driven by factors beyond the City's control, it is also partially a product of leave allocation, leave usage, minimum manning provisions and other factors that the City and union can control. If the City and union do not make any changes that would impact overtime or court hearing compensation expenditures, the City shall be deemed in compliance with the Recovery Plan allocation, even if overtime and court hearing compensation are higher than projected because of other factors. If the City and union do make changes through negotiation or an arbitration award that impact overtime or court hearing compensation, the City and union shall project the cost or savings of those changes and count them against the allocation shown above.

For any changes to the compensation provisions that are in place at the expiration of the current collective bargaining agreement or any new compensation components, the City shall conduct a full cost analysis of those changes for each year of the next collective bargaining agreement to determine and assure that the resulting compensation does not exceed the maximum annual allocations shown above. The City shall provide the full cost analysis information to the Act 47

[22] The City budgets for these premiums in its hospitalization coverage line.

Coordinator in form and content acceptable to the Coordinator as soon as possible for the Coordinator's review and approval. If the Act 47 Coordinator determines that the proposals exceed the maximum annual allocations, the proposals shall be returned to the City and bargaining unit for modification. The Act 47 Coordinator will not approve any cost analysis if the Coordinator determines that inadequate information is provided to verify that the costs do not exceed this Amended Recovery Plan's maximum annual allocations or if the analysis is not provided in a timely manner.

The following compensation elements shall not be increased in cost or otherwise modified except as specifically detailed elsewhere in this Amended Recovery Plan:

- Workers' compensation and any other injured-on-duty benefits.

- Pensions and retiree benefits, including retired employee health insurance.

Grants or external funding

The City may be able to secure grants or other sources of external funding to cover employee compensation costs for police officers. If the City secures such funding from a source other than those already included in the Amended Recovery Plan's baseline projections, the compensation costs that are supported by that external funding source shall not count toward the Amended Recovery Plan's maximum annual allocations so long as the external funding meets the following conditions:

- The funding covers the full cost of the police officer(s) supported by it, including the officer(s) fringe benefits.

- The officer supported by the external funding source has the same compensation, including fringe benefits, as those officers not supported by the external funding source.

- The provisions of the external funding source do not require the City to maintain a specific staffing level during or after the grant period.

Allocation basis

The City's 2012 budget allocates approximately $2.63 million for active FOP members' compensation. Using the 2012 budget as a starting point, the Amended Recovery Plan applies the following wage pattern to generate the annual allocations for 2013-2015.

- In 2013 employees whose base salary is higher than $50,000 would receive a one-time bonus of $1,500. Employees whose base salary is lower than $50,000 would receive a one-time bonus of $1,000.[23] Base salaries and wages would not increase in 2013. Any step or tenure-based increase scheduled for 2013 would be eliminated.

- In 2014 employees would receive a 2.0 percent base wage increase and any applicable step increase.

- In 2015 employees would receive a 2.0 percent base wage increase and any applicable step increase.

The allocation in this initiative assumes the City would not increase other forms of cash compensation through 2015 other than those directly tied to base salary. The allocation also assumes the City would not enact new forms of cash compensation. **While the allocations in this**

[23] A $1,500 bonus is 2.0 – 3.0 percent for employees whose base salary is at least $50,000 in 2012. A $1,000 bonus is 2.0 – 3.0 percent for employees whose base salary is less than $50,000 in 2012.

initiative are based on these assumptions, the City and FOP may negotiate a different pattern of wage increases or changes in compensation so long as the total cost of employee compensation does not exceed the maximum annual allocations shown above. Any arbitration award issued subsequent to the adoption of this Recovery Plan also shall not result in annual compensation in excess of the maximum annual allocations shown above. Any negotiated contract or arbitration award shall also comply with the specific limitations and requirements otherwise set forth in this Amended Recovery Plan.

Recovery Plan FOP Allocation

	2013 Projected	2014 Projected	2015 Projected
Baseline projected FOP allocation	**2,751,000**	**2,878,000**	**3,011,000**
Cash compensation savings	42,000	85,000	87,000
Health insurance savings (See WF03)	0	13,000	32,000
Total Recovery Plan FOP allocation	**2,709,000**	**2,780,000**	**2,892,000**

International Association of Firefighters

WF06.	**International Association of Firefighters employee compensation allocation**	
	Target outcome:	Reduced costs
	Financial impact:	See below
	Responsible party:	Business Administrator, City Solicitor

The Amended Recovery Plan allocates the following maximum amounts for employee compensation for active members of the International Association of Firefighters, Local No. 160 excluding the Fire Chief. If the City establishes a part-time firefighter position, this allocation shall also cover the compensation for those part-time firefighters.[24]

2014: $1,689,000
2015: $1,716,000
2016: $1,736,000

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 mandatory training or overtime.
- Holiday pay and longevity.

[24] The City previously used part-time or "casual" firefighters, though there are none under the current collective bargaining agreement. To give the City and IAFF flexibility to include part-time firefighters in a restructured department, this initiative includes any compensation for part-time firefighters. The City and IAFF could agree to keep the part-time firefighters outside the union, as was previously the case.

- Incentives related to sick leave usage, Heart and Lung usage and EMT or paramedic certifications.

- Health insurance coverage including medical, dental, vision, and prescription drug coverage and any reimbursements for prescription drug costs.

- Life insurance and other kinds of insurance coverage.[25]

- Uniform or special tool allowances and all other new or existing forms of cash compensation.

The allocation does not include the City's costs for retired employee health insurance or pension payments for current, retired or future employees.

The amount shown above includes an allocation for health insurance coverage, including medical, dental, vision and prescription drug coverage, and the payments to employees in lieu of health coverage. That amount is based on the 2012 budget allocation and the application of initiative WF03 beginning in 2014. If the City and union make any changes to health insurance coverage outside of WF03 through negotiation or an arbitration award, the City and union shall project the cost or savings of those changes and count them against the allocation shown above.

The City does not budget any money for firefighter severance payments in 2012 because the City did not anticipate any retirements in 2012. The allocation shown above does not include any amount for severance payments given the uncertainty of how many firefighters will retire and what their severance payments will be through 2016. If the City and union do not make any changes to the factors that determine severance payments, the City shall be deemed in compliance with the Recovery Plan. If the City and union do make changes to severance payments, the City and union shall project the cost or savings of those changes and count them against the allocation shown above.

The following compensation elements shall not be increased in cost or otherwise modified except as specifically detailed elsewhere in this Amended Recovery Plan:

- Workers' compensation and any other injured-on-duty benefits.

- Pensions and retiree benefits, including the elimination of retiree health insurance for firefighters hired after December 31, 2013 subject to WF04 above.

For any changes to the compensation provisions that are in place at the expiration of the current collective bargaining agreement or any new compensation components, the City shall conduct a full cost analysis of those changes for each year of the collective bargaining agreement to determine and assure that the resulting compensation does not exceed the maximum annual allocations shown above. The City shall provide the full cost analysis information to the Act 47 Coordinator in form and content acceptable to the Coordinator as soon as possible for the Coordinator's review and approval. If the Act 47 Coordinator determines that the proposals exceed the maximum annual allocations, the proposals shall be returned to the City and union for modification. The Act 47 Coordinator will not approve any cost analysis if the Coordinator determines that inadequate information is provided to verify the costs do not exceed this Amended Recovery Plan's maximum annual allocations or if the analysis is not provided in a timely manner.

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 Recovery Plan's baseline projections, the compensation costs that

[25] The City budgets for these premiums in its hospitalization coverage line.

are supported by that external funding source shall not count toward the Amended Recovery Plan's maximum annual allocations so long as the external funding meets the following conditions:

- The external funding source covers the full cost of the firefighter(s) supported by it, including the firefighter(s) fringe benefits.
- The firefighter supported by the external funding source has the same compensation, including fringe benefits, as those firefighters not supported by the external funding source.
- The provisions of the external funding source do not require the City to maintain a specific staffing level during or after the grant period.

Allocation basis

The City's 2012 budget allocates approximately $2.07 million to compensate active IAFF employees. In 2013, the current collective bargaining agreement provides a cost-of-living adjustment tied to the annual increase in the national consumer price index for wages (CPI-W). Firefighters received a 4.4 percent base wage increase under this provision in 2012, so the Amended Recovery Plan's baseline projection assumes IAFF employees will receive another 4.4 percent increase in 2013, increasing total compensation to $2.19 million in 2013.

The allocation in this initiative starts by applying the required savings related to restructuring the Fire Department (see initiative FR01).[26] That initiative requires the City to reduce its total departmental costs by $455,000 in 2014; $472,000 in 2015; and $489,000 in 2016.

Once those restructuring savings are applied, the Amended Recovery Plan allocation is based on the following wage pattern.

- In 2014 there would be a freeze on all base wages and salaries. Any step or tenure-based increase scheduled for 2014 would be eliminated. This follows the pattern established in the original Recovery Plan that required a two-year wage freeze.[27] Firefighters took a one-year base wage freeze in 2007 under the current collective bargaining agreement. This would apply the second year of base wage freeze and eliminate any step or tenure-based increase.
- In 2015 employees whose base salary is higher than $50,000 would receive a one-time bonus of $1,500. Employees whose base salary is lower than $50,000 would receive a one-time bonus of $1,000.[28] Base salaries and wages would not increase in 2015. Any step or tenure-based increase scheduled for 2015 would be eliminated.
- In 2016 employees would receive a 2.0 percent base wage increase and any applicable step increase.

The allocation in this initiative also assumes the City's agreement with the IAFF would be amended to incorporate other changes that the City made in the 2007-2012 collective bargaining agreement with the FOP.

- Longevity would be frozen at the levels in place as of December 31, 2013 for employees hired before January 1, 2014. Employees who are not eligible for longevity payments by the

[26] Please see the Fire Chapter for more information. The savings from FR01 are incorporated into this calculation to avoid double counting the same savings from reducing compensation for each position and then potentially eliminating some of those positions.

[27] Please see initiatives WF09 and WF22 in the original Recovery Plan.

[28] A $1,500 bonus is 2.0 – 3.0 percent for employees whose base salary is at least $50,000 in 2012. A $1,000 bonus is 2.0 – 3.0 percent for employees whose base salary is less than $50,000 in 2012.

end of the current collective bargaining agreement would not receive the payments in future years. Employees hired after December 31, 2013 would not receive longevity payments. This matches the provision in place for the City's other four unions.

Finally, the allocation in this initiative assumes the City would eliminate the 48 hours of additional pay each firefighter receives for mandatory training. Instead the City could increase its training budget ($2,000 in 2012) so the Fire Chief can send designated staff to training and then use those employees to train the rest of the Department.

While the allocations in this initiative are based on these assumptions, the City and IAFF may negotiate a different pattern of wage increases or changes in cash compensation so long as that pattern does not exceed the maximum annual allocations shown above for this bargaining unit. Any arbitration award issued subsequent to the adoption of this Recovery Plan also shall not result in annual compensation in excess of the maximum annual allocations shown above. Any negotiated contract or arbitration award shall also comply with the specific limitations and requirements otherwise set forth in this Amended Recovery Plan.

Recovery Plan IAFF Allocation

	2014 Projected	2015 Projected	2016 Projected
Baseline projected IAFF allocation	**2,275,000**	**2,360,000**	**2,444,000**
Cash compensation savings	42,000	60,000	81,000
Health insurance savings (See WF03)	89,000	112,000	138,000
Restructuring savings (See FR01)	455,000	472,000	489,000
Total Recovery Plan IAFF allocation	**1,689,000**	**1,716,000**	**1,736,000**

Non-represented employees

WF07.	**Non-represented employee compensation allocation**	
	Target outcome:	Reduced costs
	Financial impact:	$27,000
	Responsible party:	Business Administrator, City Solicitor

In 2013 employees whose 2012 base salary is higher than $50,000 shall receive a one-time bonus of $1,500. Employees whose 2012 base salary is between $25,000 and $50,000 shall receive a one-time bonus of $1,000. Employees whose 2012 base salary is between $10,000 and $25,000 shall receive a one-time bonus of $500. These one-time bonuses shall not be built into the base wages.

Employees whose 2012 salary was less than $10,000, including part-time employees whose hourly wages did not exceed $10,000, shall not receive the 2013 one-time bonus. They shall instead be eligible for a 2.0 percent wage increase subject to the City's 2013 budget approval process.

The City shall establish a pool for allocating 2.0 percent wage increases across all non-represented employees in 2014 and 2.0 percent wage increases in 2015. At management's discretion, the City may award the same percentage salary increase to all positions or adjust the percentages so that certain positions receive a higher percentage increase than others. The total amount of these increases may not exceed the previous year's base salary payment multiplied by 2.0 percent in 2014 and 2.0 percent in 2015.

The City shall not increase any other compensation or provide new or enhanced benefits for active or retired non-represented employees.

Financial Impact

2013	2014	2015
($5,000)	$16,000	$16,000

Teamsters and Clerical employees

WF08.	**Prohibition on new or enhanced benefits for non-uniformed employees**	
	Target outcome:	Cost control; preservation of management rights
	Financial impact:	N/A
	Responsible party:	Business Administrator, City Solicitor

The City recently negotiated a new collective bargaining agreement with the clerical employees represented by the Laborers, Local No. 964 and that agreement runs from January 1, 2012 through December 31, 2016. Similarly the code employees represented by the Teamsters and the public works employees represented by the Laborers, Local No. 964 have tentative agreements covering this same period. The City shall not enter into any new agreements, side letters, memoranda of understanding or similar documents with these unions that contain the following:

- Any term or provision which continues or adds any restrictions on City's rights to engage qualified contractors; to determine employees' hours, shifts and work schedules; to effect a layoff in workforce; or to choose which bargaining unit performs a particular duty or function.

- Any provision which expands the bargaining unit employees' rights to present grievances to the City or to appeal grievances to arbitration.

- Any provision that grants any new active or retired employee benefits, or improvements to existing benefits, including without limitation pension or retiree health care benefits.

Administration

Administration

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

- The **Mayor** and the **Business Administrator** are responsible for the day-to-day operations of the City, including managing the finances that fund local government. The Business Administrator also serves as the City's Chief Financial Officer, giving her authority over budgeting, financial reporting, debt management, accounting and auditing, purchasing, information technology and related functions. Because New Castle's government has limited resources, the Business Administrator also oversees human resources functions (employee benefits administration, collective bargaining with the Solicitor and grievance resolution) and risk management. The Business Administrator is supported by a Budget Account Clerk and Purchasing Clerk. The Mayor is supported by a secretary.

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

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

- The City has an elected **Controller** and an elected **Treasurer** who oversees tax collection. The Treasurer's Office, which has three tax account clerks, collects current year real estate taxes and some Act 511 taxes.[1]

The original Recovery Plan required that the City establish a new CFO position separate from the Business Administrator/Chief Administrative Officer position. With the Commonwealth's financial support and the Recovery Coordinator's guidance, the City filled the CFO position in 2008. The City later merged the CFO and Business Administrator positions into one. New financial management software allowed the City to streamline operations and cut another position in Administration. One treasury position was eliminated in 2012 when Commonwealth law shifted earned income tax collection to a countywide collector.

Budgeted Headcount

	2008	2009	2010	2011	2012
Mayor's Office	2	2	2	2	2
City Council (includes members)	6	6	6	6	6
City Treasurer	5	5	5	5	4
City Controller	1	1	1	1	1

[1] Please see the Revenue Chapter for more information on tax collection.

	2008	2009	2010	2011	2012
Administration[2]	6	5	4	4	4
Solicitor	3	3	3	3	3
Total	**23**	**22**	**21**	**21**	**20**

The City operates under Pennsylvania's Optional Third Class City Charter Law (the "Optional Plan Law") with a Mayor-Council form of government. This means New Castle is subject to the requirements of the Third Class City Code and does not have complete flexibility in how it organizes City government.

Financial performance

The table below provides the summary of operating expenditures for each unit of government with Administrative responsibilities. Like the rest of City government, the majority of the expenditures are for employee compensation. Of the $1.1 million that the City spent in this area in 2011, 80.0 percent (or $907,000) was for personnel. The City did not start budgeting employee health insurance at the department level until 2009 so those costs are shown separately below.

Historical Administrative Expenditures since 2007

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	% Change
Mayor's Office - Personnel	67,936	77,418	86,459	87,108	87,643	29.0%
Mayor's Office - Other	2,127	2,782	1,625	1,648	1,825	-14.2%
Mayor's Office total	70,063	80,200	88,084	88,755	89,468	27.7%
City Council - Personnel	58,627	58,521	70,598	71,745	78,930	34.6%
City Council - Other	43,263	17,613	25,230	19,206	108,466	150.7%
City Council total	101,890	76,133	95,828	90,951	187,396	83.9%
Treasurer's Office - Personnel	165,552	163,160	182,005	187,676	167,820	1.4%
Treasurer's Office - Other	18,472	21,142	27,459	32,030	18,697	1.2%
Treasurer's Office total	184,024	184,302	209,464	219,705	186,518	1.4%
Controller - Personnel	15,585	15,585	16,777	16,777	16,777	7.6%

[2] The Director of Community and Economic Development position is budgeted in Administration. Please see the Economic and Community Development Chapter for more information on those functions.

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	% Change
Controller - Other	0	222	30	0	0	N/A
Controller total	15,585	15,807	16,807	16,777	16,777	7.6%
Administration - Personnel	154,997	198,701	233,059	245,652	259,331	67.3%
Administration - Other	10,915	9,433	4,952	8,157	11,386	4.3%
Administration total	165,911	208,134	238,011	253,809	270,717	63.2%
Solicitor - Personnel	109,931	109,910	124,822	124,586	124,771	13.5%
Solicitor - Other	128,449	103,804	39,548	46,346	86,379	-32.8%
Solicitor - Total	238,380	213,714	164,371	170,932	211,151	-11.4%
Total	775,853	778,291	812,565	840,930	962,027	24.0%
Hospitalization	N/A	N/A	130,285	141,671	171,416	N/A

City Council's spending on non-personnel items grew by 150.7 percent because of a one-time settlement payment of $59,000 to the City's former weatherization employees. Absent that one-time payment, Council's spending growth was 26.3 percent. Spending on Administration salaries increased by 67.3 percent because the City added one senior position midway through 2008.

The employees in these departments are either members of the clerical employees bargaining unit (Laborers, Local No. 964) or are not represented by a bargaining unit. The non-represented employees have been generally compensated according to the terms of the original Recovery Plan (i.e. wage freezes, fewer holidays, higher employee contributions to health insurance). The clerical employees recently negotiated a new collective bargaining agreement that applies the provisions of the original Recovery Plan to their compensation beginning in 2012.

After the City passed the original Recovery Plan in 2007, its leaders, the Commonwealth and the Recovery Coordinator invested time, energy and money in improving the City's administrative capacity. The original Recovery Plan directed the City to fill a new Chief Financial Officer position that had a prescribed job description and specific requirements for financial management expertise.[3] The Pennsylvania Department of Community and Economic Development (DCED) led the City in selecting its first CFO and provided grant funding to pay some of the CFO's salary and benefit costs from 2008 – 2012.

DCED also provided grant funding so that the City could replace its inadequate financial management system with a more modern system. The previous system was used to track budget and accounting transactions together, which led to confusing reports produced in an antiquated

[3] Please see initiative AD01 in the original Recovery Plan.

format. The Finance Department lacked sufficient controls and separation of duties for purchasing and General Ledger management.

With the investment in additional personnel, better technology and improved financial controls, the City has been able to address its most serious financial management weaknesses. The City still has challenges, mostly due to limited tax revenue that prevents the City from adequately investing in human resources. Despite these challenges, the City's elected officials and appointed leaders, including the Department directors, have worked together to keep annual spending at the budgeted levels since 2008.

Initiatives

AD01	**Maintain fund balance and direct unanticipated additional funds to major liabilities**	
	Target outcome:	Financial stability; reduced debt and pension liabilities to provide more recurring resources for operations
	Financial Impact:	TBD[4]
	Responsible party:	Mayor, Administration, Council

The City was able to build a reserve balance of $2.7 million by outperforming its budget projections in recent years and selling the sanitary sewer lines to the New Castle Sanitation Authority in 2010. The City holds this money outside the General Fund. The presence of a "rainy day" reserve is another important step for New Castle toward financial stability and maintaining it is a high priority. This fund gives the City some protection against having to take more drastic financial actions in the event of unforeseen events that would otherwise create large, unpredictable deficits.

The Government Finance Officers Association (GFOA) recommends "at a minimum, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues."[5] The City's 2012 general fund budget has $13.0 million so the City should maintain a reserve of $650,000 to $1.95 million.

The City shall maintain this reserve outside the General Fund at a level equal to 10 to 15 percent of annual operating revenues. If the City's reserves dip below this level because of an unforeseen contingency, the City shall make it a priority to build the reserve back to this level beginning in the next budget year.

Any money over the 15 percent mark shall be committed to one of the following priorities:

- **Making an additional debt service payment beyond the amount of principal and interest due in a particular year:** One of the primary reasons that the City has been able to avoid tax increases or large numbers of layoffs since 2009 is that it has paid down its debt service, allowing it to use a larger portion of its tax revenues for operations. The City should keep debt reduction as a priority since lower debt enables the City to use its tax revenues to fund operations on a recurring basis.

- **Making a contribution to the pension fund beyond the City's annual Minimum Municipal Obligation (MMO):** The City's pension funding level has dropped from 84.3

[4] There will be a positive impact to following the guidelines in this initiative, but it depends on the size and timing of any windfall.

[5] See GFOA Best Practice, Appropriate Level of Unrestricted Fund Balance in the General Fund; 2009.

percent as of January 1, 2007 to 63.5 percent as of January 1, 2011. According to the Commonwealth's classifications, the pension has slipped from "minimally distressed" to "moderately distressed." As a result, the City's actuary projects that the City's MMO will jump from $1.6 million in 2012 to $3.0 million by 2017 absent corrective action,[6] creating a new burden of over one million dollars a year. The City must make changes to the level of benefits to reduce the liability in the long run. But the only way to reduce the liability in the short run is to put more money in the employee pension funds. Putting more money in the pension fund and reducing the annual MMO will give the City more money to fund operations on an ongoing basis.

- **Investing in projects identified through the City's capital improvement plan and budgeting process:** Since 2007 the City has made very minimal investments in the capital improvements that it needs to improve or sustain service to its residents. Recent progress toward balancing the budget has come partly at the expense of replacing public safety vehicles, repairing local government facilities or having a sustained road paving program. As much as financial realities will allow, the City needs to make capital investments in the projects identified through its new Capital Improvement Program (CIP).

Gas lease and other windfalls

The City of New Castle sits above a natural gas deposit called Marcellus Shale. During the Recovery Plan amendment process, the Mayor signed an agreement to lease the rights to the natural gas on City-owned properties to Hilcorp Energy I, Limited Partnership. In return the City will reportedly receive $2.0 million plus some royalties for any gas extracted from City properties.[7] The $2.0 million is considered a windfall – a non-recurring revenue increase or expenditure decrease of at least $100,000 that occurs outside the City's annual budget or any multi-year financial projections.

Pending the receipt of the gas lease proceeds, the City shall use $500,000 of those proceeds to help pay the pension MMO in 2013. The City shall use the remainder of the proceeds for one of the three priorities described above. The City may benefit from other windfalls during the term of this Recovery Plan, though by their nature they cannot be predicted. With the Coordinator's guidance, the City shall use the benefit of any other windfalls for one of these three priorities. That application shall be in addition to the other quantified initiatives in this Amended Recovery Plan.

AD02	**Explore the potential long-term lease or privatization of parking assets**	
	Target outcome:	Increased revenue for a strategic reduction of recurring liabilities
	Financial Impact:	TBD[8]
	Responsible party:	Administration, Council, Solicitor, Economic Development

The City's parking system has the following assets:

- One five-level parking garage on North Mercer Street

[6] Please see the Pension Chapter for more information.

[7] The Coordinator has not reviewed the gas lease agreement to determine the specific level, timing and conditions for these payments.

[8] There will be a positive impact to following the guidelines in this initiative, but it depends on the size and timing of any lease arrangement.

- Seven surface lots
- Approximately 275 parking meters

The parking system generates revenue through meter deposits, monthly permits and daily fees. The City transferred $100,000 from the parking system revenue to the General Fund in 2011. While this is better than the very small transfers that the City received before 2007, the transfer revenues have also dipped from $121,500 in 2008 to $113,000 in 2010 to $100,000 in 2011. From 2007 to 2011 the City Police Department oversaw parking operations. The Finance Department and two part-time meter enforcement officers now run the system.

In addition to the revenue directly generated by the system, parking is an important asset for economic development. It has been very difficult for the City to use its own resources to invest in this asset. The City used money from the Commonwealth's Redevelopment Assistance Capital Program (RACP) to make needed repairs to the Mercer Street garage, but that still leaves the City responsible for the surface lots, parking meters and any future repairs to the garage.

As noted in the original Recovery Plan,[9] privatization or leasing the parking system to a private operator could have several benefits. The operator will be able to focus its attention and resources on parking as its core mission where the City has to commit its limited resources to many other purposes. The operator may be able to improve service by updating the meters to accept different forms of payment and improve enforcement so scofflaws do not take advantage of the City's limited enforcement staff.

There are questions associated with privatization or long term leases that will need to be addressed, including whether parking rates will rise under private management and whether the lease payment is large enough to justify relinquishing control of this asset. But the City's need to reduce its pension and debt liabilities so that it can maintain basic public safety and public works operations creates a large enough incentive to explore the benefits of potential privatization or long-term leases.

With the support of the Recovery Coordinator, the City shall explore the possibility of leasing its parking assets to a private operator or undertaking similar public-private partnership transactions. The use of any proceeds from such a transaction shall be subject to the parameters listed in AD01.

AD03	**Consider reorganizing City government under a Home Rule charter to increase revenue flexibility**	
	Target outcome:	Greater flexibility for revenue options
	Financial Impact:	TBD
	Responsible party:	Mayor, Solicitor, Council, Business Administrator

As noted above, New Castle's form of government follows the provisions of Pennsylvania's Optional Third Class City Charter Law (the "Optional Plans Law"), including the limitations on tax rates. Without the additional taxing authority provided under Act 47, the City can only tax its residents 1.0 percent on earned income and must split the revenue with the New Castle Area School District. If the City reduced its earned income tax to the maximum tax rate allowed without Act 47 status and made no other changes, the City would lose approximately $2.5 million a year and would not be able to fund the services residents need.

[9] Please see initiative PK01 in the original Recovery Plan.

So New Castle faces the same problem as many other Act 47 communities. It relies on the additional taxing authority that Act 47 provides to fund local government operations, but it has to relinquish that authority to leave Act 47 oversight.

One option that other Act 47 communities have pursued is reforming their government under a Home Rule charter.[10] A Home Rule charter would set the parameters for how New Castle's government is organized and funded and give the City greater flexibility than its current structure, which is subject to the limitations of the Third Class City Code.[11] From a revenue perspective, depending on how the Home Rule charter was written, the City would gain the flexibility to set its earned income tax rates on its residents at whatever rate the elected officials choose, instead of being capped at 0.5 percent as is currently the case. City officials would have more local control over the two tax rates on residents that generate the most revenue – real estate and earned income – instead of relying as heavily on only real estate tax increases.[12]

Please note that adopting a Home Rule charter would not give the City additional taxing authority over non-residents. New Castle would still have to eliminate the non-resident portion of the earned income tax to exit Act 47 oversight.

Increased flexibility over local taxes is not the only reason the City might adopt a Home Rule charter. The City could also make other changes to its form of government. There are other issues that the City may wish to address through the Home Rule process.

How the process works

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

- **Initiation**: Whether by Council ordinance or a petition of five percent of the electors voting for the Office of Governor in the last election, an election of seven, nine or eleven members is held to form a Government Study Commission. The members are nominated for election by the signatures of at least two (2) percent of the electors voting in the prior gubernatorial election. Nominees must run without identification with a political party or slogan. Nominees receiving the greatest number of votes are elected to serve on the Commission and serve without compensation.

- **Election**: No later than 10 days from the certification of the election, a district justice swears in the members of the Government Study Commission.

- **First meeting**: The members convene the first meeting of the Commission no later than 15 days from the certification of the election. The members vote to elect a Commission chair and a vice chair, and adopt the rules of conduct for meetings.

[10] The City of Nanticoke and Plymouth Township each passed Home Rule charters in November 2011.

[11] The current Optional Plan form of government is still subject to the constraints of the Third Class City Code.

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

- **Appropriation**: City Council appropriates money necessary to fund the study and pay any reasonable expenses incurred by the members in the performance of their duties.

- **Duties**: The Government Study Commission analyzes the current form of government and compares its functions and operations to the forms of government under a Home Rule charter or an alternative Optional Plan government to determine whether an alternative form of government would improve operations, revenues and expenditure options.

- **Appointment**: The Government Study Commission may appoint one or more consultants or clerical assistants to help in the administration of its duties.

- **Hearing**: The Government Study Commission holds at least one public hearing and may sponsor a public forum to receive input on its considerations, ideas, or proposals.

- **Report**: Within nine months from the date of election, the Commission must release a report of its findings and recommendations. If the Commission elects to prepare a Home Rule charter and submit it for citizens' consideration, the Commission must release the proposed Charter within eighteen months from the date of election. A copy of the final report and any proposed charter must be filed with the Department of Community and Economic Development.

- **Discharge**: The Government Study Commission is discharged after filing the report and proposal unless an additional procedure, such as a referendum, is required. The Commission may amend the recommendations at any time prior to 60 days before the date of the referendum.

- **Referendum**: If the Government Study Commission recommends an alternative Optional Plan government or proposes a Home Rule charter, the recommendation shall be submitted to referendum in the next primary or general election occurring no less than 60 days from the date of filing of the Commission's report and proposal.

- **Adoption**: If the majority of electors vote to approve the recommended Home Rule charter or alternative Optional Plan government, the conversion to the new form of government follows the procedures set forth in the Home Rule and Optional Plans Law. Once the new form of governance takes effect, a referendum to reconsider the adoption may not be considered within five years from the date a Home Rule charter or an alternative Optional Plan government became effective.

- **Rejection**: If the majority of electors vote against the recommendation of the Commission, the local government may resubmit the recommendation at the next election.

Recovery Plan initiative

The Recovery Coordinator cannot direct the City to write its Home Rule charter in a particular way to provide more local control of the earned income tax rate. But the opportunity that the Home Rule process presents to reach that objective and take steps toward exiting Act 47 oversight make this an issue that the City should address during the term of this Amended Recovery Plan.

During 2013 the City shall form an internal committee chaired by the Solicitor that analyzes the benefits of adopting a Home Rule charter and potentially changing New Castle's form of government. The Committee shall consist of the Solicitor, the Mayor, the Business Administrator, and two (2) members of City Council as appointed by the President of City Council. The Committee shall develop a report that recommends whether New Castle should pursue a Home Rule charter and the reasons for its recommendation. The Coordinator will provide the administrative support for the Committee.

The Committee shall produce a report stating the reasons for its decision by the second quarter of 2013. As noted above, final approval for forming a Government Study Commission that potentially leads to a Home Rule charter is provided if Council passes an ordinance placing the question on the ballot or if there is a petition of five percent of the electors voting in the last gubernatorial election.

Intergovernmental Cooperation

Intergovernmental Cooperation

As the Executive Summary emphasizes, the City's path to long term fiscal stability will be difficult.

Flat revenue growth, declining population and increasing expenditures (including growing pension plan contributions) require the City to pursue aggressively all possibilities to generate revenue by providing contracted services to other communities or to reduce its expenditures by sharing service provision with other government entities. Moreover, such efforts reflect the reality that many of the problems faced by the City, including crime, affordable fire protection and blight, cross municipal lines and are therefore regional in nature.

Although forging intergovernmental arrangements to tackle these issues is admittedly difficult, the City's financial condition leaves it with no choice but to take the initiative with its neighbors and the County to combine resources to address these common challenges. The Coordinator is willing to lead this effort in cooperation with City officials.

IG01.	**Pursue intergovernmental cooperation**	
	Target outcome:	Maintaining and building services at an affordable cost
	Financial impact:	TBD
	Responsible party:	Recovery Coordinator, Mayor, Council, Department heads

The Coordinator, in cooperation with the Mayor and Council, will organize and convene a series of meetings with representatives of Lawrence County, the Lawrence County Council of Governments, surrounding communities and other governmental entities (including school districts) to initiate discussions leading to intergovernmental cooperation agreements fostering cooperation in providing services to the region's citizens. Potential areas of focus include:

- **Police:** The New Castle Police Department and the Lawrence County District Attorney are already cooperating in efforts to fight illegal drugs and other crimes. The Coordinator and City representatives will convene a meeting with the District Attorney to identify additional areas of cooperation among the County, the City and other communities to fight crime.

  In addition, meetings will be convened between the City Police Department and neighboring community elected officials to discuss the provision of police services by the City or through a regional structure. Some smaller communities have already concluded that they cannot afford their own police departments and are actively seeking partnerships with larger communities with police services. Taylor Township contracts with the City for police service and the City shall pursue similar opportunities.

- **Fire and special rescue:** The City's Fire Department is available to provide fire protection to neighboring communities, or at least assistance with major structural fires. Success in establishing bilateral agreements (i.e. New Castle Fire Department covers another municipality) could lead to a broader discussion of regional fire protection services centered on the City. In addition, special rescue or hazardous materials responses could be provided on a regional basis.

- **Public Works:** This is another service area where the City and other entities may be able to share services across municipal or organizational lines. The purchase and maintenance of public works equipment and recycling services are just two possible areas of cooperation.

- **Blight reduction:** City officials referenced a 1991 agreement between New Castle and Lawrence County related to maintaining blighted properties. According to the City's accounts, the agreement provided County funding to help the City maintain, placard and demolish abandoned properties.[1] The process described appears to be largely inactive, though the County provided some financial assistance for grass cutting in 2009. The City shall approach the County about reactivating the process or renewing this agreement. The City shall also discuss the Neighborhood Blight Reclamation Act and the Blighted and Abandoned Property Conservatorship Law with the County since those new Pennsylvania laws provide expanded powers and tools for Counties and local governments to acquire and repurpose parcels and buildings, and pursue landowners that fail to maintain their properties.

[1] This agreement was codified in the City Code at Article 199.

Fire Department

Fire Department

The New Castle Fire Department (NCFD) is a department of full-time, paid personnel that provide emergency response services to the City's 8.6 square miles. NCFD consists of one Fire Chief who is responsible for the management and operations of the Department and 24 firefighters, all of whom are members of the International Association of Firefighters, Local 160 (IAFF).

The Department uses a four-platoon structure consisting of one assistant chief, one lieutenant and four firefighters. Each platoon works a 24-hour shift followed by 48 hours off (24/48). The 24/48 schedule repeats six times after which there is a 24-hour shift followed by nine consecutive days off, resulting in an average work week of 42 hours.

NCFD operates out of two fire stations.

- The central fire station located at 10 Margaret Street near downtown New Castle houses one engine staffed by a lieutenant and one firefighter and one aerial/pumper that is staffed by a firefighter. The Assistant Chief is also at this station.

- The sub-station is located in the 800 block of North Cedar Street, approximately two miles from the central fire station. It houses one engine that is staffed by two firefighters.

The Assistant Chief on duty coordinates incident response based on incident type and location. Typically, the only times personnel from both stations respond to the same incident are calls for structure fires or fire alarms (this does not include vehicle, vegetation, rubbish or other types of fires). For other types of calls, including medical calls, the Assistant Chief can determine the appropriate response.

Under the City's collective bargaining agreement with the IAFF, the City is required to employ a minimum of 24 firefighters and have minimum on-duty manpower of five firefighters. As the chart below shows, the City's total budgeted headcount has not changed since 2008. The agreement also requires the City to employ four lieutenants. The agreement expires at the end of December 2013.

Fire Department Budgeted Headcount[1]

	2008	2009	2010	2011	2012
Fire Chief	1	1	1	1	1
Assistant Chief	4	4	4	4	4
Lieutenant	4	6	6	6	5
Driver	6	9	9	9	9
Firefighter (All ranks)	10	5	5	5	6
Total	**25**	**25**	**25**	**25**	**25**

[1] These are the counts in the Council approved budget for each year.

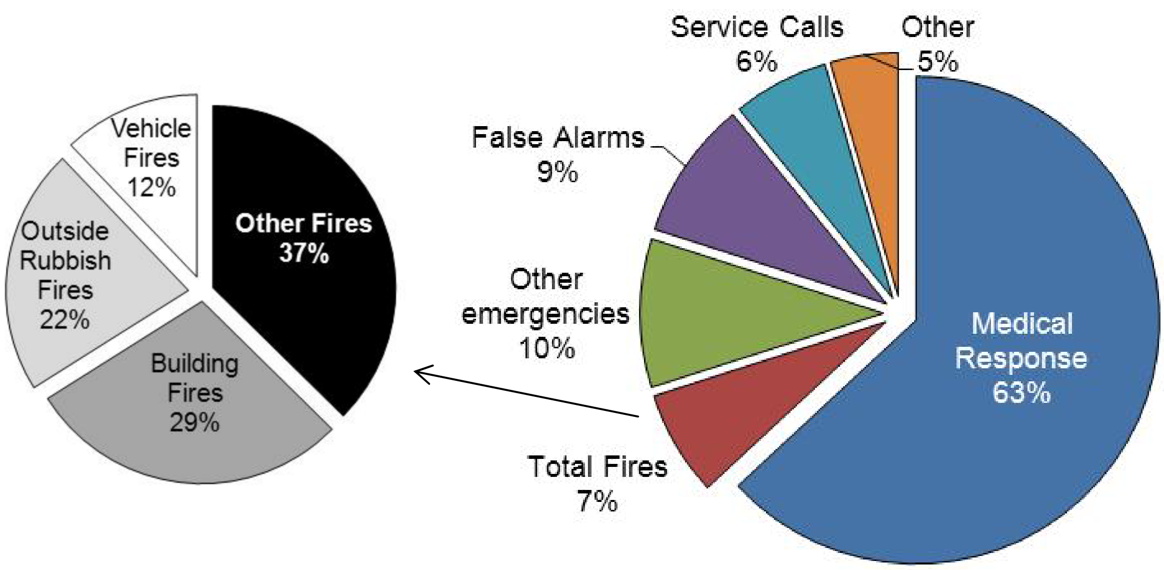
Calls for service

Though NCFD's primary role is fire suppression, the Department provides emergency response services including vehicle extrications, trench rescue, rope rescue, confined spaces rescue, water rescue and a hazardous material (hazmat) team. The Department also provides non-emergency response services, including fire drills and smoke detector installation.

From 2008 to 2011, the City responded to 2,503 incidents per year. The majority of the calls over this four-year period – 1,579 per year or 63.1 percent – are for emergency medical responses. As is discussed further below, the Department responds to some emergency medical calls in addition to the private ambulance companies that respond to all calls in the City.

Over this four-year period, NCFD responded to 175 fires per year, which calculate to 4.9 percent of total calls and less than one fire every two days. Building fires accounted for 2.0 percent of calls from 2008-2011 and vehicle fires for 0.8 percent. In the chart below, the most common incidents grouped under "other" fires are cooking fires confined to the container and brush fires.

Calls for Service, 2008-2011 Average



Source: New Castle Fire Department

NCFD responded to 247 other emergencies per year (9.8 percent of total calls). Vehicle accidents are the most common incident in this category at 138 per year (5.5 percent). False alarms accounted for 230 calls per year (9.2 percent). This does not include good intent calls where the requested response is cancelled while the Department is en route.[2] Six percent of the calls were for miscellaneous service, the most common of which is responding to unauthorized burnings.

The table below shows the calls for service each year since 2008.

[2] Good intent calls are grouped in the "Other" category.

Calls for Service by Year

Incident Type	2008	2009	2010	2011	% Change
Medical Response	**1,484**	**1,562**	**1,560**	**1,711**	**15.3%**
Building Fires	*64*	*53*	*46*	*38*	***-40.6%***
Outside Rubbish Fires	*42*	*32*	*44*	*35*	***-16.7%***
Vehicle Fires	*27*	*24*	*20*	*14*	***-48.1%***
Other Fires	*77*	*69*	*74*	*42*	***-45.5%***
Total Fires	**210**	**178**	**184**	**129**	**-38.6%**
Rupture/Explosion	*12*	*3*	*8*	*6*	***-50.0%***
Vehicle Accidents	*106*	*184*	*135*	*125*	***17.9%***
Other Rescue	*17*	*27*	*19*	*16*	***-5.9%***
Hazardous Condition	*71*	*67*	*84*	*106*	***49.3%***
Other emergencies	**206**	**281**	**246**	**253**	**22.8%**
False Alarms	**194**	**242**	**231**	**254**	**30.9%**
Service Calls	**161**	**151**	**170**	**156**	**-3.1%**
Other	**118**	**115**	**109**	**108**	**-8.5%**
Total	**2,373**	**2,529**	**2,500**	**2,611**	**10.0%**

Source: New Castle Fire Department

That annual data reveals three important trends.

- **The number of responses has increased because the Department is responding to more medical calls.**

  Over the last four years, NCFD has seen a 10 percent increase in total incidents from 2,373 in 2008 to 2,611 in 2011. The primary driver for the increase was response to medical calls, which grew by 15.3 percent from 1,484 in 2008 to 1,711 in 2011. The volume for all other calls has essentially remained flat during this period. After increasing from 889 to 967 calls in 2009, the number of non-medical calls dropped down to 900 in 2011 – just 1.2 percent higher than in 2008.

- **Fires account for a small and shrinking part of the Department's total responses.**

  The City has had a 38.6 percent decline in the total number of fires from 210 in 2008 to 129 in 2011. The drop has been even greater in building fires (40.6 percent) and vehicle fires (48.1 percent). Even at the higher call levels in 2008, less than one in ten calls were for verified fires.[3] In 2011, the volume of fire calls calculates to 4.9 percent of total calls and

[3] This does not include false alarms or good intent calls.

one fire every 2.9 days. Over the four-year period, the Department responded to one fire of any kind every 1.5 days and one building fire per week (7.3 days).

- **The volume of calls for other emergencies and false alarms has increased since 2008.**

  Calls for other emergencies increased by 22.8 percent from 206 in 2008 to 253 in 2011. The largest increase is in hazardous material incidents (49.3 percent). Responses to vehicle accidents increased by 17.9 percent, though they dropped 32.1 percent from the peak of 184 in 2009. False alarms increased by 30.9 percent from 194 in 2008 to 254 in 2011.

Medical service calls

Emergency medical services in New Castle are provided by two private ambulance companies – NOGA Ambulance Services and Medevac Ambulance Services – that serve all of Lawrence County. The two providers rotate service on a weekly basis and, according to the Fire Chief, each have a base in New Castle. According to the Lawrence County Department of Public Safety – which is responsible for 911 emergency dispatch services for the entire county, including for the NCFD – one of the providers responds to every medical call, regardless of the severity of the incident, even those where NCFD responds.

Whether NCFD is dispatched to medical incidents depends on the call level (severity). Calls in Lawrence County are generally categorized A through E with the later letters representing more serious calls. An analysis of County data shows that most of the NCFD's responses were to relatively serious calls but a significant number of responses were to relatively low level calls. In 2011, 40.9 percent of NCFD medical responses were to code D calls, 32.5 percent were for code C calls and 23.2 percent were for code B calls. Only 0.9 percent of responses were to the least serious calls coded A. Based on Lawrence County data, overall responses to medical incidents coded C, D and E increased by 41.4 percent while responses to less serious calls (those coded A and B), increased by 61.5 percent between 2008 and 2011. The Fire Chief has indicated that the Department would prefer to eliminate any response to code A, B or C incidents and instead respond only to serious code D and E calls.

Fire Department Medical Incidents, 2008 - 2011[4]

	2008		2009		2010		2011	
Call Level	**#**	**%**	**#**	**%**	**#**	**%**	**#**	**%**
A	15	1.2%	10	0.7%	14	0.9%	17	0.9%
B	258	20.6%	311	21.5%	333	21.2%	424	23.2%
C	454	36.3%	474	32.8%	524	33.3%	594	32.5%
D	496	39.6%	613	42.5%	649	41.3%	748	40.9%
E	29	2.3%	36	2.5%	51	3.2%	42	2.3%
O	0	-	0	-	1	0.1%	2	0.1%
Total	**1252**	**-**	**1444**	**-**	**1572**	**-**	**1827**	**-**

Source: Lawrence County Department of Public Safety

Once NCFD personnel arrive at a medical call, they provide Quick Response Service (QRS) level of service. QRS certification is often applied to fire departments that do not operate their own Basic

[4] This incident data comes from the County Department of Public Safety, which may track incidents differently from the New Castle Fire Department, which is the source for data in the prior chart.

Life Support (BLS) or Advanced Life Support (ALS) medical response. QRS-level departments provide basic medical response, such as stabilizing patients until an ambulance company arrives. QRS-level departments do not generally provide transport services or more advanced medical response, like intubation.

While the Department has increased its number of responses to medical calls, that trend could change. According to the Emergency Medical Services Institute, which serves as the regional EMS Council for Southwestern Pennsylvania and coordinates agency certifications with the Pennsylvania Department of Health, NCFD's QRS certification expired in April 2010. According the Fire Chief, the NCFD's certification was previously administered by a city employee outside of the Fire Department who allowed the certification to expire. The NCFD is in the process of becoming re-certified for QRS.

Financial performance

Like most public safety departments throughout the country, NCFD's primary cost driver is employee compensation, which represents 90.7 percent of the Department's total budgeted expenditures in 2012 and a similar percentage of total expenditures since 2007. Non-personnel operating costs have remained flat since 2007. The City spent $2.2 million on employee compensation in 2011 once active and retired employee health insurance costs are included.[5] The City did not start budgeting employee health insurance at the department level until 2009 so those costs are not included in the chart below.

Historical Department Expenditures since 2007

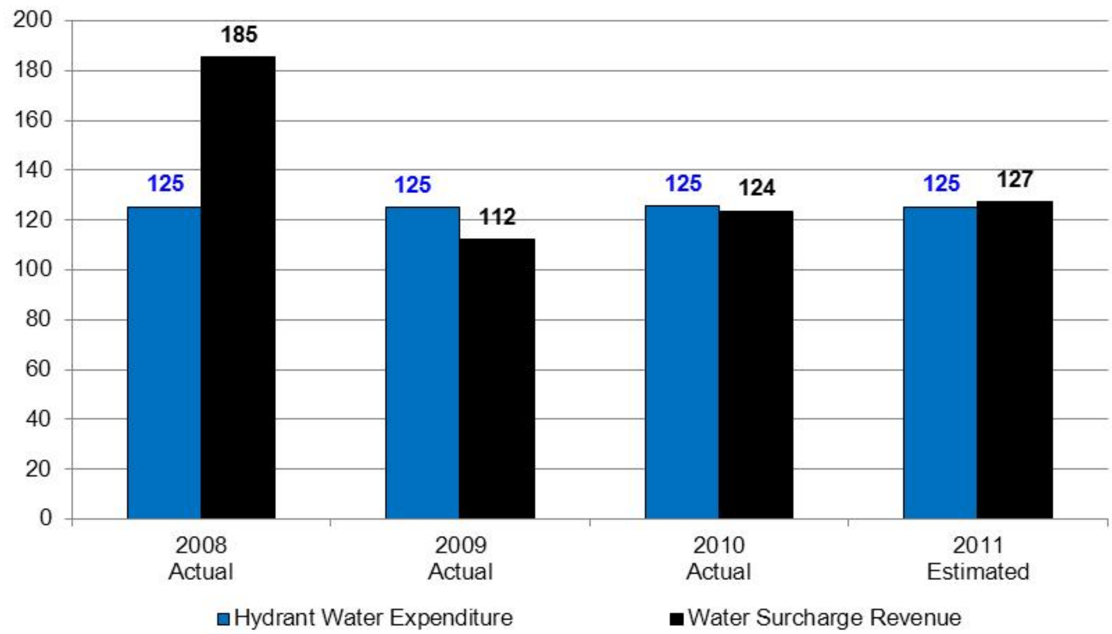
	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	% Change
Salaries And Wages	1,121,735	1,200,548	1,271,893	1,299,687	1,336,086	19.1%
Overtime	198,273	133,326	136,701	117,279	151,559	-23.6%
Sick And Holiday Pay	83,000	82,006	85,887	90,459	111,501	34.3%
Training Wages	0	15,438	15,953	14,574	12,367	N/A
Workmen's Comp. Incentive	36,500	21,000	0	36,000	37,500	2.7%
Workmen's Comp. Wages	43,534	16,089	31,038	0	0	-100.0%
Uniform Allowance	12,694	12,500	12,500	12,500	14,400	13.4%
Other	33,000	57,474	61,904	40,104	41,214	24.9%
Personnel subtotal	**1,528,736**	**1,538,381**	**1,615,876**	**1,610,603**	**1,704,627**	**11.5%**
Hydrant Water	124,675	125,252	124,885	125,498	125,209	0.4%
Equipment- Turn Out Gear	38,249	9,822	37,283	6,875	36,520	-4.5%
Gasoline	16,198	22,792	11,550	15,817	21,028	29.8%

[5] Please see the Workforce Chapter for more information on employee compensation.

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	% Change
Other	18,717	18,415	15,126	10,434	16,471	-12.0%
Non-personnel subtotal	**197,839**	**176,281**	**188,844**	**158,624**	**199,228**	**0.7%**
Department total	**1,726,575**	**1,714,662**	**1,804,720**	**1,769,227**	**1,903,856**	**10.3%**

The original Recovery Plan recommended that the City establish a voluntary water meter surcharge on resident and commercial bills to help defray the City's cost for hydrant water used to extinguish fires.[6] Beginning in 2008 the City established a surcharge on monthly sewer bills ($1.00 per residential bill, $2.50 per commercial bill). The New Castle Area Sanitation Authority collects the surcharge and remits the revenue to the City. This approach has been mostly successful in covering the City's hydrant water costs as shown in the graph below.

Hydrant Water Costs versus Water Surcharge Revenue ($000s)



NCFD also generates minimal revenue through reimbursement for costs associated with responding to accidents, collisions and hazardous material events. NCFD reported collecting $13,000 in 2010 for such services.

Initiatives

To fully understand the initiatives in this section, the reader has to consider the City's broader financial picture. The City faces difficult decisions as it tries to keep its annual finances in balance while doubling its annual required contribution to the employee pension fund from $1.6 million in 2012 to $3.2 million in 2015 and beyond. That increase will be gradual since the City can pay a portion of the annual required contribution in 2013 and 2014 under Act 44 of 2009.[7] The City also

[6] See original Recovery Plan initiative FR04, page 205.

[7] Please see the Pension Chapter for more information.

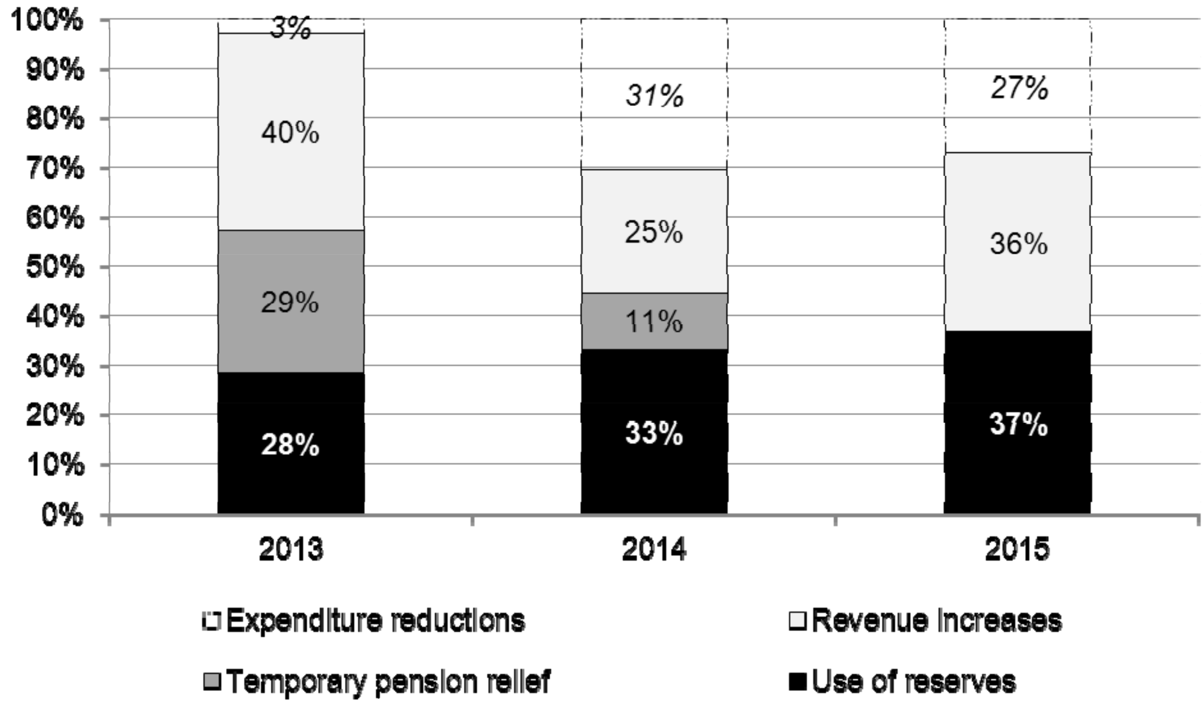
has built a reserve that will help it cover the rising pension contributions. Those two factors will help the City avoid more drastic tax increases or service cuts over the next couple years.

However, those factors provide temporary relief for a problem that is projected to recur. The actuary's projections show the City's annual required pension contribution rising from $3.2 million in 2015 to $3.3 million in 2016 and $3.4 million in 2017. If the City only relies on short-term tools and does not make any structural changes in the next three years, it will still be vulnerable to massive tax increases or service cuts when those short-term tools are no longer available. Therefore the City needs to make changes in the next three years so it is as ready as possible to shoulder the full burden of the higher pension contributions once the reserves are gone and temporary relief expires.

On the revenue side, the Amended Recovery Plan calls for a 1.0 mill property tax increase in 2014 and another mill in 2015. The Plan includes these tax increases even though the City already has the highest property taxes in Lawrence County and a tax base that is slowly shrinking. As the Revenue Chapter explains, the City does not currently have any other options to generate significant additional revenue on a recurring basis.

The temporary pension relief, use of reserves and tax increases cover a portion of the City's projected hole, but not all of it. The portion that they cover drops as the City spends down the reserves and the temporary pension relief expires. The City will have to cover the remaining gap through expenditure reductions.

Distribution of Plan Initiatives[8]



The Workforce Chapter provides initiatives to control the growth in compensation for current employees. The City will have to go beyond that to keep its finances in balance as the annual required contribution to the employee pension fund doubles. It will have to restructure the Fire Department according to the same principles that it has used in other operations.

[8] The temporary pension relief that expires in 2014 has a negative impact (i.e. increases the hole) in 2015. The City will have to make higher payments in 2015 to account for the lower payments in 2013 and 2014. Please see the Pension Chapter for more information on this relief. The impact of the expiring relief (-10.0%) has been combined with the use of reserves in 2015 for graphing purposes.

In the Police Department, the City eliminated the minimum manning provision, which helped cut police overtime costs in half from 2007 to 2009. The City added part-time police officers to boost the Department's capacity in the absence of enough money to hire more full-time officers. The City and FOP agreed to those changes in addition to the compensation related concessions that FOP members made (e.g. three years of step freezes, ongoing longevity payment freezes, increased employee contributions to health insurance, fewer holidays).

Outside of public safety, the City started using day laborers to supplement full-time refuse collection employees. Clerical positions were eliminated as the City became more efficient or shifted tax collection responsibility to other organizations. Non-represented employees were laid off when the federal government reduced the grant funding that supported their positions.

The City already considered a different, more affordable structure for its Fire Department before it entered Act 47 oversight. The collective bargaining agreement between the City and the IAFF for 1998-2002 included a part-time (or "casual") firefighter position. The contract gradually replaced full-time with part-time firefighters and reduced the minimum manning level from five full-time firefighters to three supplemented by casual firefighters. Initiative FR01 provides a savings target to help fill the projected deficit and discusses different options for reaching that target. The Plan gives the City and IAFF flexibility to restructure the Department outside the discussed options so long as total employee compensation does not exceed the Recovery Plan's maximum annual allocations.

FR01.	**Restructure department to reduce costs**	
	Target outcome:	Reduced costs
	Financial Impact:	See below
	Responsible party:	Administration, Solicitor, Fire Department

The City shall restructure NCFD operations to reduce its expenditures by 20 percent below the projected baseline costs through 2016 as shown below. The City shall achieve the savings associated with this initiative in each year (i.e. $455,000 in 2014, $472,000 in 2015, $489,000 in 2016). These savings are in addition to those associated with the Workforce Chapter initiatives related to individual employees' compensation.[9]

Recovery Plan IAFF Allocation

	2014 Projected	2015 Projected	2016 Projected
Baseline projected IAFF allocation	**2,275,000**	**2,360,000**	**2,444,000**
Cash compensation savings (See WF06)	42,000	60,000	81,000
Health insurance savings (See WF03)	89,000	112,000	138,000
Restructuring savings	455,000	472,000	489,000
Total Recovery Plan IAFF allocation	**1,689,000**	**1,716,000**	**1,736,000**

[9] Please see initiatives WF03 and WF06 in the Workforce chapter for more information.

Because of the minimum manning provision in the City's collective bargaining agreement with the IAFF, the City and IAFF will have to negotiate changes to that agreement to achieve the savings projected above. During those negotiations and any associated arbitration process, the City Business Administrator or Solicitor shall convey to the Act 47 Coordinator their calculation of the resultant savings from any changes. They shall provide the full proposal and the associated cost analysis to the Act 47 Coordinator in form and content acceptable to the Coordinator as soon as possible.

The City and union shall provide any information that the Coordinator needs in its review of the proposed changes, including all costing analysis. The changes will not be compliant with the Recovery Plan if the Coordinator determines that inadequate information is provided to verify the costing analysis or compliance with the Recovery Plan, or if the analysis is not provided in a timely manner. The intent of this provision is that the Act 47 Coordinator is the final decision maker as to the cost of any proposed changes, whether proposed outside of labor negotiations, during labor negotiations, during arbitration of any such agreement or at any other time.

If the Act 47 Coordinator determines that the proposed changes meet the savings target shown above and comply with other initiatives in this Amended Recovery Plan, the changes shall be deemed compliant with the Amended Recovery Plan. If the Act 47 Coordinator determines that the proposed changes do not meet the savings target shown above or that they do not comply with other initiatives in the Amended Recovery Plan, the proposal shall be returned to the City for modification.

Restructuring options and savings estimates

The City has several options for changing its operations to achieve the savings target in this initiative. The dollar value of a particular change will depend on when and how the change is made. For example, the amount of money the City would save by eliminating a position will depend on which position is eliminated, how it is eliminated (e.g. layoff, permanent vacancy following retirement) and when it is eliminated (e.g. immediately, in 2015).

To simplify those variables and provide a sense of magnitude, the City would save an estimated $52,000 in 2014 by eliminating one position for a firefighter hired in 2012. As a general estimate, if the City eliminated one position for each of the four platoons, it would save $208,000 in 2014 and $211,000 in 2016.

Estimated Cost of a Firefighter hired in 2012

2012	2013	2014	2015	2016
$49,000	$54,000	$52,000	$53,000	$57,000

This estimate incorporates the savings from the Workforce Chapter initiatives.[10] It includes all forms of cash compensation and health insurance coverage at the family level, which is the most common for firefighters. It does not account for any costs related to employee pensions, overtime or unemployment compensation.

As noted earlier, the costs associated with a particular position differ according to the employee's tenure, rank, leave usage and other factors. Eliminating an Assistant Chief position would save approximately $90,000 in 2014 rising to $95,000 in 2016. Replacing a firefighter who has a senior ranking with a more junior firefighter would also generate savings, though it would be less if the Department's total headcount remained unchanged.

[10] Please see the Workforce Chapter for more information. The workforce initiatives are incorporated into this calculation to avoid double counting the savings from reducing compensation for each position and then eliminating some of those positions.

Reinstituting part-time or "casual" firefighters

One alternative for generating the savings the City needs is to reinstitute the part-time firefighter position. While the Department does not have any part-time firefighters now, the Department previously used "casual" firefighters who worked 32 hours per week and received an hourly wage with no fringe benefits. These casual firefighters carried the same duties as full-time firefighters, but were not drivers or officers. They generally worked one 24-hour shift and one eight-hour shift per week with actual shifts set by the Fire Chief one month in advance. The collective bargaining agreement between the City and IAFF for 1998-2002 gradually replaced full-time with part-time firefighters and reduced the minimum manning level from five full-time firefighters to three supplemented by casual firefighters.

There are countless combinations of full-time/part-time firefighters that would cost less than the current full-time only structure. For example, the City could staff the central fire station around the clock with full-time firefighters and staff the substation with part-time firefighters. Or the City could reduce its number of full-time firefighters per platoon and supplement them with part-time firefighters during peak demand. To provide a sense of magnitude, if the City replaced one full-time firefighter position at the most junior rank with a part-time firefighter who makes $21,632 per year, the City would save $30,000 per year in 2014.[11]

Overtime reduction

Another alternative is for the City to reduce its projected overtime costs. When the City and FOP negotiated a new agreement, the changes in that agreement helped the City reduce its police overtime spending by 48 percent.

While the amount of overtime worked will vary partly due to events beyond the City's control, the City can project its future overtime costs based on the current level of activity, its staffing structure, leave usage and collective bargaining agreement provisions and then amend those factors to achieve projected savings.

As noted above, the current collective bargaining agreement requires the City to maintain a minimum of five on-duty firefighters per shift, which has a direct impact on the City's overtime spending. Currently, two firefighters per shift are allowed to take vacation simultaneously. When fully staffed, each shift has a total of six firefighters (including the Assistant Chief). So if two firefighters take vacation at the same, overtime is required to reach the five-person minimum manning limit. Department leadership estimates that roughly $86,000 of the $151,000 that the City spent on fire overtime in 2011 was the result of this vacation-minimum manning dynamic.

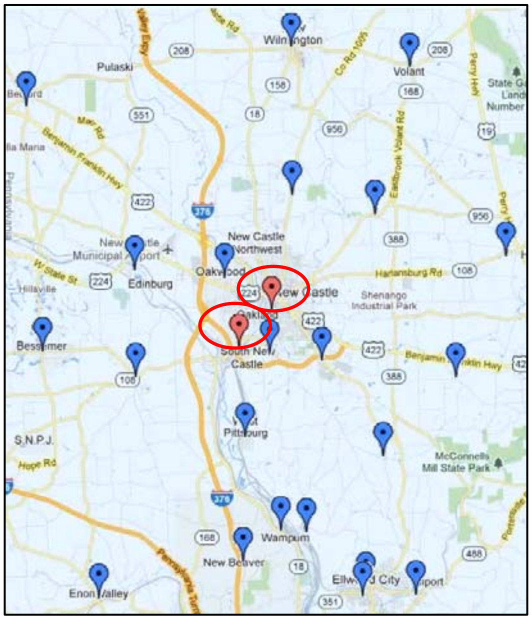
The City and IAFF could change either part of this dynamic. The parties could lower the minimum manning requirement, use part-time firefighters toward the manning level or eliminate the minimum manning requirement altogether so that the staffing levels are left at the Fire Chief's discretion. The parties could reduce the amount of vacation that firefighters receive or the number of firefighters who can take vacation simultaneously. The parties could also change how the City calls firefighters to fill vacancies so that more junior officers are called back first.[12]

What about regionalization?

One option that is occasionally suggested is forming a regional fire department that would serve New Castle and its neighboring municipalities. As demonstrated in the map on the next page, New Castle is surrounded by other fire departments. The two red (or circled) dots show the location of

[11] The $21,632 annual wages is only an example based on the City's current pay for part-time police officers.

[12] When an Assistant Chief and a firefighter miss the same shift, the City currently calls back an Assistant Chief on overtime instead of the firefighter, who would be paid a lower overtime rate. The City could call back the firefighter instead and let the Lieutenant on shift act in the Assistant Chief's place.



the City's two fire stations relative to other fire companies (blue dots). Every other fire department in Lawrence County uses some volunteers and many use only volunteers.

Regionalization would distribute the cost of fire protection across a larger tax base and could improve service. As discussed earlier, emergency medical services are already provided in a countywide context. The County also provides special rescue services to municipalities other than the City. In recognition of the potential benefits associated with regionalization, the Intergovernmental Chapter of the Recovery Plan provides an initiative to spur discussions between the City and other communities about creating a regional fire department or bilateral contracting (i.e. the City provides fire protection to another community for an annual cost).

Still, those options require the cooperation of other municipalities or fire companies outside the City. In the meantime, New Castle needs to establish a fire service that it can afford given its own financial constraints in the near term.

The City could also improve its flexibility to use mutual aid agreements with the other fire departments in the County. The current collective bargaining agreement requires the City to call in all firefighters – including those who are not scheduled to work and would receive overtime – before requesting mutual aid from another department in the form of manpower.[13] The City may request a piece of equipment from an outside department to stand by in case it is needed. But the City also has to call in at least four firefighters, assumedly at an additional overtime cost, to accompany that piece of equipment. The City and IAFF could agree to change these provisions to meet the savings target noted above if they can demonstrate the savings associated with the change.

FR02.	**Continue discussions with the County to change medical dispatch protocol**	
	Target outcome:	Targeted use of limited resources
	Financial Impact:	See prior initiative
	Responsible party:	Fire Department

According to the City and County data, the NCFD is responding to a growing number of medical service calls. Lawrence County also dispatches a private ambulance company to all medical calls. The private ambulance company receives all the revenue associated with the response.

For each of the last four years, more than half of the medical calls to which NCFD responded were the less serious, non-life threatening incidents coded A, B or C. NCFD leaders indicated they would prefer to only respond to the more serious code D and E medical calls and have initiated discussions with the County to change the dispatching protocol. This is a good strategy given the City's need to allocate its limited financial and staffing resources where they are most needed.

[13] Mutual aid is addressed in Article XV of the collective bargaining agreement.

The City shall continue these discussions with the County regarding a change in protocol to reduce the frequency with which NCFD is dispatched to lower priority calls. NCFD may still respond to the most serious medical incidents along with a private ambulance, as is currently the case. But responding to a smaller number of less serious calls will reduce the City's overall call volume and give it more flexibility to use its limited resources for higher priorities as it restructures its operations.

FR03.	**Improved use of performance data**	
	Target outcome:	Improved performance and accountability
	Financial Impact:	N/A
	Responsible party:	Fire Department

To better manage with limited resources, NCFD needs to become a more data-driven organization. The Department tracks incident responses by type, which is valuable. But the Department should also track information related to prevention activity such as the number of fire drills at schools, safety talks at daycare centers and installation of smoke detectors for homeowners. Department leadership may have other ideas for tracking prevention activity.

In addition to tracking incident responses by type, the Department should also track the number and type of responses for each station and the geographic location of each incident. This type of data would allow the Department to better assess the need to maintain two stations and make any necessary operational adjustments. If possible, the NCFD should also work with the Lawrence County Department of Public Safety – the party responsible for dispatching the NCFD for incident response – to better track its response time by incident type.

The Department shall develop a quarterly report that tracks performance for inclusion in the Business Administrator quarterly report. The report does not need to be long or complicated. It is better for the City to track a limited number of items that relate to the City's priorities and help managers make decisions than to produce a long report that few people read. The Chief shall use this performance report to evaluate the Department's performance and the impact of any structural changes adopted pursuant to FD01.

While there is not a quantified financial impact associated with this initiative, good performance measurement often has a financial benefit since it focuses staff on the highest priorities and advises leaders who make budgetary and staffing decisions on how to use limited resources.

FR04.	**Impose and actively enforce a false alarm fee**	
	Target outcome:	Improved efficiency and increased revenue
	Financial Impact:	$75,000
	Responsible party:	Administration, City Council, Fire Department

The original Recovery Plan required that New Castle establish a higher false fire alarm fee. Under the ordinance in place at that time, there was no charge for the first two responses to false alarms in a 30-day period. The third response generated a fine of $180. The City has not changed the ordinance since the original Plan was adopted in 2007.

By comparison, the City of Lancaster, Pennsylvania imposes fines under the following structure set forth in its local code:

- There is no charge for the first response to a false alarm
- The second response to a false alarm in a twelve month period results in a fine of $110
- The third response results in a fine of $210
- The fourth response results in a fine of $420
- Any additional response results in a fine of $530 each

Some communities have gone even further. In 2010, the City of Toronto imposed the most stringent fee structure in North America. Building owners are charged on the basis of actual cost to the fire department on an hourly basis plus fees, which results in a charge in excess of $1,000, even for the first false alarm. The Coordinator does not recommend New Castle levy fees at that level, but Toronto's example shows that other fire departments are focused on this issue.

As noted in the original Recovery Plan, false alarm fines are designed to deter additional false alarms so that the Department can concentrate on responding to real incidents. As previously noted, false alarms and false calls increased 30.9 percent from 2008 to 2011. The City shall modify its ordinance to deter future false alarms according to the Lancaster model cited above (sliding scale with a higher charge for additional false alarms in a 12-month period). The City's Administrative office may be able to help the Fire Department track false alarm incidents or handle billing and delinquent collections.

As recommended in the original Recovery Plan, New Castle shall also consider a fire alarm registration requirement. Pittsburgh has an annual fee of $50 for residential alarm systems and $100 for commercial fire alarm systems. Commercial entities pay more since their systems often generate more false alarms than residential units.

According to the Census Bureau, there were 2,184 firms located in New Castle as of 2007. To make a conservative estimate, if 500 of those firms have a commercial alarm system and the City collects a $100 registration fee from 400 of them (80 percent collection rate) every other year, the City would collect $20,000 per year. Similarly if the City has 50 false alarms a year that generate a $100 fine each, the City would collect another $5,000 per year.[14]

Financial Impact

	2013	2014	2015
Fire alarm registration fee	$20,000	$20,000	$20,000
False alarm fine	$5,000	$5,000	$5,000
Total	**$25,000**	**$25,000**	**$25,000**

[14] This is a simple projection that does not account for the sliding scale that the City should implement so that each response to a false alarm at the same location in a year costs more than the prior response. It also assumes that the City would not charge to respond to the first false alarm at each location in a 12-month period. In the absence of data on how many false alarms occur at the same location in a year, we have assumed approximately 25 percent of the 247 false alarms come from locations with more than one false alarm in a year.

FR05.	Confined space rescue fee	
	Target outcome:	Cost recovery
	Financial Impact:	$30,000
	Responsible party:	City Council, Administration and Fire Department

The Occupational Safety and Health Administration (OSHA) require certain businesses to have programs for confined space rescues. In some cases, private firms have their own equipment and personnel to perform confined space rescues and in other cases firms hire private contractors to provide these services. The NCFD provides this service to some area firms at no cost.

The NCFD should create a program that provides for cost sharing with private firms that benefit from these specialized rescue services. The City of Lynchburg, Virginia has a Partners in Emergency Response (PIER) program with a sliding scale fee schedule for firms that participate and utilize the fire department's technical rescue team to meet OSHA regulations. The scale, based on the number of confined spaces, ranges from $2,500 to $25,000 per year. In FY2012, Lynchburg estimates that it will generate $32,500 in revenue from outside sources for PIER.

While Lynchburg has approximately three times the number of residents as New Castle, it has just under two and a half times the number of firms, which calculates to approximately $10,000 per year in revenue.

Financial Impact

2013	2014	2015
$10,000	$10,000	$10,000

FR06.	Fire vehicle purchasing program	
	Target outcome:	Improved use of limited resources
	Financial Impact:	N/A
	Responsible party:	Business Administrator, Fire Department, Public Works

Initiative PW03 in the Public Works Chapter explains the Vehicle Purchasing Program in detail. The Fire Department is charged with assisting the Public Works Department in tracking the condition of its vehicles. The Fire Chief or the Chief's designee will also participate in vehicle replacement decisions as part of the City's new Capital Improvement Plan process. The Business Administrator will provide direction for the Department's efforts.

Police Department

Police Department

The New Castle Police Department (NCPD) provides police patrol, criminal investigation and crime prevention coverage to the City's 8.6 square miles. The City also has a service agreement with Taylor Township. The City provides patrol coverage in return for an annual payment from the Township.

The City's 2012 budget funds 36 full-time officers including the Police Chief; four part-time officers; two civilian employees and a part-time animal warden. All full-time officers except the Chief are represented by the Fraternal Order of Police, Lodge 21 (FOP). One of the two clerical staff is represented by the Laborers, Local No. 964. The other clerical staff, the part-time officers and the animal warden are not members of a collective bargaining unit.

Since the City and FOP negotiated a new collective bargaining agreement according to the original Recovery Plan in 2008, NCPD has had five primary ranks for full-time officers – Chief, Lieutenant, Sergeant, Corporal and Patrol officers. The chart below shows the position allocation according to the City's annual budgets since 2008. Setting the part-time officers aside, Department headcount has remained stable.

Police Department Budgeted Headcount[1]

	2008	2009	2010	2011	2012
Police Chief	1	1	1	1	1
Lieutenant	5	4	3	4	2
Sergeant	4	5	8	8	8
Corporal	0	3	2	2	2
Patrol officers	25	22	21	22	23
Part-time officers	0	1	3	3	4
Total	**35**	**36**	**38**	**40**	**40**

The Department has units for Patrol, Detective, Narcotics and Administrative functions. Patrol officers now work 12-hour shifts on one of four platoons (in 2007 the Department had three platoons working eight-hour shifts). There are four detectives, all of whom work during day shifts, and focus on the most serious (i.e. Part I) crimes.[2] The City works closely with the Lawrence County District Attorney's Office on narcotics cases. There is one officer assigned to traffic functions and one who works with the New Castle Area School District. The District reimburses the City for the cost of this School Resource Officer.

The Department operates out of the former Huntington Bank building at the corner of North and East streets. The Department moved its operations into this building from its inadequate space on the lower floors of City Hall (231 North Jefferson Street) in 2012. As noted in the original Recovery Plan, the former location had inadequate security, lacked space for detention and evidence storage and had faulty plumbing. Department management and union personnel cited the new work space as a significant contributor to improved officer morale. As described below, the new space will also

[1] These are the counts in the Council approved budget for each year.

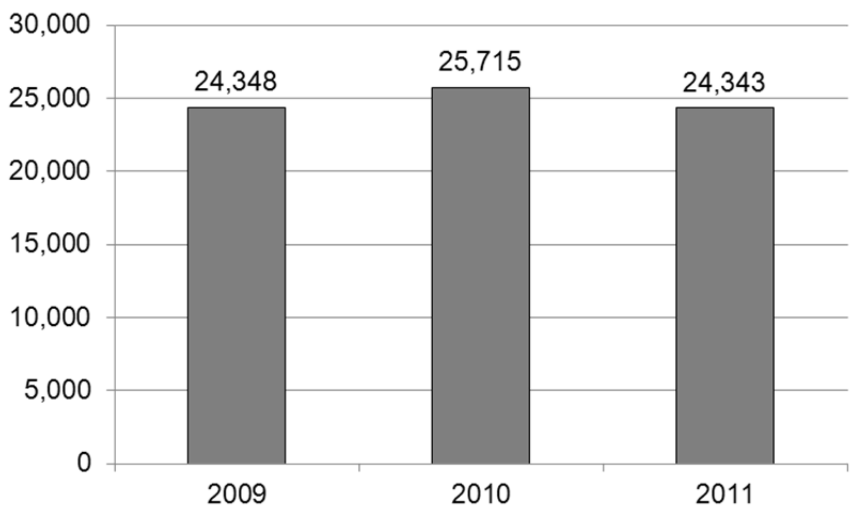
[2] According to the Federal Bureau of Investigation's classification, Part I crimes include murder and non-negligent manslaughter, forcible rape, robbery, aggravated assault, burglary, larceny-theft, motor vehicle theft, and arson.

enable the Department to generate more revenue and facilitate cooperation among Lawrence County law enforcement agencies.

Calls for service

The Department responds to calls that are routed to the City via the Lawrence County 911 Center, calls made directly to the police station, reports made in person to officers or incidents that officers spot during patrol. Officers are trained in first aid and cardiopulmonary resuscitation (CPR), though the City's Fire Department and private ambulance companies are usually the first responders to medical emergencies.[3] The chart below shows the Police Department's volume of calls for service received through the 911 Center. The total volume increased by 5.6 percent in 2010 and then dropped back to 2009 levels in 2011.

911 Calls for Service, 2009 – 2012



Over the past three and half years, officers have consistently spent one-third of their time responding to four types of incidents: traffic stops, requests to speak to an officer, automatic burglar alarms, and disturbances or fights.

Most Common Calls for Service

Incident	2009	2010	2011
Traffic Stops	2,827	3,017	2,570
Requests To Speak to an Officer	2,496	2,404	1,979
Automatic Burglar Alarm	1,518	1,671	1,496
Disturbance/Fight	1,430	1,462	1,400
Total - Top 4 Total Calls	8,271	8,554	7,445
Percent of All Calls	**33.97%**	**33.26%**	**30.58%**

Source: Lawrence County Department of Public Safety

[3] Please see the Fire Chapter for more information on emergency medical response in the City.

Crime

In 2010 the City had 1,459 reported offenses for Part I crimes, which generally have the greatest impact on life, health and property, and 1,274 reported offenses for Part II crimes.

The number of Part I crimes has generally increased since 2005. After Part I crimes dipped by 16.5 percent in 2006, they rose three of the next four years. Within Part I crimes, the increase in violent crimes has been higher than the increase in property crimes because of the rise in aggravated assaults. The City averaged 240.3 aggravated assaults per year from 2008-2010, 67.6 percent more than it averaged in 2005-2007 (186.7). The number of burglaries during these three-year periods also increased by 36.6 percent while rapes and robberies decreased by 23.1 percent and 18.0 percent respectively.

Part I Offenses Reported, 2005-2010[4]

	2005	2006	2007	2008	2009	2010	05-07 Ave	08-10 Ave	Change %
Murder	6	2	1	1	2	6	3.0	3.0	0.0%
Rape	18	8	13	12	9	9	13.0	10.0	-23.1%
Robbery	73	55	78	72	45	52	68.7	56.3	-18.0%
Aggravated Assault	118	94	94	145	165	203	102.0	171.0	67.6%
Violent subtotal	**215**	**159**	**186**	**230**	**221**	**270**	**186.7**	**240.3**	**28.8%**
Burglary	385	348	328	438	520	491	353.7	483.0	36.6%
Larceny	566	476	566	628	535	612	536.0	591.7	10.4%
Auto theft	58	45	46	46	38	59	49.7	47.7	-4.0%
Arson	19	10	21	20	10	27	16.7	19.0	14.0%
Property subtotal	**1,028**	**879**	**961**	**1,132**	**1,103**	**1,189**	**956.0**	**1,141.3**	**19.4%**
Part I Crime total	**1,243**	**1,038**	**1,147**	**1,362**	**1,324**	**1,459**	**1,142.7**	**1,381.7**	**20.9%**

Source: Pennsylvania Annual Uniform Crime Reports. The US Department of Justice provides the categorization for violent and property crimes.

The number of annual Part II crimes has increased but at a lower rate than Part I crimes. Narcotics related offenses have dropped by 24.6 when compared over three-year periods, but that is partly due to the unusually high number of offenses in 2005 (151). More recently narcotics offenses increased from 63 in 2008 to 109 in 2010. The number of simple assaults has declined over this period.

Part II Offenses Reported, 2005-2010

	2005	2006	2007	2008	2009	2010	05-07 Ave	08-10 Ave	Change %
Vandalism	298	405	387	395	316	344	363.3	351.7	-3.2%
Disorderly conduct	207	143	217	220	216	255	189.0	230.3	21.9%

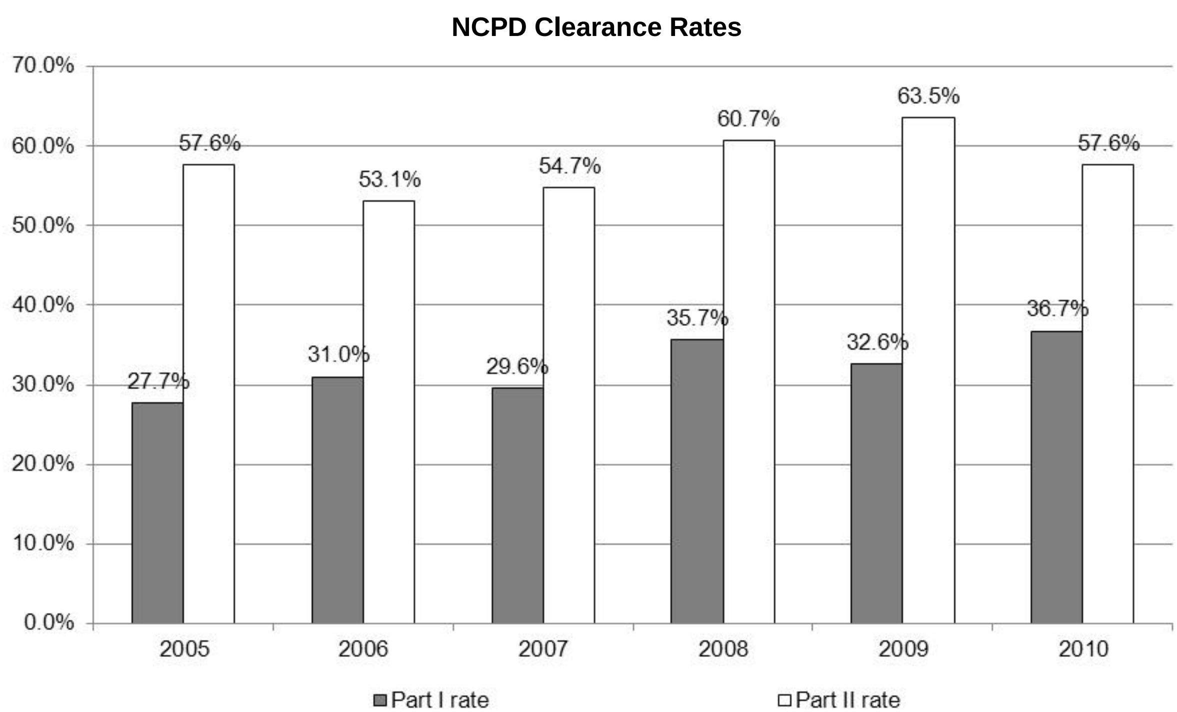
[4] The UCR annual report for 2011 was not available online as of July 2012.

	2005	2006	2007	2008	2009	2010	05-07 Ave	08-10 Ave	Change %
Simple assaults	152	133	120	129	86	94	135.0	103.0	-23.7%
Narcotics	151	99	100	63	92	109	116.7	88.0	-24.6%
Other	431	352	429	546	541	472	404.0	519.7	28.6%
Part II Crime total	**1,239**	**1,132**	**1,253**	**1,353**	**1,251**	**1,274**	**1,208.0**	**1,292.7**	**7.0%**

Source: Pennsylvania Annual Uniform Crime Reports.

In addition to the incidence of crime, the Pennsylvania Uniform Crime Reporting System also tracks the percentage of cases that are cleared by each police department. A police department can clear a case by making an arrest, establishing that there is no evidence to support a complaint or determining that exceptional circumstances prohibit an arrest (e.g. suspect is already incarcerated or deceased; witnesses are unable or unwilling to testify).

The Department's clearance rate for Part I crimes was 36.7 percent in 2010, higher than the Commonwealth average (30.3 percent). The clearance rate for Part II crimes was 57.6 percent, lower than the Commonwealth average (60.7 percent). The graph below shows the Department's clearance rates since 2005.



Source: Pennsylvania Annual Uniform Crime Reports.

Financial performance

Like most public safety departments throughout the country, NCPD's primary cost driver is employee compensation, which represents 95.2 percent of the Department's total budget in 2012. The City spent $2.9 million on employee compensation in 2011 once active and retired employee health insurance costs are included.[5] The City did not start budgeting employee health insurance at the department level until 2009 so those costs are shown separately in the chart below. Total personnel costs have dropped by 4.6 percent since 2007 due to reduced spending on overtime (down 47.7 percent) and worker's compensation (down 88.7 percent).

Historical Department Expenditures since 2007

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	% Change
Salaries and Wages	1,684,619	1,741,299	1,683,850	1,809,307	1,775,150	5.4%
Holiday and Sick Bonus	89,718	80,858	81,227	84,417	88,735	-1.1%
Overtime Crestview	N/A	N/A	71,250	71,373	69,144	N/A
Overtime	127,485	121,367	62,750	64,653	66,663	-47.7%
Workmen's Comp. Incentive	40,500	37,500	38,400	38,700	38,800	-4.2%
Court Hearings	66,121	64,726	33,451	37,895	36,173	-45.3%
FICA	N/A	N/A	31,700	35,985	34,808	N/A
Drug Task Force	0	35,773	40,479	47,390	31,233	N/A
Uniform Allowance	36,511	42,262	38,937	28,760	30,475	-16.5%
Workmen's Compensation Wages	144,325	56,896	16,273	17,930	16,273	-88.7%
Animal Warden	11,330	11,330	10,949	11,548	11,779	4.0%
Other	146,859	134,940	25,438	41,935	40,572	-72.4%
Personnel Subtotal	***2,347,469***	***2,326,951***	***2,134,704***	***2,289,894***	***2,239,805***	***-4.6%***
Gasoline	58,703	70,591	46,992	68,207	86,561	47.5%
Service Agreement	46	11,392	11,584	15,485	15,253	N/A
Training	860	5,404	2,643	6,048	5,007	482.2%
Other	20,382	16,478	58,641	46,607	14,519	-28.8%
Non-personnel subtotal	***100,373***	***120,342***	***178,501***	***182,954***	***135,859***	***35.4%***
Total	**2,447,841**	**2,447,293**	**2,313,205**	**2,472,847**	**2,375,664**	**-2.9%**

[5] Please see the Workforce Chapter for more information on employee compensation.

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	% Change
Hospitalization – Active	N/A	N/A	412,096	427,251	402,411	N/A
Hospitalization – Retired	N/A	N/A	237,408	216,249	211,774	N/A

The Department generates revenues from writing traffic tickets; providing extra patrol coverage focused on specific locations; and covering Taylor Township. This revenue has dropped from $355,000 in 2008 to $161,000 in the 2012 budget. The primary reasons for the drop are the expiration of large grants (i.e. Police on Patrol in 2010) and Crestview Gardens no longer contracting with the City for police coverage.[6] Payments from the Housing Authority also dropped because of a change in how additional police coverage is provided to the Authority's properties. Before 2011 the Authority scheduled the extra shifts through the City which paid police officers overtime for the work and retained a portion for its administrative and supply costs. In 2011 the Authority started scheduling the shifts directly with the FOP. The Authority pays the FOP members directly for the coverage and the FOP routes $4.00 per hour to the City to cover its administrative and supply costs.

Police Related Revenues

	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	2012 Budget
Crestview Garden detail	64,351	64,881	55,022	73,165	0
Traffic fines	48,622	59,161	51,349	48,692	45,000
NCASD School Resource Officer	33,227	47,031	35,328	41,766	38,000
Taylor Township Policing	0	0	18,750	31,250	25,000
Drug Task Force Grant	43,318	45,302	38,097	17,416	30,000
County Housing Authority	36,471	36,663	13,783	15,090	10,000
Police Department Fees	10,290	12,237	5,979	8,805	8,000
FOP Reimburse - Extra Turns	0	1,604	3,451	3,079	2,000
Other grants	119,005	105,557	77,400	22,929	3,000
Total	**355,285**	**372,436**	**299,159**	**262,192**	**161,000**

The Department assumed responsibility for collecting parking meter revenues in 2008, but that responsibility has moved to the Finance Department in 2012. The City gains some revenue from the seizure of funds or auctioning of property used for unlawful activities. Those revenues are tracked separate of the General Fund in a separate Police Forfeiture Fund that the City uses to make public safety equipment investments.

[6] At time of publication, Crestview Gardens was considering either renewing the arrangement with the City or contracting with the FOP.

Changes since 2007

A few months after the City adopted the original Recovery Plan in 2007, the City's collective bargaining agreement with the FOP expired. The City and FOP negotiated a new agreement according to the provisions of the Recovery Plan which made several changes in the Department's operations.

- The City established a part-time police officer position to supplement the full-time officers. The number of budgeted part-time officer slots has grown from one to four since 2007. The part-time officers work no more than 32 hours per week. According to the Police Chief, they are given a wide range of responsibilities similar to junior full-time officers. Union personnel agree that the part-time officers are helpful to increasing the Department's capacity.

- The new collective bargaining agreement eliminated the minimum manning provisions that previously required the City to keep five officers on duty on all shifts except Sunday daylight when the Department could drop to four officers. The Department may still have five officers on duty during a shift at the Police Chief's discretion. But eliminating the minimum manning provision and making other changes in leave allocation and scheduling helped the City cut its overtime costs in half since 2007.

- When City police officers provide patrol or security services to individual organizations outside of their scheduled City shifts, the officers occasionally use City resources such as uniforms or police cruisers. The FOP, which organizes the extra shifts, reimburses the City $4.00 for each hour the officer works ($5.00 if a City vehicle is used).

- The Department is in the process of establishing a central booking site at the new police station. With the assistance of grant monies, the Department purchased a LiveScan fingerprint system and a CPIN mug shot system, the equipment needed for central booking. There are numerous central booking sites throughout the Commonwealth; however, the New Castle Police Department will have the only central booking location in Lawrence County. The central booking project is a cooperative effort between the Pennsylvania Commission on Crime and Delinquency, the Pennsylvania State Police, the Pennsylvania Chiefs of Police Association, local law enforcement, sheriffs' departments, county district attorneys, magisterial district justices, Pennsylvania Department of Corrections, and county and local governments. The project integrates the technologies of LiveScan fingerprinting, automated fingerprint identification (AFIS), digital photography (CPIN), video conferencing, and computerized record management systems.

Initiatives

City officials, Police Department management and FOP union leaders all expressed their interest in increasing police staffing. Because of the City's stagnant tax base and the projected increases in the City's annual required contributions to the employee pension fund, it will be very difficult for the City to increase the sworn officer headcount over the next three years unless it also reduces the cost of each officer.

Under Act 133 of 2012, the Recovery Coordinator is empowered to allocate to each bargaining unit the amounts that the City can spend on compensation for employees in that bargaining unit. The Workforce Chapter has the allocations for the FOP members. Despite the significant fiscal challenges facing the City, those allocations do not assume a reduction in full-time police staffing nor do they assume that the level of cash compensation for current full-time police officers will be reduced from 2011 levels. The City and FOP have flexibility to negotiate changes to compensation so that additional full-time staff can be added, so long as total employee compensation does not exceed the Amended Recovery Plan's maximum annual allocations.

The Recovery Plan also seeks to build on the existing strong partnership between the City and the Lawrence County District Attorney. The Intergovernmental Chapter provides a general framework for exploring more cooperative opportunities so that there will be an even stronger regional response to regional problems. The City should also pursue opportunities to provide police coverage to other municipalities under intergovernmental agreements such as the one with Taylor Township.

PD01.	**Increase department revenue**	
	Target outcome:	Increased revenues; improved cost recovery
	Financial Impact:	$125,000
	Responsible party:	Administration; City Council; Police Chief

The 2012 budget has $70,000 in new costs associated with the new police station's utilities ($60,000) and supplies ($10,000). The NCPD's move from City Hall also resulted in the City budgeting $20,000 for separate security at City Hall since the police officers are located elsewhere. All of these costs are more than balanced by the benefit of having a much better facility for the City's police officers and other people who use the station. Still, the Department should use the improved facility to increase Department revenue and defray some of these additional costs. Department management suggested some of the following possibilities:

- *Impound lot:* The new station has parking spaces available to hold cars that are towed from City streets because of parking violations.[7] The City could charge a daily rate to hold the cars, just as a private impound lot would.

- *Burglar alarms:* Previously City ordinances authorized a $75 annual service fee for each connection to the City's burglary alarm system. The ordinance also empowered the Police Chief to charge a fee for repeated false alarms. Locations with more than three false alarms in a 60-day period were subject to mandatory fines of $25 to $100, depending on the frequency. The City repealed this ordinance in 1997.

  The original Recovery Plan required the City to establish a burglar alarm registration and false burglar alarm fee.[8] Similar to the false fire alarm fee discussed in the Fire Chapter, the burglar alarm fee can help the City recover the cost of responding to non-emergency situations, as alarm calls are among the top four reasons officers are summoned in New Castle. Several Pennsylvania cities also have a burglar alarm registration program that provides the foundation for tracking false alarms. The City has not taken action on this initiative to date.

- *Fingerprinting and background checks:* The original Recovery Plan required the City to establish a fee to collect and transmit fingerprints and conduct background searches.[9] NCPD management indicated that, by not charging for this service, the City encourages people outside New Castle to come to the station and receive these services at no charge. The demand for these services also pulls the Department's limited staffing resources away from other duties.

The City may also be able to lease some of the unused space at the new police facility to a suitable tenant that can meet the security and other operational guidelines necessary for working in a secure

[7] This may require an upfront investment to ensure there is an adequate fence and security camera where the cars are held.

[8] Please see initiative PD04 in the 2007 Recovery Plan.

[9] Please see initiative PD05 in the 2007 Recovery Plan.

facility. The City and Lawrence County have already had discussion about some possible tenant organizations.

Whether from these sources or others, the Police Chief shall recommend changes to the City's ordinances and operations that when fully implemented will generate at least $50,000 per year in revenue for the City. The Chief will make those recommendations as part of the 2013 budget process. The $50,000 revenue target is in addition to the police-related revenues already included in the 2012 budget. The City will need time to implement some of the changes so the $50,000 target is discounted by 50 percent in 2013.

Financial Impact

2013	2014	2015
$25,000	$50,000	$50,000

PD02.	**Police vehicle purchasing program**	
	Target outcome:	Improved use of limited resources
	Financial Impact:	N/A
	Responsible party:	Business Administrator, Police Department, Public Works

Initiative PW03 in the Public Works Chapter explains the Vehicle Purchasing Program in detail. The Police Department is charged with assisting the Public Works Department in tracking the condition of its vehicles. The Police Chief or the Chief's designee will also participate in vehicle replacement decisions as part of the City's new Capital Improvement Plan process. The Business Administrator will provide direction for the Department's efforts.

Public Works

Department of Public Works

The City's public works responsibilities are allocated across several units in the City's budget. There are separate budgeted units for facility maintenance, vehicle repair, streets and bridge maintenance, parks and recreation, refuse and recyclable collections. The individual units are:

- **Public Works Administration** which has the Department Director and Assistant Director. The City budgets for all the Department's gasoline expenditures in this unit ($130,000 in 2012).
- **Electrical maintenance** which has two full time electricians.
- **Municipal garage** where two employees maintain the City's vehicles including police and fire cars (not fire apparatuses).
- **Recreation administration** which maintains 36 public recreation fields and parks, storage garages, concessions stands and restrooms. The City budgets its non-personnel costs in a separate **Parks Maintenance** unit.
- **Public building** which has one custodian.
- **Refuse collection** which has seven employees to collect trash and recyclables and administer the blue bag program.
- **Sewer maintenance** which handles repairs for the storm sewer lines. The City sold its sanitary sewer lines to the New Castle Sanitation Authority in 2010.
- **Streets and bridges** which handles road maintenance, plowing, cleaning and related functions for 348 City streets, road and alleys. The Pennsylvania Department of Transportation contracts with the City for snow removal on State roads in New Castle.

The Department has 30 employees including two Day Laborers who assist with refuse collection but are not full-time employees. The City's staffing for individual units has varied since 2008 but the total headcount has been stable since 2010. The City shifted some staff from sewer maintenance to street maintenance after the sanitary sewer line sale in 2010. Over five years the City has eliminated two full-time refuse collection positions (one driver and the recycling coordinator) and one Day Laborer.

Public Works Budgeted Headcount[1]

	2008	2009	2010	2011	2012
Public Works Administration	3	4	5	5	4
Electrical Maintenance	2	2	2	2	2
Municipal Garage	2	2	2	2	2
Park Maintenance	0	0	0	0	0
Public Building	1	1	1	1	1

[1] These are the counts in the Council approved budget for each year. They include the part-time Day Laborers used for refuse collection.

	2008	2009	2010	2011	2012
Recreation Administration	2	3	3	3	3
Refuse Collection	10	7	8	7	7
Sewer Maintenance	5	4	4	3	1
Streets & Bridges	7	5	6	7	10
Total	**32**	**28**	**31**	**30**	**30**

The City contracts with a private firm for engineering services. The Assistant Director for Parks is the point of contact between Public Works and the Sylvan Heights Golf Course, but the course generally operates independently with a grounds keeper and a part-time superintendent.

The Department also hires about 10 part-time employees each year who perform primarily seasonal work such as grass cutting at the various City-owned parcels. Occasionally, the City uses part-time help to fill gaps in the daily parks and recreation operations when a full-time employee is out of work. Most full-time employees are members of the Laborer’s International Union of North America, and the Laborer’s District Council of Western Pennsylvania, Local Union No. 964. The Director, Assistant Director, refuse bag manager, golf course grounds keeper and part-time workers are not represented by an employee union.

Facilities and fleet

The City owns 81 facilities and the surrounding grounds that the Department maintains. The facilities listing includes 14 buildings, 10 concessions stands, 10 dug outs, nine storage garages and seven other facilities. During the summer, the Department spends significant resources on grass cutting and ground maintenance.

The Department maintains 161 vehicles, pieces of motorized equipment and trailers[2] including 49 used by Public Works. The average age of the Department’s 49 vehicles is 15 years.[3] Daily demand on the Department’s vehicles and equipment is high.

The vehicle inventory includes two refuse collection trucks. Both trucks are old and rusting, and one truck has been decommissioned. As of May 2012 the City was renting a truck for $6,000 per month. The Coordinator has encouraged the City to purchase at least one new truck and the City’s 2012 budget allocates money to do so.

2011 Vehicle Breakdown & Average Age

Item	Number	Average Age
Pick-Up Trucks	13	15
Large Trucks	15	15
Mowers/Tractors	19	14
Trailers	11	15
Other Equipment	21	19*
** Approximate*		

[2] Based on insurance data provided by the City.

[3] The listing of City owned vehicles and equipment only included the age of 75% of the total items inventoried

Financial performance

As with the other City Departments, the primary cost driver for public works is employee compensation, which represents 66.7 percent of the Department's total budget in 2012. The City spent $1.8 million on employee compensation in 2011 once employee health insurance costs are included.[4] The City did not start budgeting employee health insurance at the department level until 2009 so those costs are shown separately in the chart below. Total personnel costs other than health insurance have grown by 14.3 percent since 2007. Non-personnel costs have increased by 28.1 percent partially due to the increase in vehicle repair costs. The City's fleet is aging so the maintenance costs increased from $118,000 in 2007 to $209,000 in 2011.

Historical Department Expenditures Since 2007

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	% Change
Administration - Personnel subtotal	147,575	150,205	213,623	249,516	266,774	80.8%
Administration - Non-personnel subtotal	87,858	112,587	95,832	111,660	147,327	67.7%
PW Administration total	**235,433**	**262,792**	**309,455**	**361,176**	**414,101**	**75.9%**
Public Bldg. - Personnel subtotal	24,004	25,104	43,177	44,916	46,166	92.3%
Public Bldg. - Non-personnel subtotal	21,675	24,438	17,925	45,292	27,368	26.3%
Public Building total	**45,679**	**49,542**	**61,102**	**90,208**	**73,534**	**61.0%**
Refuse Collection - Personnel subtotal	319,825	295,931	259,109	258,248	253,966	-20.6%
Refuse Collection - Non-personnel subtotal	259,420	266,294	229,977	232,218	238,629	-8.0%
Refuse Collection total	**579,245**	**562,225**	**489,086**	**490,466**	**492,595**	**-15.0%**
Sewer Maintenance - Personnel subtotal	204,844	200,672	190,116	174,634	145,742	-28.9%
Sewer Maintenance - Non-personnel	5,038	1,641	5,347	9,004	8,758	73.8%
Sewer Maintenance total	**209,882**	**202,313**	**195,463**	**183,638**	**154,500**	**-26.4%**
Municipal Garage - Personnel subtotal	80,660	76,882	92,867	94,301	98,443	22.0%
Municipal Garage - Non-personnel subtotal	126,927	119,316	138,330	177,632	225,934	78.0%
Municipal Garage total	**207,587**	**196,198**	**231,197**	**271,933**	**324,377**	**56.3%**
Streets - Personnel subtotal	295,569	306,264	274,790	312,332	396,255	34.1%
Streets - Non-personnel subtotal	25,368	23,027	23,769	25,871	25,958	2.3%
Streets & Bridges total	**320,937**	**329,291**	**298,559**	**338,203**	**422,213**	**31.6%**
Electrical - Personnel subtotal	80,316	80,383	95,252	96,566	98,307	22.4%
Electrical - Non-personnel subtotal	8,249	14,960	6,508	45,997	11,981	45.2%
Electrical Maintenance total	**88,565**	**95,343**	**101,760**	**142,563**	**110,288**	**24.5%**
Parks & Rec. - Personnel subtotal	135,645	134,666	170,381	168,196	167,633	23.6%

[4] Please see the Workforce Chapter for more information on employee compensation.

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	% Change
Parks & Rec. Non-personnel subtotal	58,453	64,899	57,919	67,175	73,568	25.9%
Parks & Recreation total	**194,098**	**199,565**	**228,300**	**235,371**	**241,201**	**24.3%**
Personnel subtotal	1,288,438	1,270,107	1,339,315	1,398,709	1,473,286	14.3%
Non-personnel subtotal	592,988	627,162	575,607	714,849	759,523	28.1%
Department Total	**1,881,426**	**1,897,269**	**1,914,922**	**2,113,558**	**2,232,809**	**18.7%**
Hospitalization (health insurance)	N/A	N/A	332,124	333,612	350,427	N/A

The City sold its sanitary sewer lines to the New Castle Sanitation Authority in 2010. Aside from the financial benefits of the sale,[5] transferring the lines to the Authority relieved the City of on-going maintenance responsibilities. The Department still maintains the storm-water sewer system. Inlet maintenance is primarily driven by incident response. When a storm water inlet clogs and causes flooding or an inlet is damaged during a street cut, the City repairs the inlet. The City is using the remaining proceeds from a bond that it issued in 2004 to cover these expenses. After the City uses the rest of the bond proceeds, the General Fund will have to cover the storm sewer maintenance costs.

The City uses the Commonwealth's cooperative purchasing program (COSTARS) for supplies and requests public bids for all purchases that are at least $10,000. The Municipal Garage is responsible for purchasing supplies related to vehicle maintenance. Garage staff manually tracks the maintenance history for each vehicle in a logbook. Using a hand-written log makes it difficult to analyze maintenance trends, supply usage, and other aspects related to vehicle performance.

Initiatives

PW01	Review alternatives to replace the public works garage	
	Target outcome:	Address priority capital need; improve department operations
	Financial Impact:	TBD
	Responsible party:	Administration, Public Works

The original Recovery Plan cited significant structural deficiencies in the former police station at City Hall and directed the City to consider options to improve the work space, even with the City's financial limitations. The City was able to secure a former bank building and move operations to the new station earlier this year. The new Police Station enhances operations, improves employee morale and facilitates regional cooperation among law enforcement agencies.[6]

This Amended Recovery Plan targets the main public works garage at 1611 East Brook Road for similar action over the next three years. The sheet metal structure is in poor condition and needs significant renovations or replacement. Situated between two minor inclines, the building has flooding problems. It also lacks sufficient indoor office space and does not have the temperature control needed to house computer equipment.

[5] Please see the Debt Management Chapter for more information on the sale.

[6] Please see the Police Chapter for more on the new station.

The City has established a Capital Improvement Program (CIP) and budgeting process as required in the original Recovery Plan.[7] That process will guide the City in prioritizing and funding non-recurring improvements to the City's facilities, roads, bridges and vehicles, many of which are maintained by Public Works. Addressing the main garage's needs will benefit other capital projects. The Department needs sufficient work space to support its maintenance work throughout the City and it is preferable to house any equipment purchased through the CIP away from the elements to extend their useful life.

The City shall review the need to repair or replace the public works garage as part of that process in 2012. One option is to relocate the garage to one of the vacant buildings in the City, just as was done with the police station. As part of the CIP process, the Public Works Director shall provide recommendations for moving operations to another facility and a list of potential facilities.

PW02	**Index blue bag fees to maintain cost recovery**	
	Target outcome:	Maintain cost recovery
	Financial Impact:	TBD
	Responsible party:	Business Administrator; Public Works Director

The City's "pay as you throw" refuse collection system intends for the people who use City garbage collection to pay the full cost of that service. The revenue from blue bag sales should cover the full cost of trash collection including employee fringe benefits, vehicle purchases to sustain the program and administrative overhead. The Coordinator presented analysis to the City in 2011 that showed blue bag revenues covered the full program costs in 2010 and all program costs except overhead in 2009.

The Amended Recovery Plan's baseline projection is that City blue bag revenue will remain constant at $860,000 per year based on the assumption that the City would not increase blue bag fees through 2015. In that case the blue bag revenue would cover the full projected costs of the refuse collection program and the City would not have to use its limited tax revenues to pay for refuse collection.

However, those projections cannot fully account for volatility in the cost of fuel, employee health insurance and landfill fees. Given the City's need to use its limited tax revenues for other functions, the Business Administrator shall review whether the blue bag fee revenues are covering the full cost of refuse collection as part of the annual budget process. If the Business Administrator determines that the blue bag revenue is not sufficient to cover the full costs, the Business Administrator shall include a blue bag fee increase or other operational changes to refuse collection in the annual budget to bring the projected revenues and expenditures into balance. The Coordinator will assist the Business Administrator in performing this analysis during the budget process.

[7] Please see initiative AD24 in the 2007 Plan. The ordinance had not passed at the time of publication.

PW03	Establish a vehicle replacement program	
	Target outcome:	Improved management of limited resources
	Financial Impact:	N/A
	Responsible party:	Business Administrator; Public Works Director

Public Works is responsible for maintaining all City owned vehicles. Many of the City's vehicles and other motorized equipment are old and in need of replacement. The Public Works Department has a logbook that tracks major repairs and routine maintenance completed on each vehicle, but the manual nature of the log makes it difficult to analyze the garage's work and monitor trends.

A Vehicle Purchasing Program is the annual identification of vehicles that need to be replaced as determined by qualitative and quantitative analysis. The CFO and the Public Works Department shall establish a vehicle purchasing program by the second quarter of 2013. On an annual basis, the City shall update the vehicle inventory and select the vehicles for inclusion in the City's capital budget and capital improvement program (CIP). The Police and Fire Chiefs or their designees shall participate in this process.

To guide these decisions, the City shall convert the manual maintenance tracking system to an electronic database that will enable analysis and facilitate the decision making process. The conversion to digital form can be achieved by adding columns to the City's current vehicle database used for insurance purposes. The database should include information on primary use, mileage, purchase date, and any major maintenance issues.

Sample Vehicle Tracking Sheet

Vehicle	Year	VIN #	Department	Primary Use	Mileage	Purchase Date	Maintenance Issues
Chevrolet Van	1988	1GCEG25H4J7150116	Code Enforcement				
Ford Crown Victoria	1994	2FALP71W7RX132407	Code Enforcement				
Ford Taurus	2001	1FAFP53U61A179521	Community Development				
Ford Command Squad (Glick)	2008	1FDSX21548EB25037	Fire Department				
GMC Pick-up Truck	1993	1GTEC1427PE562132	Golf Course				

In the future, the City may consider purchasing a more advanced software package for fleet maintenance. There are software packages specifically designed to collect and provide information such as total cost of repairs, types of repairs, average miles per gallon and other data that would allow the Department to see how much it is spending on a per vehicle basis.

PW04	Establish a maintenance supply inventory program	
	Target outcome:	Improved management of limited resources
	Financial impact:	N/A
	Responsible party:	Public Works

The City has improved its procurement process since 2007 to ensure that expenditures are authorized and covered by the budget allocation. City leaders, including the Public Works Director, have made difficult decisions to limit or delay the purchase of operational supplies to help reverse the trend of annual deficits. The City also takes advantage of the Commonwealth's

COSTARS program and issues bids for bulk purchase items at a lower cost than the City could secure by bidding on its own.

The next step in controlling expenditures is to improve the inventory management of supplies purchased and identify areas of potential cost savings. The Department does not have an inventory tracking system for the supplies it purchases to maintain vehicles, facilities and properties. Although all purchasing requests funnel through the Business Administrator, she does not have the time to monitor and study these costs in order to identify potential savings.

Similar to initiative PW03, an inventory program can be a basic excel sheet that lists the Department's largest expenditures, the current inventory in stock by count or weight, the primary supplier, means of purchasing, the last purchase date, quantity ordered, etc. A basic electronic inventory system will allow the Department to improve its supplies inventory management, identify potential cost savings, and expand the City's control over operational expenditures. A more advanced inventory-tracking program can be an off-the-shelf software purchase.

Sample Inventory Tracking Sheet

Item	Supplier	Quantity In Stock	Purchase Date	Quantity Ordered	Order Date	Cost Per Item
Nuts & Bolts						
Vehicle Brakes						
Building Paint						
Welding Materials						

The goal of this initiative is for the Department to setup a program that tracks spending, highlights opportunities for consolidated purchasing, and provides the Business Administrator with supplies cost analysis on a quarterly or yearly basis.

PW05	**Commission a study of the parks and playground system**	
	Target outcome:	Improved management of limited resources
	Financial Impact:	($10,000)
	Responsible party:	Public Works

According to the City Zoning Officer and Planner, there has not been a study of the City's park system other than Sylvan Heights and Cascade Park since the late 1980s. The City has 34 other facilities within its 8.6 square miles, including several small parks scattered throughout the City. The daily and per park costs of maintenance is unknown to the Department, if all parks were consistently maintained. During the discussions related to the Capital Improvement Program in summer 2011, Department personnel commented that many of the 34 parks receive very little maintenance from the City.

A number of counties and cities throughout the state have conducted open space studies and sought out partnerships with neighborhood organizations for the maintenance of neighborhood parks. The Department of Conservation and Natural Resources (DCNR) Keystone Recreation, Park and Conversation Fund provides matching grants to municipalities seeking to study their park systems.[8] For the City to continue to control their costs and provide sufficient services, Public Works needs to understand whether residents want 34 parks, the per-park costs, and how they can collaborate with neighborhood groups to provide sufficient park services. The City shall commission a study of the public park system in conjunction with the City Planner.

[8] http://www.dcnr.state.pa.us/legal/majorlaws.aspx

The estimated cost to the City is $10,000 which could be covered by the City's annual Community Development Block Grant allocation.

Economic & Community Development

Economic and Community Development

One of the largest challenges facing New Castle's leaders is that the local economy is not growing enough to support the rising cost of local government. The City's two largest revenues are the real estate tax and the earned income tax. The real estate tax is based on the taxable assessed value of land and buildings in the City, which has been declining since 2007. Earned income tax revenue collected from residents has also been stagnant once rates are held constant.

Meanwhile the cost of providing public safety, public works and other basic functions of local government increases. Some increases are immediate and large, such as the City's annual required contribution to the employee pension fund doubling between 2012 and 2015. Other increases are slower but still significant, such as those associated with employee wage increases.

There are strategies the City can use to increase revenue without increasing taxes and reducing expenses without cutting services. But the fundamental trend of flat revenues and rising expenses eventually leads to the difficult decision whether to raise taxes and ask more of the residents who are already paying the highest rates in Lawrence County or cut the services that those residents are paying for.

Looking beyond City government, the stagnant economy has repercussions for the people and businesses that make up New Castle. Consider the following trends:

- Core segments of the City's labor force have been lost over the past decade. Between 2000 and 2010, the City's population decreased by 11.5 percent with significant losses in the segment of the population that would normally buy houses, start businesses and raise families in New Castle.

- Employment growth has been limited and derived primarily from the non-profit based sectors of health and education. While those sectors can be stable sources of employment, the primary employers in that sector generally do not pay real estate taxes. As those sectors grow and gain land, they consume more of the City's taxable resources.

- Demand for rental properties jumped over the last decade as measured by the increase in median monthly rental rates from $365 to $489 (34 percent). But the number of vacant buildings in the City grew by 56 percent over that period.

City government will not drive New Castle's economic recovery, but it can create positive conditions for growth to facilitate revitalization. That revitalization is necessary for the City to exit Act 47 oversight.

This chapter describes the parts of City government with duties directly connected to community and economic development including code enforcement, zoning and planning and health inspections.[1] The Coordinator recommends that the City merge these departments into a new Department of Community and Economic Development (DCED). A consolidation of these operations into DCED will give the Department more capacity, more resources, and allow for a formal and unified execution of the various components of economic and community revitalization.

This chapter compares the City's economy to those of three other Pennsylvania cities to provide a sense for how New Castle compares to other parts of the Commonwealth. These are not the

[1] The City's parking system, which is also related to economic development, is addressed in the Administration Chapter.

only points for comparing New Castle, but they provide useful context for understanding the challenges facing New Castle.

The chapter concludes with initiatives for overhauling how the City handles its responsibilities related to community and economic development. The Amended Recovery Plan's approach aims to help the City organize and strategize for growth. On the economic end, this means the initiatives focus on the process, placement and support for small business cultivation. These non-financial aspects of business incubation can sharpen the City's tools for economic revitalization. On the community end, the initiatives focus on mitigating blight, vacant and abandoned properties, improving housing stock and code enforcement in targeted areas to develop strong anchor neighborhoods in the City[2]. The recommended strategy is not a "home run" approach to economic or community development that hinges on landing a major new employer and hoping that employer has enough success to sustain itself and lift the City's economy. The Plan's approach instead focuses on fostering organic growth, preparing for new investments in housing and businesses and positioning City government as an incubator of businesses and communities.

City capacity

The 2012 budget does not list a Department of Community and Economic Development. The City has a Community and Economic Development Director position funded under Administration. Given that the "department" is just one person, it has very limited capacity and opportunity to shape and execute a comprehensive and articulable strategy for redevelopment. The City previously had two other employees assigned to Community and Economic Development whose positions were budgeted outside the General Fund and supported by federal Community Development Block Grant (CDBG). They were laid off in 2011 when the federal grants that funded their positions were cut. The table tracks the headcount for full-time employees related to community and economic development functions.

Headcount related to Economic and Community Development[3]

	2008	2009	2010	2011	2012
Director (Budgeted in Admin.)	0	0	0	1	1
Code Enforcement	6	7	8	7	7
Health Department	0	0	0	1	1
Planning & Zoning	1	1	1	1	1
Community Development (Outside General Fund)	3	2	2	2	0
Total	**10**	**10**	**11**	**12**	**10**

Since 2010, the Director has focused on applying for grants. Over the past two years, she applied for 33 grants and at least 10 were approved. The majority of the grants provided funding

[2] Anchor neighborhoods are the residential neighborhoods that can be promoted as prime areas for middle class families.

[3] These are the counts in the Council approved budget for each year. This table does not include the weatherization function which had five positions outside the General Fund in 2010 until the City shifted the function to a Countywide non-profit organization.

for police, street and traffic lights, energy rebates, and a seasonal intern. Other grants for walking trails, building demolition, park improvements, and historic preservation were denied.

By virtue of its Act 47 status, New Castle receives priority consideration for grant applications to the Commonwealth. However, when the City applied to the Pennsylvania Department of Community and Economic Development (DCED) – the same agency that oversees Act 47 –for demolition funding from the Keystone Community Fund, the City's application was rejected because it did not articulate a strategy for demolition other than the public safety risk. Demolition and activities handled by the City's Code Enforcement Department are central to the City's work in this area.

Code Enforcement

The Code Enforcement Department is responsible for administering the City's property maintenance code, which is a codification of the International Property Maintenance Code (IPMC).[4] The IPMC includes internal and external maintenance of residential and commercial properties. The City outsources building plan review for compliance with the Uniform Construction Code (UCC), and a third party conducts on-site building inspections.

The City's Code Enforcement Department is comprised of seven employees, which includes four code officers, two clerical staff and a supervisor. The supervisor is in charge of daily operations and reports to the City's Business Administrator.

The table below shows the Department's historical expenditures since 2007. As with the other units of City government, most of the expenditures are related to employee compensation. The City spent $245,000 (or 66.0 percent of total) on employee compensation in 2011 once employee health insurance costs are included.[5] The City did not start budgeting employee health insurance at the department level until 2009 so those costs are shown separately in the chart below.

Historical Expenditures Since 2007

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	Change %
Salaries & Wages	251,726	240,264	240,844	264,723	247,579	-1.6%
Other	8,881	8,729	37,413	47,376	43,168	386.1%
Personnel subtotal	***260,607***	***248,993***	***278,256***	***312,099***	***290,747***	***11.6%***
Code System Fees	60,434	64,310	0	0	0	N/A
PCC Fees	0	0	36,443	28,755	99,007	N/A
Demolition	27,420	50,000	41,567	32,000	55,462	102.3%
Other	11,792	13,811	14,902	14,977	23,203	96.8%
Non-personnel subtotal	***99,646***	***128,121***	***92,912***	***75,732***	***177,672***	***78.3%***
TOTAL	**360,253**	**377,114**	**371,168**	**387,831**	**468,420**	**30.0%**

[4] The City Code, Part 17 lists the BOCA-Basic Building Code of 1984; The BOCA and IPMC have since been combined into the International Code Council –ICC, so Code Enforcement is enforcing the 2003 version of the IPMC.

[5] Please see the Workforce Chapter for more information on employee compensation.

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimated	Change %
Hospitalization	N/A	N/A	34,723	48,511	54,059	N/A

The City's non-personnel costs rose by 78.3 percent since 2007 because of increased fees and higher spending on demolition. As the Department began to target the rising number of vacant properties in the City, related expenses for title searches, boarding vacant homes and property maintenance also increased.

Building demolition

The Code Enforcement Department administers the City's demolition program. Expenditures for the demolition of vacant and blighted properties doubled over the past five years. On average, it costs approximately three thousand dollars to demolish a single family home or similarly sized commercial structure in New Castle. Given a budget of $50,000, that equates to about sixteen year. New Castle has over 1,500 vacant structures[6] and likely a significant percentage of those structures may need to be demolished.

The federal CDBG program provides funding for demolitions and is supplemented by other grants. Vacant and abandoned structures exist in almost every neighborhood throughout the City. The City allocated $36,000 of its 2012 CDBG allocation to demolition and another $100,000 for code related salaries. The total CDBG allocation for 2012 was $300,000. The Amended Recovery Plan projects CDBG funding will remain level through 2015, though it has been declining since 2008.

The City lacks an articulable strategy for demolition beyond concerns over public safety risk. A more thorough analysis of the vacant building inventory is needed if the City is to get ahead of the problem because, under the current trend, the number of properties that may require demolition is far outpacing the available funds. Consider the table below, which shows the rate of increase in vacant properties from 2000 to 2010 and uses that data for a simple projection of the number of housing units turning vacant per year over the next 10 years.

Rate of Housing Units Turning Vacant based on 2000 – 2010 Data

Statistic	
Number of Housing Units – 2000	11,709
Number of Vacant Housing Units – 2000	982
Percent of Housing Units Vacant – 2000	8.4%
Number of Housing Units – 2010	11,304
Number of Vacant Housing Units – 2010	1,539
Percent of Housing Units Vacant – 2010	13.6%
Percent Increase from 2000 to 2010 in Vacant Units	5.2%
Annual Increase in Vacant Structures (AIVS) by percent from 2000 to 2010	0.5%

[6] The definitions of vacant, abandoned and blighted properties are based on the IPMC.

Statistic	
Number of Housing Units Turned Vacant Annually - Based on AIVS	57
Projected Number of Vacant Housing Units by 2020 ***Net of the demolition rate of 16 houses per year over 10 years – 160 houses***	**1,949**

The projected annual growth in vacant housing units based on prior decade data is 57 vacancies per year. Under the current demolition plan, the City demolishes approximately 16 structures a year or 160 in a ten-year period. The rate of conversion to vacancy is far outpacing the rate of demolition. Accordingly, by 2020 the City would have over 1,900 vacant housing units. The current practice of scattered demolitions throughout the City will have a minimal impact on each neighborhood. Therefore, a new strategy may be required and new resources need to be dedicated to the problem of vacant housing.

Please note that not all vacant units need to be demolished. However, given that over 80 percent of City's housing stock is over 50 years old, it is likely that a high percentage of the vacant properties will qualify for demolition if the owner or the City does not maintain the property.

Prior to vacancy a property may be abandoned or become blighted, which raises the demand for code enforcement. The City does not have an articulable strategy for addressing the City's housing issues proactively. The Department's work is largely driven by citizen complaints and reacting to those complaints.

Department operations

Due to the City's paper-based operation, there is a limited amount of any data available to benchmark the City's operations relative to other governments or external standards. The manual operation inhibits an accurate tracking of the Department's total number of inspections, re-inspections, properties achieving compliance, total fines levied, fines paid or an identification of high problem areas as defined by data. The City could not provide electronic data on its daily operations.

Other than a citation for a violation that is enforced in the Magisterial Court, the property maintenance inspectors do not have the other tools permitted by the Third Class City Code that other larger cities use to foster compliance. The tools include a tiered schedule of warnings and fines that promote the education of property owners on the importance of property maintenance and small monetary penalties for failures to comply. The powers granted to property maintenance inspectors under the IPMC may not be tailored sufficiently to meet the demands of the changing housing market.

In addition, Code Enforcement does not operate under a broader scheme for community redevelopment. It functions as an independent, complaint-driven entity. The code enforcement foreman has a strong knowledge of the City's neighborhoods including a qualitative understanding of the most frequent violations, and the locations in the City that have the highest concentration of blighted or abandoned properties. However, the daily distribution of personnel and resources for enforcement, demolition or housing rehabilitation operations are reactive, scattered throughout the City and are not completed in concert with a strategy for stabilizing or rehabilitating neighborhoods.

Recently, Code Enforcement purchased new desktop computers and software as well as hand held mobile devices. The Department plans to use the mobile devices in each of the five vehicles used for property maintenance inspections. Much of the City's property information data is stored on paper, so an investment of some time and resources is needed to upload information to the new system. Once the Department uploads the data, it will be able to track its performance, benchmarks its operations, and set goals. In addition, the new information technology will allow the inspectors to receive information about a property while conducting an inspection or a sweep of a neighborhood, to enter information on a completed inspection, and to schedule inspection appointments while in the field. The new operation will be a vast change from the current manual process and improve efficiency.

Planning and Zoning

The Planning and Zoning Department administers zoning, planning and subdivision/land development regulations for the City. The Department consists of one person, the City Planner. Under the City code, the Department's duties include review of applications for zoning certificates, building permits and review of all structures that have applied for certification, review of all plans for land development, conditional use, and zoning map amendments. The Planning Commission consists of five members appointed by the Mayor that meet on a monthly basis. The Zoning Hearing Board consists of five members appointed by City Council that meet as needed.

The table below shows the City's historical expenditures on planning and zoning. The City did not start budgeting employee health insurance at the department level until 2009 so the costs are shown separately. The largest expenditure other than personnel is special litigation related to zoning applications, followed by advertising expenses as required by the Municipalities Planning Code and local ordinances. In 2010, the City completed an update to the Zoning Code, which was conducted by outside counsel and budgeted within the Solicitor's Office.[7]

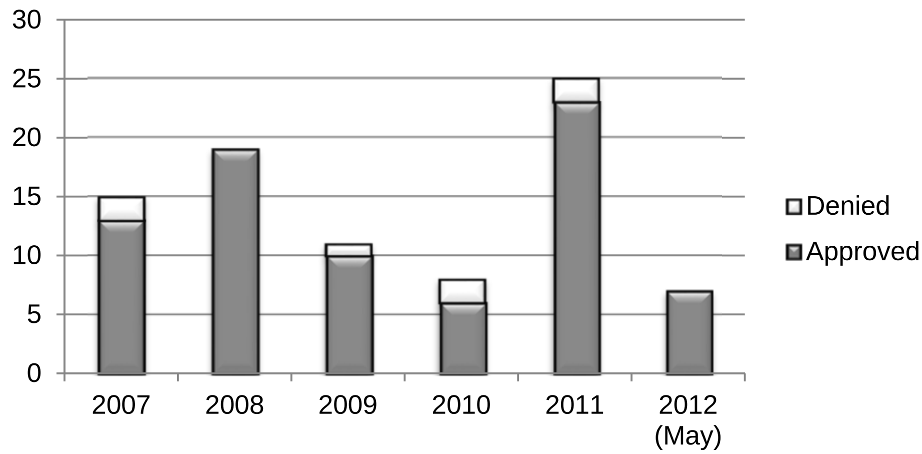
Historical Expenditures Since 2007

Description	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Estimates	Change %
Salaries & Wages	39,248	39,270	39,270	40,033	40,821	4.0%
Other	N/A	N/A	5,481	5,145	5,999	N/A
Personnel subtotal	***36,248***	***39,270***	***44,751***	***45,178***	***46,820***	***19.2%***
Special Litigation	15,180	27,881	21,090	18,267	12,000	-20.9%
Advertising	2,891	3,165	2,897	1,196	3,524	21.9%
Stenographic Service	11,097	609	528	520	1,688	-84.8%
Other	585	131	103	761	167	-71.4%
Non-personnel subtotal	***29,753***	***31,786***	***24,618***	***20,744***	***17,379***	***-41.7%***
TOTAL	**69,002**	**71,056**	**69,369**	**65,922**	**64,199**	**-7.0%**
Hospitalization	N/A	N/A	14,713	14,889	16,539	N/A

The Department processes few applications for developments, expansions, or variances on an annual basis. From 2007 – 2010, the City averaged about 14 applications per year. The workflow is inconsistent because it is driven by various economic conditions and the residential and commercial demand for rehabilitating, developing and expanding structures and parcels. In 2012, the Department reviewed the expansion plans for Jameson Hospital, which is the largest proposed project the City Planner reviewed in the last five years.

[7] See the Administration Chapter for more information on the City Solicitor's Office.

Zoning Applications Review Since 2007



The 2003 Comprehensive Plan is the guiding document for the Department's review of proposed developments and structural expansions. It was drafted in 2003 and is nearing its review date[8]. Given the changes in population, housing market, housing stock, and economy over the between 2003 and 2012, the City should update the plan. In addition, the City's subdivision and land development ordinance (SALDO) has not been amended in over 20 years and may need to be updated.[9]

Zoning and planning are fundamental components of community and economic redevelopment. The City's comprehensive plan should be a guiding document in the City's strategy for growth that aligns code enforcement, demolition, housing rehabilitation, economic and community redevelopment. An action plan for economic and community revitalization must incorporate input from Zoning and Planning. Therefore, that operation should be integrated into the new Department of Community and Economic Development.

Health

The Health Department is in charge of inspections and enforcement of the Pennsylvania Health Code. It is staffed by one part-time Health Officer who is compensated based upon the number of inspections conducted and certificates issued. Under Pennsylvania law, the Officer must pass a state civil service exam and be certified by the Pennsylvania Department of Agriculture. The Officer focuses on code enforcement with the restaurants and businesses serving or selling food in New Castle. Occasionally, the Officer assists in reviewing developments plans as they relate to food service and assists the Property Maintenance Code Enforcement inspectors with health-related housing issues. The Officer works in conjunction with the local Board of Health. The Board has five members whom the Mayor appoints. The graph below shows the Department's activity in 2011.

[8] See, The Municipalities Planning Code Section 301; See also, 53 P.S. Section 10301(c).

[9] See, Codified Ordinances of New Castle, Art. 1313.

2011 Health Officer Inspection Breakdown

Despite its size, the Health Department operates independently under the requirements of the Third Class City Code.[10] The sole employee conducts inspections and completes all administrative activities, which include reporting to Pennsylvania Department of Health. Since 2010, the current Health Officer has been actively enforcing the Pennsylvania Health code. Between 2007 and 2010 the Department's expenditures were included in the Code Enforcement budget, so they are not shown here.

According to the 2011 report, the City has 190 food service establishments with 135 full-time and 55 seasonal or temporary establishments. In 2011, three restaurants closed their operation in New Castle due to a lack of customers. The Health Officer reports that a majority of the City's eateries are in compliance with the health code. There are only a few food establishments that the Health Department considers "repeat offenders."

In addition, the Health Officer reports that he receives two or three calls each month from people interested in opening an eatery in the City. The callers have told the Officer that they do not know whom else in the City to contact about possible locations, the process for permitting, licensing, inspection, taxation and financial support programs. The Officer usually directs the calls to the Business Administrator, a City Council person or the Director of Community and Economic Development. This issue highlights the need for a Small Business Assistance Program as articulated in initiative CE04.

New Castle in a comparative context

To help evaluate the strengths and weaknesses of New Castle's economy, the Coordinator reviewed publicly available data provided by the federal government on New Castle and three other Pennsylvania cities – Johnstown, McKeesport, Hazleton and Lebanon. Johnstown is under Act 47 oversight.[11] The other three cities are not subject to State oversight, but their economies are similar to New Castle's. They are driven by education and health services, followed by small manufacturing sectors, and retail trade.

[10] See, Third Class City Code Article 23

[11] Eckert Seamans Cherin and Mellot, which is the co-Recovery Coordinator for New Castle, is also Johnstown's Coordinator.

New Castle Economic Statistics & Comparable Cities

Demographic	New Castle 2010	McKeesport 2010	Johnstown 2010	Hazleton 2010	Lebanon 2010	Pennsylvania 2010
Population	23,273	19,731	20,978	25,340	25,477	12,702,379
Per Capita Income	$16,553	$15,857	$16,074	$18,350	$17,496	$27,004
Median Household Income	$28,838	$26,756	$24,449	$32,950	$34,134	$50,289
Percent Increase from 2000 - HHI	12.66%	12.82%	18.71%	17.33%	25.22%	25.39%
Civilian Labor Force	10,108	8,274	9,214	11,632	12,795	6,466,192
Percent of Population in Labor Force (LF)	43.43%	41.93%	43.92%	45.90%	50.22%	50.91%
Manufacturing	1,527	824	792	2,610	2,142	758,329
Percent of LF in Manufacturing	15.11%	9.96%	8.60%	22.44%	16.74%	11.73%
Retail trade	1,321	766	1352	1462	1090	696,523
Percent of LF in Retail trade	13.07%	9.26%	14.67%	12.57%	8.52%	10.77%
Educational services, and health care and social assistance	2,246	2,231	2,006	1,882	2,525	1505726
Percent of LF in Education	22.22%	26.96%	21.77%	16.18%	19.73%	23.29%
Arts, entertainment, and recreation, and accommodation and food services	707	663	676	713	1,533	468,351
Percent of LF in the Arts,	6.99%	8.01%	7.34%	6.13%	11.98%	7.24%
Professional, scientific, and management, and administrative and waste management services	659	600	933	658	824	565,861
Percent of LF in Professional	6.52%	7.25%	10.13%	5.66%	6.44%	8.75%
Educational Achievement						
Population 25 years & over	15,975	13,456	15,025	16,746	15,950	8,604,107
Less than 9th grade	949	447	934	1,840	1,354	337,073
9th to 12th grade, no diploma	2,267	1,474	1,528	1,907	2,551	703,766
No HS Diploma	3,216	1,921	2,462	3,747	3,905	1,040,839
Percent No HS Diploma	20.13%	14.28%	16.39%	22.38%	24.48%	12.10%
High school graduate (includes equivalency)	7,437	6,586	6,984	7,641	7,433	3,219,749
Percent HS Diploma	46.55%	48.94%	46.48%	45.63%	46.60%	37.42%
Some college, no degree	2,274	2,699	2,368	2,466	1,907	1,418,751
Percent HS Diploma + Some College	14.23%	20.06%	15.76%	14.73%	11.96%	16.49%
Associate's degree	1,259	1,210	1,270	981	1,303	629,749
Bachelor's degree	1,310	643	1,442	1,371	916	1,415,386
Total Associate's +	2,569	1,853	2,712	2,352	2,219	2,045,135
Percent w/ Associates Degree or more	16.08%	13.77%	18.05%	14.05%	13.91%	23.77%
Graduate or professional degree	479	397	499	540	486	879,633

Source: U.S. Census Bureau

In this group of five cities, New Castle's economy is not in the worst condition, but it is also far from the best. New Castle falls between McKeesport and Hazleton in most economic statistics including industry growth/decline, basic educational achievement and gains/losses of core segments in the labor force between 2000 and 2010.

In the aggregate, more than half of New Castle's labor force works in education, health care or social assistance (22.2 percent); Manufacturing (15.1 percent) or retail (13 percent). These numbers mirror the City's 2000 statistics, with the loss of 100 manufacturing jobs and the gain of about 200 jobs in education services from 2000-2010.

However, New Castle has the lowest growth in median household income (HHI) over this period (12.6 percent). During the same period, median household income Statewide grew by 25.4 percent. Johnstown, which is also in Act 47 oversight, saw its HHI level grow by 18.7 percent during this period.

Looking at the number of jobs, the comparable cities have experienced more economic growth than New Castle during the last decade. Johnstown experienced an uptick of about 200 jobs in retail trade that was countered by minor losses in manufacturing and educational services. Hazleton experienced significant growth in manufacturing with an increase of 500 jobs and another 100 jobs in retail trade, which are partly balanced by a loss of about 100 jobs in educational services. Meanwhile New Castle has had negligible job growth.

Educational achievement is one of many factors that determine the success of a local economy, though this does not mean that success is dependent on having a high number of college graduates. The growth sectors of the national economy include trades tied to the construction industry, such as carpentry, electricians and heating and cooling technicians, and information technology and advanced manufacturing.[12] The skills required for these jobs can be acquired in a two-year college or trade school. Nonetheless, education and training beyond a high school diploma is a necessity.

From 2000 to 2010, the five comparable cities experienced the same minimal changes in educational achievement from high school through all forms of post-secondary education. The level of educational achievement for New Castle residents falls in the middle among the comparable cites. In 2000, 22.5 percent of residents 25 years and older did not have at least a high school diploma, which is higher than the state average of 18.1 percent, but lower than the rates in Johnstown and Hazleton.

Taking a closer look at the labor force statistics from 2000 to 2010, New Castle still falls in the middle of the pack among the comparable cities. The City of New Castle experienced an 8.3 percent decline in its total labor force. There was a drop among 20 to 59 year olds, particularly in the 35-44 age group where the drop was nearly 25 percent. That age group represents the core labor force and should be the keystone of homeowners and small business owners in neighborhoods throughout the City. The other two Western Pennsylvania cities (McKeesport and Johnstown) had similar trends.

2010 Labor Force Breakdown – New Castle and Comparable Cities

Demographic	New Castle	McKeesport	Johnstown	Hazleton	Lebanon
20 to 24 year olds	1368	1202	1267	1807	1702
25 to 34 year olds	2893	2053	2538	2927	3580
35 to 44 year olds	2691	2164	2377	3190	3192
45 to 54 year olds	3263	2899	3049	3398	3396
55 to 59 year olds	1609	1468	1513	1453	1555
Totals	11,824	9,786	10,744	12,775	13,425
Percent Change from 2000	-8.28%	-14.34%	-10.13%	10.13%	4.86%

[12] See, Bureau of Labor Statistics Occupational Outlook, available at http://www.bls.gov/ooh/About/Projections-Overview.htm.

Demographic	New Castle	McKeesport	Johnstown	Hazleton	Lebanon
Percent change from 2000 Age 20-24	-10.53%	-4.22%	-9.89%	39.54%	15.78%
Percent change from 2000 Age 25-34	-11.80%	-23.60%	-14.26%	-2.27%	0.42%
Percent change from 2000 Age 35-44	-24.90%	-34.14%	-25.81%	-1.63%	-12.40%
Percent change from 2000 Age 45-54	0.03%	-6.24%	-3.24%	19.69%	13.05%
Percent change from 2000 Age 55-59	30.07%	32.97%	22.61%	18.32%	38.84%

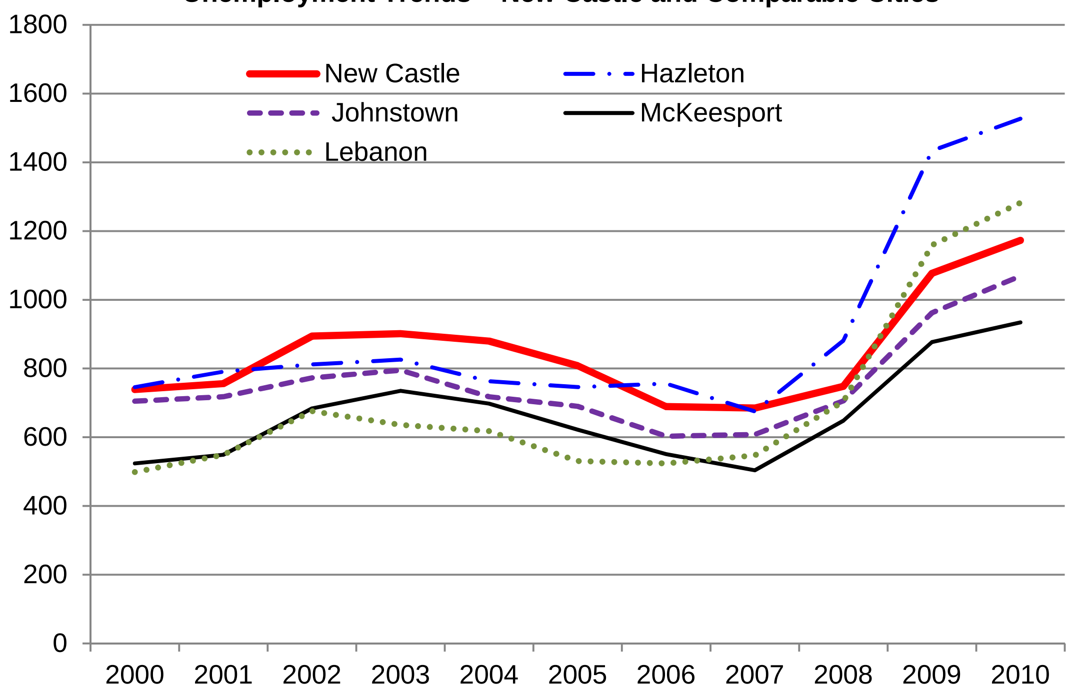
Source: U.S. Census Bureau

The number of workers age 55-59 in New Castle increased (up 30.1 percent) as it did in the other comparable cities. As the existing workers age into higher groups, the City is not balancing that growth by adding workers at the younger levels.

Unemployment

In the early part of the last decade, New Castle had the most unemployed people in its workforce among the five cities. The number of unemployed individuals dropped until 2007-2008 when the number rose in concert with the national recession. Looking only at the unemployment numbers, the City's trend is similar to the other five cities, though the number of unemployed people in the workforce is consistently higher than Johnstown and McKeesport.

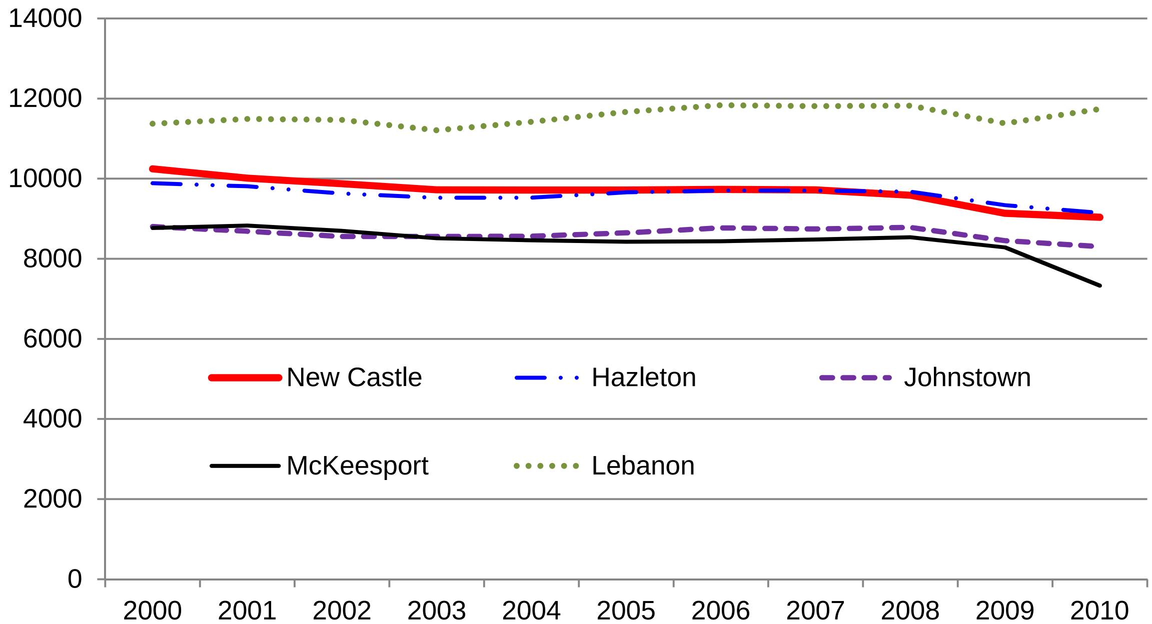
Unemployment Trends – New Castle and Comparable Cities



Source: U.S. Bureau of Labor and Statistics

Looking at the statistics from another perspective, New Castle's experience looks similar to the other four cities. The graph below tracks the number of employed people in the workforce for New Castle and the other four cities over the last decade. None of the cities had significant growth and only Lebanon had a generally positive trend until 2008.

Employment Trends – New Castle and Comparable Cities



Source: U.S. Bureau of Labor and Statistics

New Castle's experience does not seem unique according to the graphs above. But there is a disconnect between the peaks and valleys of unemployment and employment during this period.

When the number of unemployed people in New Castle declined between 2004 and 2007, the number of employed people did not increase. So the unemployment drop was not due to more people finding jobs. More likely, people living in New Castle who could not find jobs left the workforce (i.e. stopped looking for jobs) or left the City entirely. **Notice that over the last decade New Castle saw its population and workforce shrink (i.e. the City's tax base is getting smaller) while the number of unemployed people rose (the City's remaining tax base is getting weaker).**

Percent changes from 2000 - 2010

	New Castle	McKeesport	Johnstown	Hazleton	Lebanon
Unemployed people	+32.1%	+57.2%	+38.3%	+78.9%	+117.7%
Employed people	-9.0%	-15.8%	-2.4%	-6.0%	+2.6%
Labor force	-6.1%	-11.5%	+0.7%	+0.4%	+7.8%
Population	-11.5%	-17.9%	-12.3%	+8.6%	+4.2%

That's a more negative trend than Hazleton or Lebanon experienced. Those cities had a higher increase in unemployment, but their total population also increased. Their labor force stayed the same size (Hazleton) or grew (Lebanon). The Western Pennsylvania cities did not fare as well but in comparison to New Castle, Johnstown had a relatively small drop in employed people (2.4 percent versus 9.0 percent) and kept its labor force relatively stable (+0.7% compared to -6.1 percent).

Housing

The City of New Castle has an aging housing stock, a growing number of vacancies and a rising rental housing population. Comparatively, the housing stock in New Castle is similar to those in three of the four cities. Lebanon has a higher percentage of homes with a value over $100,000.

Based on 2000 and 2010 census data, the total housing stock in New Castle decreased 405 units. In the same period, the number of vacant properties in the City increased by 36 percent, a rate that nearly doubles that of the other municipalities and is triple the rate of increase statewide. Home values in the City declined nearly ten percent in the same decade, which is consistent with the declines in the other two Western Pennsylvania cities.

Housing Statistics

	McKeesport		Johnstown		New Castle		Lebanon		Hazleton	
	2000	2010	2000	2010	2000	2000	2000	2010	2000	2010
Population	24,040	19,731	23,906	20,978	26,309	23,273	24,461	25,477	23,329	25,340
Population up/down by %	-17.9%		-12.3%		-11.5%		4.2%		8.6%	
Vacant Housing Units	1,469	1,735	1,668	2,061	982	1,539	954	1,097	1,275	1,611
Vacancy - Percent Increase	15.3%		19.1%		36.2%		13.0%		20.9%	
Total Housing Units	11,124	10,088	12,802	11,978	11,709	11,304	11,220	11,863	11,556	11,409
Percent of Total Housing Units - Vacant (City)	13.2%	17.2%	13.0%	17.2%	8.4%	13.6%	8.5%	9.2%	11.0%	14.1%
Percent of 1 unit - Housing units (single family)	71.8%	79.9%	64.2%	64.0%	72.8%	74.3%	61.8%	59.5%	69.7%	66.5%
Owner-occupied units below $100,000 in value	96.0%	86.5%	97.0%	87.7%	96.8%	86.5%	36.2%	57.6%	78.6%	55.8%

Source: U.S. Census Bureau

The foreclosure rate in New Castle matches the rate for Pennsylvania as a whole at .08 percent.[13] The national average is .16 percent. Over the past six months, the number of New Castle foreclosed properties that went to auction increased from 69.7 percent (23 of 33) in October 2011 to 85.7 percent (18 of 21) in February 2012. Most of the properties entering foreclosure are single family, two- or three-bedroom homes.

[13] Information from RealtyTrac

New Castle has a relatively small and inexpensive rental market compared to the other cities. It has the lowest percentage of renter occupied units (39.2 percent) and one of the lowest median rental rates ($489/month). The percentage of renter occupied units increased in New Castle from 2000 to 2010, just as it did in the other four cities. However, the reasons for the increase may be different. Hazleton saw its percentage of renter-occupied housing units increase by 5.7 percent while its population grew by 8.6 percent. McKeesport, like New Castle, saw its percentage of renter-occupied housing units increase while its population shrunk.

Rental Housing Demand

Demographic	McKeesport		Johnstown		New Castle		Lebanon		Hazleton	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Renter-occupied housing units	40.0%	46.4%	50.0%	51.8%	35.4%	39.2%	45.6%	47.4%	41.0%	46.7%
Change	6.4%		1.8%		3.8%		1.8%		5.7%	
Percent of Population in Rental Housing		43.2%		48.2%		35.4%		51.9%		46.4%
Median Rental Rate (MRR)	$383	$554	$318	$442	$365	$489	$411	$589	$410	$603
Percent increase in MRR	30.9%		28.2%		25.4%		30.2%		32.0%	

Source: U.S. Census Bureau

Initiatives

The analysis in the front of this chapter shows that the City government has limited capacity in terms of staff committed to economic development. The staff face difficult challenges as the City's tax base is getting smaller (as measured by population, workforce size or home vacancy rates) or stagnant (as measured by assessed value or median household income). Still, the City also has assets and opportunities to deal with these difficulties.

As noted above, the City's major employers are relatively stable since they are concentrated in health, government or education. The cost of living in the City is low, whether a potential resident is looking at purchasing a home or renting an apartment. The City has a competitively priced labor force, inexpensive office space available downtown, and a stock of available single-family homes. These are positive factors for a local economy and can be marshaled to support small business development.

In the last four years the City's leaders have understandably focused on improving its own financial management. That has left limited ability to focus on an economic development strategy or broadly targeted marketing. Now that the City's financial management is significantly stronger, the elected and appointed officials can focus on how to make the community itself stronger and make the best use of their limited resources. This should include using the City's status as a distressed municipality to acquire Commonwealth funding as part of a broader plan for economic development.

City government itself will not be a source for job creation nor rising wages and it cannot single handedly stimulate New Castle's private sector. But City government must be more effective in those areas that are clearly within its purview, like code enforcement and property maintenance.

It must be more thoughtful in how it uses its limited resources for demolition or modest community development investments. The City should think about how to use its limited resources in a way that will leverage additional investments of effort or money from the for-profit community (e.g. foundation grants, business contributions) or non-profit community (e.g. housing rehabilitation, park cleaning). And it must be able to articulate a vision to others in the community -- and those who might move into it -- so that they can see the City's potential, and not just its challenges.

CE01	**Restructure the Department of Community and Economic Development**	
	Target outcome:	Better coordination of resources; improved customer service
	Financial Impact:	N/A
	Responsible party:	Mayor, City Council, Director of Economic Development, Code Enforcement, Zoning/Planning, Health Officer

New Castle must align all its resources for economic and community development to focus on economic growth. None of the comparable cities discussed earlier have combined the efforts of their related departments. However, the cities of Reading, Lancaster and Altoona have merged all or most of these operations under a single department in recognition of the way these efforts weave together to create better communities and local economies. New Castle should move planning, zoning, code enforcement and community and economic development forward as a single, coordinated initiative rather than keeping them as disparate units with more limited capacity individually.

Consolidation will achieve two primary goals:

- It will formalize the roles each department plays in rebuilding the City of New Castle and make coordination between those departments easier.

- It will provide more personnel and resources that are dedicated to community and economic revitalization. A department of nine people[14] can accomplish more than one person.

The City shall merge Code Enforcement and Zoning and Planning into the Department of Community and Economic Development by the end of the first quarter of 2013.

The Health Department is a separate unit that cannot be formally merged into the Department of Community and Economic Development.[15] Enforcing the health code at eateries is relevant to economic and community revitalization, particularly in the downtown commercial corridor. The Health Officer shall continue the proactive enforcement of the Commonwealth and city health code and shall work cooperatively with the new Department to resolve any property-related code enforcement issues and respond to inquiries from entrepreneurs and business owners.

[14] Seven from Code Enforcement, one from Zoning and Planning and one from economic and community development. The Health Officer is addressed later in this initiative.

[15] Per the Third Class City Code, Article 23.

CE02	Revise the Department Director position description and fill the position	
	Target outcome:	Improved use of limited staffing resources
	Financial Impact:	N/A
	Responsible party:	Mayor and City Council

To successfully execute the other initiatives in this chapter, New Castle needs a Department Director with experience managing code enforcement; leading processes that culminate in economic development strategies; marketing the City to potential businesses; and other related functions.

The Recovery Coordinator will assist City Council and the Administration in drafting a formal position description and conducting a national search. The following qualifications, scope of duties, and essential job functions shall be required for the new position:

Qualifications for Appointment

- Minimum requirement of a Bachelor's Degree in marketing, economics, public administration, public policy or closely related field. Master's Degree preferred.
- Minimum requirement of three years of experience in economic or community development, including administrative responsibility.
- Demonstrated working knowledge of business development, community or economic development, grant administration and project management.
- Considerable knowledge of municipal zoning and infrastructure, and planning programs and processes.
- Ability to communicate effectively to groups and individuals, business owners, community leaders, developers, elected officials, employees, and the general public.
- Ability to establish working relationships with other organizations and economic development practitioners.
- Ability to prepare and analyze reports and data, and have skill in the operation of necessary tools and equipment (i.e. computer, word processing, spreadsheet software, and general office equipment).

Scope of Duties

The Director of Community and Economic Development is responsible for promoting community and economic development interests within New Castle and the region. This position will include working with the Business Administrator and all City departments. The position will include the development of a multi-year action plan for economic and community revitalization, improving local business permitting and licensing processes, assisting businesses with State permitting processes, and providing research and analysis for City sponsored projects. This position reports directly to the Mayor.

To accomplish the goals set out above, the City must hire an economic development professional, with relevant education and executive and administrative experience, to take the lead in the following areas.

- *Facilitate community and economic development planning to identify opportunities for tax base growth*
    - Establish and support a Community Economic Development Committee of local stakeholders
    - Develop a multi-year community economic development action plan including vision, goals and objectives as stated in Amended Recovery Plan Initiative CE04
    - Facilitate the development of a main commercial retail corridor in conjunction with the City Planner
    - Facilitate the redevelopment and stabilization of neighborhoods in the City in conjunction with City Code Enforcement
- *Identify opportunities to develop sectors, projects and initiatives that foster revitalization*
    - Identify business sector opportunities for economic development (e.g., professional services, medical services, etc.)
    - Act as the primary liaison between City government and local organizations, businesses and individuals for community and economic development
    - Develop partnerships with the community to develop and promote opportunities
    - Assist local organizations, businesses and individuals to take advantage of economic development opportunities and major projects
- *Secure funding for community and economic development activities and programs*
    - Research government, private and public sector funding opportunities
    - Consult with industry and government representatives concerning eligibility requirements for funding
- *Assist local organizations, businesses and individuals with establishing economic and community development plans and projects*
    - Become familiar with the existing inventory of available buildings and business and residential development sites within the City and the main commercial retail corridor
    - Work closely with the Lawrence County Economic Development Corporation, Lawrence County Chamber of Commerce and other organizations to identify areas of concern in the promotion of business location and expansion within the City
    - Provide professional economic development advice
    - Administer an efficient business permitting, licensing, and tax registration process, and serve as an advocate for development in line with the zoning ordinances and goals as established by the City
- *Promote the City to expand economic development opportunities*

- o Represent the City at regional and national meetings and conferences on economic development

- o Develop an economic development brand for the City along with brochures and promotional materials

The City shall revise the position description for the Director of DCED by the first quarter of 2013.

Once a formal position description is adopted, the Recovery Coordinator shall assist the City in conducting a national search for candidates in accordance with any applicable state or local law. The Coordinator will administer the search process, including posting the job description, collecting resumes and scheduling interviews. The Recovery Coordinator shall organize a Selection Committee that includes the Mayor, the Business Administrator, a representative from City Council, and a representative from the business community. The Committee will review submitted resumes, interview candidates and make a recommendation to the Mayor. The right to make the appointment is reserved to the Mayor with the approval of Council.

The City shall hire a Director to fill the new position by October 31, 2013.

CE03	**Electronically track code enforcement activity**	
	Target outcome:	Performance measurement; identify efficiencies and process improvements
	Financial Impact:	N/A
	Responsible party:	ED/CD Director, Code Enforcement

As noted above, Code Enforcement inspectors began utilizing mobile computers this year as a field tool for recording and tracking inspections. The new technology has the potential to make code enforcement more efficient, but only if it is used thoughtfully and performance is measured effectively.

To set a direction for the City's property maintenance code enforcement efforts and set benchmarks for future performance, the City first needs to collect basic data on the daily code operations. Beginning in January 2013, the Department shall electronically track property maintenance and code enforcement operations activities and issue a monthly report submitted to the Business Administrator, City Council and Act 47 Coordinator. At a minimum the report shall contain the following:

- Total inspections scheduled and completed;
- Total violations issued with additional detail on the type and value;
- Location of each violation by Council District;
- Number of times a property owner has violated the code

This basic set of monthly data will provide a foundation for evaluating the City's efforts, setting a strategy as required in CE04 and benchmarking performance. Analyzing the data will expand City leaders' understanding of the City's housing stock needs, present opportunities to improve the daily operations, and allow for better integration into the broader community revitalization efforts. The Coordinator will assist the City with the data analysis, identifying areas for operational improvement and goals.

CE04	Develop a short-term action plan	
	Target outcome:	Articulate a vision for economic & community improvement
	Financial Impact:	N/A
	Responsible party:	Community and Economic Development

Once the City has reorganized the Department and filled the new Director position, it will need a clear, concise and cohesive mission and strategy for directing its personnel and resources. As a priority assignment, the new Director shall develop a short-term action plan that specifies how the City will use its limited resources for a three-year period to build the local tax base. The Director shall submit the action plan to the Mayor, City Council, the Act 47 Coordinator and the Pennsylvania Department of Community and Economic Development by October 31, 2014.

Plan content

The Coordinator will work with the Director to draft an action plan that provides practical steps for New Castle to rebuild its economy and community along with identifying available funding sources. The plan shall include an assessment of the City's code enforcement activities, including those handled by the City's employees, and provide a clear direction for those activities over the plan's three-year period. This section shall include the City's goals and how progress toward those goals will be measured and reported. In addition to the code enforcement component, there are several options, directions, and programs that could be included in this plan such as the following:

- **Participate in the OH-Penn Workforce development Initiative**. A regional workforce investment initiative comprised of Columbiana, Mahoning and Trumbull Counties in Ohio and Lawrence and Mercer Counties in Pennsylvania recently received a federal grant to invest in job training programs. New Castle has not been an active participant and therefore does not receive much of the investment.

- **Establish a business assistance program.** The program would provide businesses or entrepreneurs with a single point of contact in City Hall for opening or expanding a business in the City. By consolidating and organizing the City's licensing, permitting, and inspection processes; inventorying sites that are available for business location or expansion; and providing financial support as resources allow, City Hall can become a business friendly environment.

- **Utilize the Pennsylvania DCED Neighborhood Assistance Program.** The program provides tax credits to businesses that invest in approved projects in the areas of workforce, community and economic development.

- **Establish a Downtown Improvement District (DID)** to provide a formal method for communicating with local businesses, business training and customer services. A DID could provide an organizational foundation for accessing other Pennsylvania DCED funding programs.

- **Apply for Pennsylvania DCED Main Street[16] Program designation**. Main Street program dollars fund the administrative cost of organizing a Main Street Corridor, along with signage and façade improvements. Under the new program guidelines, an application for a Main Street designation would need to include how the program will

[16] "Main Street" and "Elm Street" are the names of Commonwealth supported programs. They do not refer to a particular street in New Castle.

raise money to continue operations after the depletion of the Commonwealth funds. An established DID, with a minor assessment on participating business, may meet that requirement.

- **Apply for Pennsylvania DCED Elm Street Designation.** "Elm Streets" are neighborhoods are adjacent to a commercial corridor or designated "Main Street." Program funding would provide the City with additional resources to address a number of the housing related issues discussed above in the designated area and support the development a master plan for the neighborhood.

- **Establish an Act 90 & Act 135 Implementation Committee.** The City does not have a plan for attacking blight, vacant or abandoned properties nor is it using all of the powers provided by the state legislature to address these issues. The Neighborhood Blight Reclamation Act and the Blighted and Abandoned Property Conservatorship Law provide expanded powers and tools for Counties and local governments to acquire and repurpose parcels and buildings, and pursue local and foreign landowners that fail to maintain their properties.

- **Establish a Community and Economic Development Fund.** Once the City has restructured the Department and filled the new Director position, the Department should endeavor to find a dedicated source of revenue to leverage grants to invest in projects for revitalization.

- **Utilize the Keystone Opportunity Zone (KOZ) Act.** Act 79 of 2008 created an opportunity for the City to establish a KOZ program under the New Designation Section of the Act or review its current KOZ designation. A KOZ creates the opportunity to provide tax credits and provide other business incentives to attract businesses or encourage small business development. Any designation should align with the Economic and Community Development action plan.

- **Create a Small Business Incubator**. A small incubator could provide basic small business services[17] to help entrepreneurs turn their ideas into companies, and locate those companies downtown. The Program Administrator would identify the niche markets that could prosper in New Castle and establish a relationship with the Mahoning Valley Economic Development Corporation as a potential source for capital to move ideas into the marketplace.

- **Establish a CDBG Revolving Loan Program.** The City could target the outstanding Section 108 loan for repayment so that the City does not have to use any of its annual CDBG funding for that purpose. The Section 108 loan will have approximately $1.2 million in principal and interest at the end of 2012. Instead the City could use its CDBG allocation to support small business development on the prime commercial corridor.

- **Consider Land Banking.** If passed, Pennsylvania House Bill 1682 of 2012 could provide the City and Lawrence County with powers to establish a land bank of vacant and abandoned buildings and parcels. The City should utilize the authority granted by the legislation as another tool for revitalizing the City's housing stock and the de-densification of certain areas in order to right-size municipal services.

The new Director will also be responsible for implementing initiative RV04 related to inventorying and divesting City-owned tax exempt properties.[18]

[17] This could include basic accounting, legal, and administration services

[18] Please see the Revenue Chapter for more information.

Revenue

Revenue

The Amended Recovery Plan is proposed at a time when the national economic recovery is still uncertain. Although job growth has been positive during recent months, the U.S. economy remains down by more than 5.1 million net jobs from the start of the recession in December 2007 through March 2012. Nationally, the March 2012 rate of 8.2 percent unemployment remains well above the 5.0 percent level of December 2007.

Due to this trend, local governments across the nation may continue to see a flat or negative revenue trend in the near future. In an October 2011 National League of Cities (NLC) survey city finance officers predicted that general fund revenues would decline by 2.3 percent last year. Moreover, city budgets tend to lag economic conditions by at least 18 months, suggesting that any national recovery in 2012 may not have help local government revenues until late 2013.[1]

The national recession has also impacted New Castle. The number of employed people in the New Castle micropolitan area dropped by 1,281 (3.1 percent of the total) between December 2007 and May 2012.[2] The total assessed value of taxable property has dropped by 1.2 percent since 2007. The taxable value of buildings dropped by 1.3 percent. Since employment-related income and property values are the base for the City's largest revenues, these economic trends directly impact the City's ability to fund municipal services.

New Castle's challenges extend beyond the immediate impact of the national recession. Like many other Western Pennsylvania municipalities, the City's population continues to decline. New Castle's losses are concentrated in people age 20-44, the section of the population associated with a young workforce. Even in comparison to other Pennsylvania cities with a similar demographic profile, New Castle has had higher increases in housing vacancies and lower increases in household income since 2000.[3]

At a glance the City's revenue picture appears to contradict these economic trends. General Fund revenue increased by 24.2 percent from $11.3 million in 2007 to $14.0 million in 2011. But a closer look reveals that even this growth bears the markings of a struggling local economy. The revenue growth was primarily achieved by increasing property taxes, allocating a higher portion of the property tax to the General Fund, increasing the earned income tax on residents and levying a new earned income tax on non-residents.[4] Once tax rates are held constant, the City has had little natural growth in property tax or resident earned income tax in recent years.

This chapter explains the City's major revenue sources and the changes that the City has made since it passed the original Recovery Plan in 2007. It briefly explains the Plan's revenue projections and concludes with initiatives to help the City collect the revenue it needs to continue providing municipal services.

Revenue Overview

The majority of the City's revenue flows into the City's General Fund or the Sinking (Debt Service) Fund. There is minimal property tax revenue in the Library Fund and minimal earned income tax in

[1] Michael Pagano and Christopher Hoene. "City Fiscal Conditions in 2011." National League of Cities. October 2011

[2] US Bureau of Labor Statistics, Local Area Unemployment Statistics.

[3] Please see the Economic Development Chapter for a full discussion of these trends.

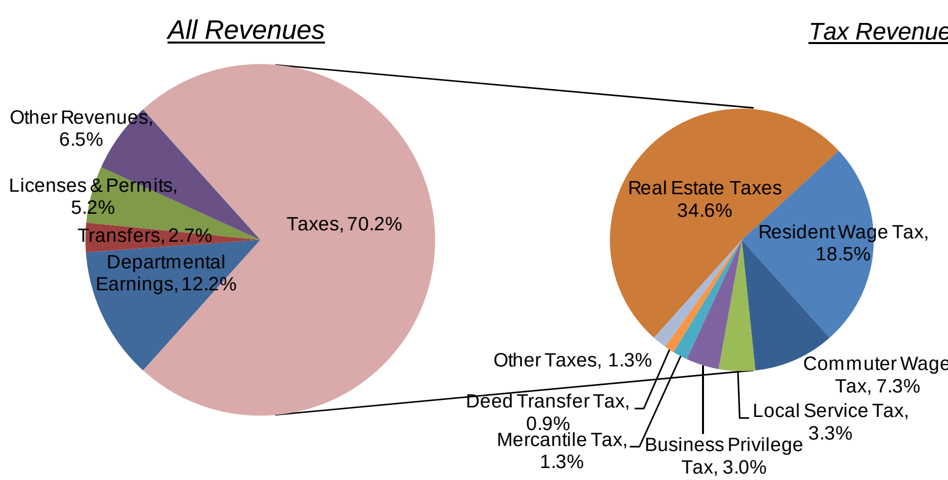
[4] The property tax is sometimes referred to as real estate tax and the earned income tax is sometimes referred to as wage tax.

the Pension Fund. The City's General Fund revenues since 2007 are shown in the table and chart below.

Historical Revenues by Source, 2007–2011

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	Change
Real Estate Taxes	4,073,831	3,666,937	3,894,716	4,420,299	5,288,951	29.8%
Resident Wage Tax	1,253,403	2,187,737	2,523,426	2,484,939	2,585,805	106.3%
Non-resident Wage Tax	274	0	871,036	975,324	1,026,053	N/A
Local Service Tax	646,684	399,490	451,900	448,944	460,423	-28.8%
Business Privilege Tax	429,625	401,420	438,584	323,840	417,802	-2.8%
Mercantile Tax	167,839	181,340	195,816	197,030	185,377	10.4%
Deed Transfer Tax	274,251	270,752	101,278	77,660	124,801	-54.5%
Other Taxes	104,178	96,696	116,788	133,544	177,248	70.1%
Tax Revenue Subtotal	**6,950,086**	**7,204,372**	**8,593,543**	**9,061,580**	**10,266,459**	**47.7%**
Licenses & Permits	360,851	346,433	311,438	468,961	732,135	102.9%
Fines & Forfeits	99,755	107,877	114,132	126,247	113,152	13.4%
Interest and Rents	200,487	102,182	43,464	54,422	54,641	-72.7%
Grants & Gifts	648,957	371,776	434,601	326,356	265,209	-59.1%
Departmental Earnings	1,196,877	1,524,973	1,630,212	1,669,886	1,709,298	42.8%
Sale of Property & Equipment	4,580	13,450	0	163	0	-100.0%
Miscellaneous Earnings	617,292	277,088	340,419	243,484	482,806	-21.8%
Transfers	1,214,972	967,301	560,017	946,788	381,815	-68.6%
Other Revenue Subtotal	**4,343,771**	**3,711,079**	**3,434,284**	**3,836,307**	**3,739,055**	**-13.9%**
Total Revenues	**11,293,857**	**10,915,451**	**12,027,827**	**12,897,886**	**14,005,514**	**24.0%**

2011 General Fund Revenues by Category



The City's property and earned income taxes accounted for nearly two-thirds of total General Fund revenue in 2011 (63.6 percent), up from the 47.1 percent share in 2007. The City has become more dependent on a small number of revenue sources since 2007.

The five largest tax revenues[5] are covering an increasing portion of the City's General Fund expenditures. In 2008, the combined revenue from real estate, resident and non-resident earned income, local services, and business privilege taxes covered 57.4 percent of the City's General Fund expenses. In 2011, those five taxes covered 76.7 percent of the General Fund expenses.

Share of General Fund Expenses Covered by Five Largest Taxes

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual
Largest tax revenues (GF only)	6,403,818	6,655,584	8,179,662	8,653,346	9,779,033
General fund expenses	11,886,276	11,599,351	11,647,628	12,429,180	12,748,991
Percentage covered	53.9%	57.4%	70.2%	69.6%	76.7%

Historical performance and out-year projections

The next section takes a closer look at the performance of major revenues for 2007 through 2011 and explains the Amended Recovery Plan's projections through 2015. Taxes are addressed first, followed by non-tax sources of revenue. Before looking at specific revenue projections, it is important to understand the overall projection approach.[6]

- **2012 is the starting point:** The Coordinator used the City's approved 2012 budget as the starting point for the Plan projections. In many cases, the Plan's 2012 projection matches the City's budget allocation. In other cases, the Coordinator adjusted the 2012 projection to account for events that have occurred since the City assembled its 2012 budget in late 2011. This includes evaluating the 2012 budget target in view of the City's 2011 reported results and making adjustments where appropriate. After setting the 2012 starting point, the Coordinator calculated and applied growth rates to that figure to generate projections for 2013-2015.

  Please note that the Plan projections do not account for the potential that actual 2012 revenues may exceed or fall short of the budget target in 2012. Greater revenue diversification and improved collection performance would help the City better absorb a shortfall in any particular revenue source.

- **Tax rates remain constant, expiring revenues removed:** The baseline assumptions assume that the total tax rate across all funds will remain the same through 2015. They also take into account revenue sources that are scheduled to expire, such as the Commonwealth's Act 47 grant which expired in June 2012. Any growth in baseline revenue is assumed to occur "naturally," meaning through growth in the tax base (e.g. increased resident income, more economic activity). This does not mean that the City will not increase any taxes through 2015, but the baseline shows the City's projected situation absent any changes.

- **Projections, not predictions:** The Amended Recovery Plan's projections are based on the most recent data available, but they are not predictions on how the national, regional or local

[6] Please see the related Appendix for more information on the projection methodology.

economy will change over the next three years. It is impossible to know how long it will take the broader economy to fully recover and how that recovery will impact New Castle. Instead the projections use the best information currently available to provide a framework for understanding the kinds of revenue and expenditure changes the City will need to make to keep its finances balanced over this three-year period while acknowledging that unpredictable external events may occur to the benefit or detriment of City finances in any particular year.

With those caveats, the chart below shows the projected revenue by major category for 2013 – 2015 in the General, Pension and Sinking Funds.

Revenue Projections

	2012 Projected	2013 Projected	2014 Projected	2015 Projected	Change %
Real Estate Taxes	5,995,133	6,008,043	6,021,082	6,034,252	0.7%
Resident Wage Tax	3,778,114	3,716,608	3,716,608	3,716,608	-1.6%
Non-resident Wage Tax	2,333,994	2,396,596	2,492,459	2,592,158	11.1%
Other Taxes	1,215,000	1,226,125	1,238,386	1,251,811	3.0%
Licenses & Permits	504,900	517,523	530,461	543,722	7.7%
Fines & Forfeits	100,000	105,000	110,250	115,763	15.8%
Interest and Rents	39,100	40,078	41,079	42,106	7.7%
Grants & Gifts	479,965	319,800	321,645	323,536	-32.6%
Departmental Earnings	1,668,488	1,701,205	1,716,247	1,731,886	3.8%
Sale of Property & Equipment	100	101	102	103	3.0%
Miscellaneous Earnings	216,435	221,846	227,392	233,077	7.7%
Transfers	447,198	447,198	447,198	447,198	0.0%
State Pension Aid	618,667	631,040	643,661	656,534	6.1%
General Pension Revenue	150,000	153,750	157,594	161,534	7.7%
Total	**17,547,095**	**17,484,911**	**17,664,164**	**17,850,287**	**1.7%**

Summary: Tax revenue performance

Looking at tax revenues on a whole, the City collected $10.3 million in its General Fund from taxes in 2011, which was $3.3 million (or 47.7 percent) more than it collected in 2007. Tax revenues grew at more than five times the rate of inflation as measured by the Consumer Price Index during this time (8.5 percent)[7]. On average, tax revenue grew by 10.4 percent per year from 2007 through 2011.

[7] National consumer price index for all items, non-seasonally adjusted.

General Fund Tax Revenue, 2007–2011

	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2007-11 Growth
Real Estate Taxes	4,073,831	3,666,937	3,894,716	4,420,299	5,288,951	29.8%
Resident Wage Tax	1,253,403	2,187,737	2,523,426	2,484,939	2,585,805	106.3%
Non-resident Wage Tax	274	0	871,036	975,324	1,026,053	3,743.7%
Local Service Tax	646,684	399,490	451,900	448,944	460,423	-28.8%
Business Privilege Tax	429,625	401,420	438,584	323,840	417,802	-2.8%
Mercantile Tax	167,839	181,340	195,816	197,030	185,377	10.4%
Deed Transfer Tax	274,251	270,752	101,278	77,660	124,801	-54.5%
Other Taxes	104,178	96,696	116,788	133,544	177,248	70.1%
Tax Revenue Subtotal	**6,950,086**	**7,204,372**	**8,593,543**	**9,061,580**	**10,266,459**	**47.7%**

As noted earlier, the majority of this growth is attributable to real estate and earned income tax increases. The General Fund real estate tax rate increased by 24.6 percent from 2007 to 2011 and associated revenue rose by 23.2 percent – less than the tax rate increase. That negative difference is another signal that the City's tax base shrunk over this time. The City more than doubled the portion of the resident earned income tax rate that funds City operations from 0.5 percent in 2007 to 1.1 percent in 2011. The City levied a new non-resident earned income tax to support operations starting in January 2008. The non-resident EIT rate (0.5 percent in 2011) generated $1.1 million for the General Fund in 2011.

As noted above, the baseline revenue projections through 2015 assume no future tax rate increases. General Fund real estate tax revenues are projected to fluctuate through 2015 since changing portions of the total revenue will be needed to pay the City's debt service. The projections show revenue from other taxes growing at a modest annual rate. Meanwhile, the Federal Reserve Bank of Philadelphia projects that Consumer Price Index will grow by 2.35 percent per year over the long term, which would equate to a 7.2 percent total increase through 2015.[8] The City's General Fund expenses are projected to grow by 9.8 percent from 2012 through 2015. Therefore, holding the City's tax rates constant, tax revenue will not expected to keep pace with expenditure growth during this period.

Projected General Fund Tax Revenue, 2012–2015

	2012 Projected	2013 Projected	2014 Projected	2015 Projected	% Change 2012-2015
Real Estate Taxes	5,555,197	5,565,107	5,543,953	5,133,754	-7.6%
Resident Wage Tax	2,463,514	2,402,007	2,402,007	2,402,007	-2.5%
Commuter Wage Tax	1,017,183	1,027,113	1,068,197	1,110,925	9.2%
Local Service Tax	450,000	454,500	459,045	463,635	3.0%
Business Privilege Tax	380,000	383,800	387,638	391,514	3.0%
Mercantile Tax	180,000	181,800	183,618	185,454	3.0%
Deed Transfer Tax	100,000	100,500	101,505	103,028	3.0%
Other Taxes	105,000	105,525	106,580	108,179	3.0%
Tax Revenue Subtotal	**10,250,894**	**10,220,352**	**10,252,544**	**9,898,497**	**-3.4%**

[8] Federal Reserve Bank of Philadelphia. "First Quarter 2012 Survey of Professional Forecasters." February 10, 2012

Real Estate Tax

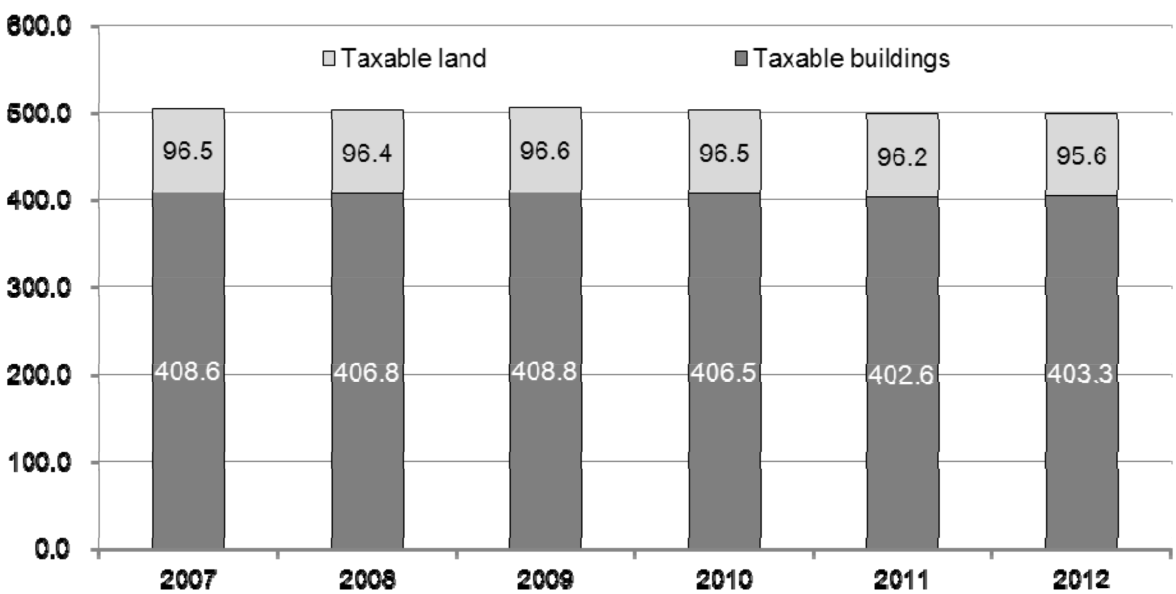
The City's largest source of revenue is the real estate (or property) tax, which generated 37.8 percent of all General Fund revenue and 51.5 percent of tax related revenue in 2011. This category includes prior year real estate tax collections, which accounted for $1.2 million or 22.7 percent of General Fund real estate tax revenues in 2011.

The City levies an 11.726 mill real estate tax on the assessed value of land and buildings – 11.205 mills are allocated to the General Fund, 0.344 mills to the Sinking Fund for debt service, and 0.177 mills to the Library Fund. As of 2012, the School District levied an additional 17.27 mills and Lawrence County levied another 6.263 mills for a total millage of 35.259 mills on properties in the City. A property assessed at the median home value of $56,700[9] would pay a City tax of $665, a school district tax of $979 and a County tax of $355 for a total of $1,999.

The City taxes land at a higher rate than buildings, assumedly to encourage development by leaning more heavily on land than on properties. Unfortunately the taxable value of land and buildings has dropped in the City since 2005.

City of New Castle Assessed Value, 2005–2012

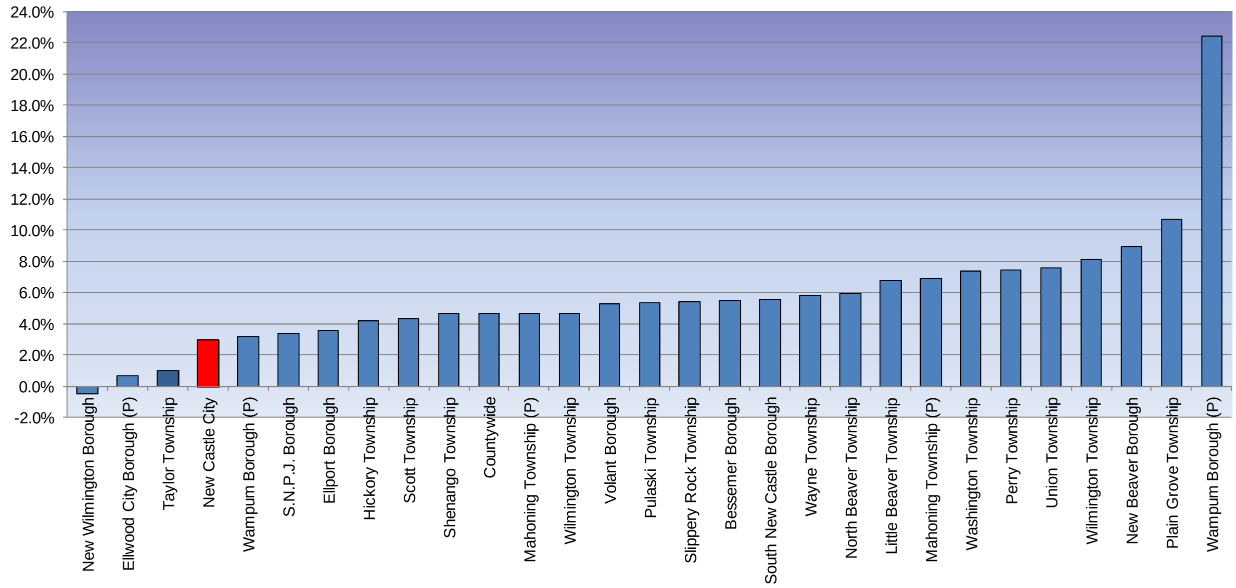
	2005	2006	2007	2008	2009	2010	2011	2012
Taxable buildings	406,508,900	401,701,700	408,636,000	406,801,500	408,753,100	406,530,800	402,633,483	403,336,633
Taxable land	96,938,600	95,594,500	96,538,900	96,410,100	96,612,300	96,454,800	96,240,200	95,565,690
Total	503,447,500	497,296,200	505,174,900	503,211,600	505,365,400	502,985,600	498,873,683	498,902,323



The next graph focuses on a part of this period to compare changes in the market value for New Castle property to changes in other Lawrence County municipalities. From 2007 to 2009, the City had the fourth lowest growth rate among the 28 municipalities.

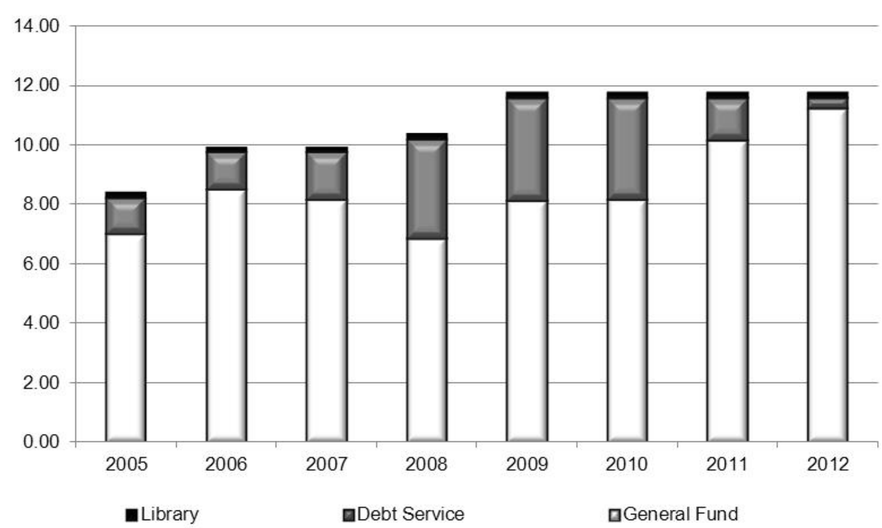
[9] Estimated Median Value for 2008-2010 as reported by the US Census Bureau

2007 – 2009 Market Value Growth, Lawrence County Municipalities[10]



Since the assessed value for property in New Castle is essentially flat, the City has relied on tax rate increases to boost revenue. The City increased the total real estate tax rate by 4.2 percent in 2008 and 13.4 percent in 2009. The total tax rate has remained constant since 2009. Because the City has been able to reduce its debt burden, it has also been able to shift a larger share of the total tax millage from the sinking fund millage to the general fund since 2009.

Tax Rate Allocation, 2005-2012



Despite the three-year property tax rate freeze, the City had the highest real estate tax rates in Lawrence County as of 2012. The New Castle Area School District's millage is also the highest of eight school districts in the County. With the County's millage included, the 35.259 combined

[10]Source: Pennsylvania State Tax Equalization Board. "Certification of Market Values." http://www.steb.state.pa.us/certimain.asp

millage on City properties is well above the County average (21.793) and median (20.853). This means that New Castle residents have the highest property tax burden of any County municipality.

2012 Real Estate Tax Rates, Lawrence County Municipalities

	Municipal Millage	SD Millage	County Millage	Total Millage
City of New Castle	11.726	17.270	6.263	35.259
Lawrence County Average	2.700	12.830	6.263	21.793
Lawrence County Median	1.500	13.090	6.263	20.853
County Municipalities with Tax	28	28	28	28
New Castle Tax Rate Rank	***1***	***1***	***N/A***	***1***
Surrounding Municipalities				
Hickory Township	0.950	12.490	6.263	19.703
Neshannock Township	1.900	14.094	6.263	22.257
Union Township	3.000	14.420	6.263	23.683
Bessemer Borough	5.200	13.090	6.263	24.553
Taylor Township	1.110	17.270	6.263	24.643
South New Castle Borough	5.500	11.790	6.263	23.553
Shenango Township	2.800	11.790	6.263	20.853
Average	***2.923***	***13.563***	***6.263***	***22.749***

Source: DCED Governor's Center for Local Government Services; County Assessment Office.

As noted above, the City collects most of its current year property tax revenue in its General and Sinking Fund.[11] Across the two funds, total current year revenue has increased 17.2 percent since 2007 while the millage increased by 18.6 percent.

Prior year taxes

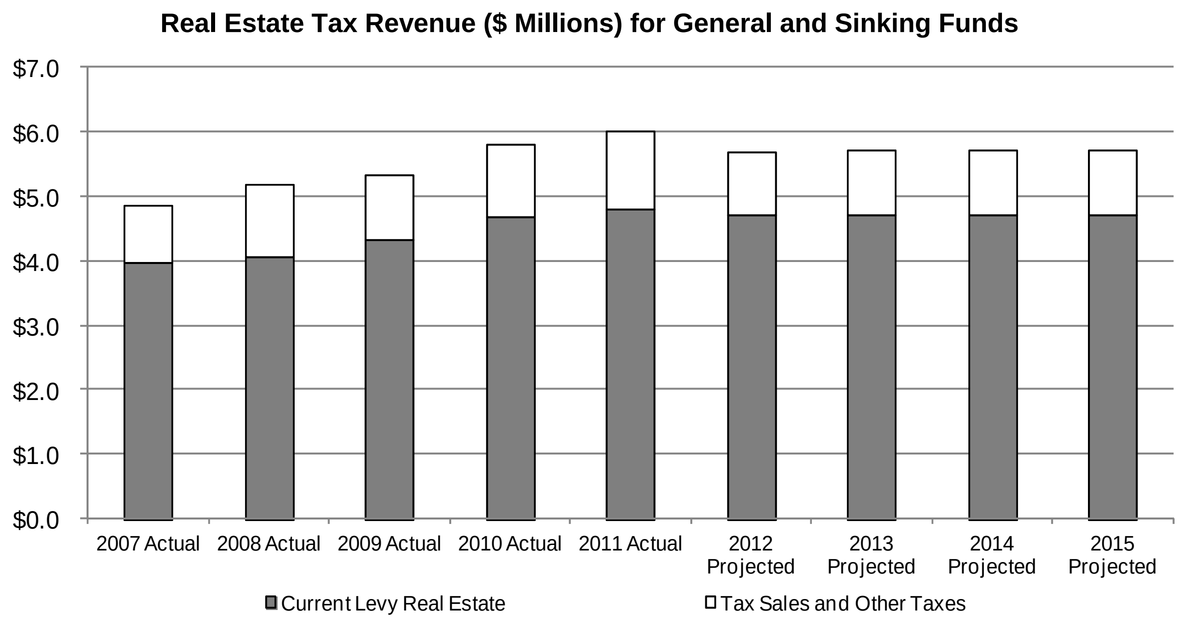
Unlike current year tax revenue, prior year General Fund revenue has grown by 59.1 percent.[12] The City received $1.2 million in prior year revenue in 2011 versus $753,000 in 2007. The Lawrence County Tax Claim Bureau collects prior year property tax on behalf of all Lawrence County municipalities. The City receives all prior year revenue in its General Fund and then transfers the relevant portion to the sinking fund. Prior year property taxes have trended up, but the year-to-year change has varied from -14.9 percent to +42.5 percent since 2007. The projections start with a relatively conservative estimate ($991,000 in 2012) and project 1.0 percent growth thereafter.

[11] The Library Fund receives the remaining amount ($72,192 budgeted in 2012) based on a millage that has not changed since at least 2005.

[12] Prior year revenue is called "Tax Sales and Other Taxes" in the City's financial system.

Given the factors described above, the baseline projection anticipates that current year real estate tax revenues will remain flat relative to the 2012 budget at $4.7 million across all funds. The General Fund portion of the real estate tax is expected to fluctuate in tandem with the City's debt service obligations. General Fund revenue drops when more is needed to cover the City's debt payments and increases when the opposite is true, but the total amount remains constant at $4.7 million.

The projections shown below include prior year real estate tax and cover the General and Sinking Funds. The 2012 revenue is $347,000 (or 5.5 percent) less than the 2011 results because the projected prior year revenue is based on the prior three year's average ($1.0 million) instead of the $1.2 million collected in 2011.



Earned Income Tax

New Castle levies an earned income tax on its residents and non-residents according to three Commonwealth laws.

- According to **Act 511 of 1965,** the City levies a 1.0 percent tax on resident's earned income. The City splits this revenue with the local school district with each entity receiving 0.5 percent. The City also levies a 1.0 percent tax on non-residents according to Act 511 but in most cases that revenue is remitted back to the non-resident's home municipality.

- According to **Act 47 of 1987**, the City may seek to levy an additional earned income tax above the 1.0 percent described above on its residents and non-residents if the additional tax is included in the City's Act 47 Recovery Plan. New Castle officials must petition the Lawrence County Court of Common Pleas each year to demonstrate that the tax is authorized under the approved Recovery Plan and the additional revenue from the tax is needed to balance the City's budget. The City does not share this EIT revenue with the City or the non-residents' home municipality. In 2011 the Act 47-related EIT was 1.1 percent for residents and 1.0 percent for non-residents. In 2012 the City reduced the Act 47-related EIT by 0.05 percent to its current rate of 1.05 percent for residents and 0.95 percent for non-residents.

- According to **Act 205 of 1984**, the City may levy an additional earned income tax above the 1.0 percent authorized by Act 511 if the City's employee pension plan is designated distressed by the state Public Employee Retirement Commission (PERC) and the City meets other criteria.[13] The City levies this distressed pension EIT on residents and non-residents. The City first levied this EIT at 0.1 percent on residents and non-residents in 1987. While the distressed pension EIT has been as high as 0.7 percent, it is currently 0.1 percent.

The complicated EIT collection-remittance system was simplified by the Commonwealth with Act 32 of 2009, which requires one EIT collector for all local governments and school districts in Lawrence County.[14] The law required the City to move EIT collection to the central collector effective January 1, 2012, but the City made the switch in late 2011.

The most significant change to the City's total EIT rate came in 2008. The original Recovery Plan authorized the City to increase its resident EIT rate to 1.7 (1.0 General Fund, 0.7 Pension Fund) instead of the 0.5 percent levied in 2007. The City increased the EIT effective January 1, 2008 and resident EIT revenue jumped from $1.2 million to $2.2 million in the General Fund. Because the tax was collected on a quarter lag,[15] the City didn't receive the full benefit of the higher tax rate until 2009 when resident EIT revenue topped $2.5 million.

The City also increased the non-resident tax rate in 2008. The original Recovery Plan authorized the City to increase that rate from 1.0 percent to 2.1 percent with 1.0 percent being remitted back to the non-resident's home municipality. As with the resident rate increase, the non-resident increase took effect January 1, 2008. The City did not track non-resident EIT revenue separate of resident revenue the first year, but City records show $871,000 in non-resident General Fund revenue in 2009. The non-resident revenue has increased each year while the resident revenue has remained relatively constant at $1.2 million.

That difference indicates earnings for non-residents who work in the City are growing while earnings for residents remain stagnant. For that reason the Amended Recovery Plan projects that, absent any rate changes, non-resident EIT revenue would grow by 4.0 percent per year and resident EIT revenue will remain flat.

Changing the EIT rate

New Castle residents currently pay a total EIT rate of 2.15 percent, which is the highest EIT rate in Lawrence County. The City receives 1.65 percent of the tax and the local school district receives the other 0.50 percent. The City uses 1.05 to support operations, 0.5 to help pay debt service and 0.1 percent to help make the annual required contribution to the employee pension fund. **Under its current form of government, New Castle has to reduce its resident EIT rate to 1.0 percent to exit Act 47 oversight.**

Non-residents who work in the City currently pay a total EIT rate of 2.05. The non-resident's home municipality receives whatever percent is levied under their local ordinances (usually 1.0 percent). New Castle receives the remainder (usually 1.05 percent) with 0.45 percent supporting City operations, 0.5 helping to pay debt service and 0.1 percent helping to make the annual required contribution to the employee pension fund. **New Castle has to reduce the non-resident EIT rate**

[13] Please see the Pension Chapter for more information on PERC's distress designation.

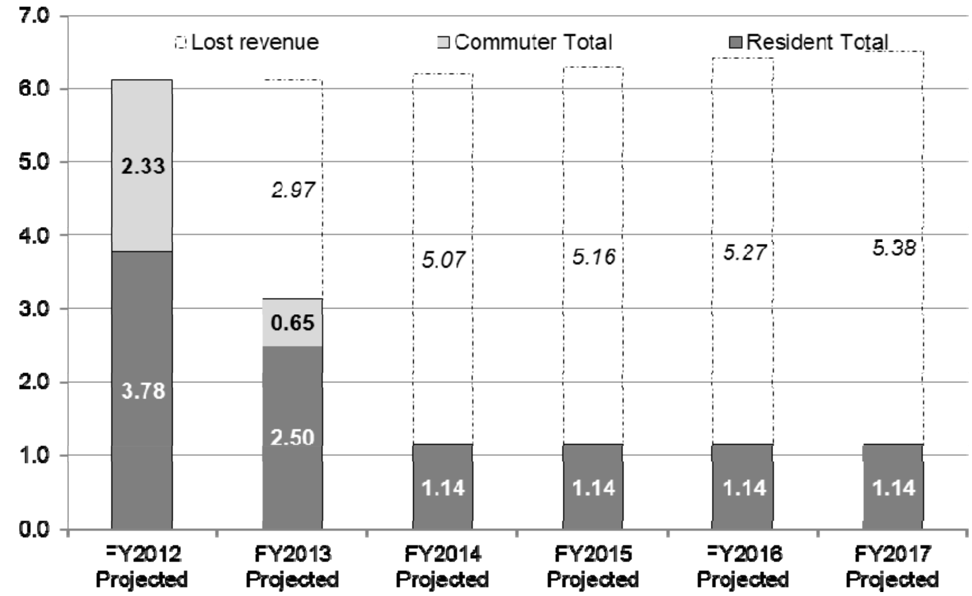
[14] Berkheimer Tax Administrator is the centrally designated EIT collector for Lawrence County.

[15] Before the State mandated changes in EIT collection that took effect in 2012, tax levied in the fourth quarter of one year was generally collected in the first quarter of the following year.

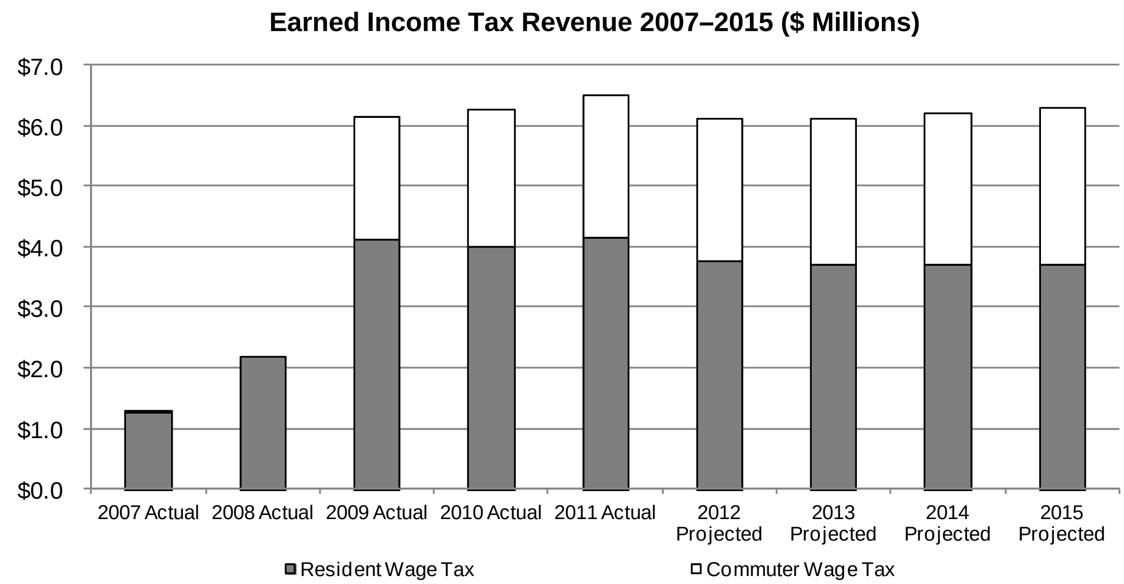
to 1.0 percent (which is almost always remitted back to the home municipality) to exit Act 47 oversight.

While the City has to reduce its EIT to exit Act 47 oversight, the City also relies on this Act 47-authorized revenue to balance its budget. Eliminating the Act 47 tax completely in 2013 would cost the City $3.0 million next year and $5.1 - $5.4 million in subsequent years. The City could not lose that revenue and maintain even basic public services. The City reduced the EIT rate for residents and non-residents by 0.05 percent in 2012 under the terms of its Recovery Plan.

EIT Revenue without Act 47 Supplement ($ Millions)

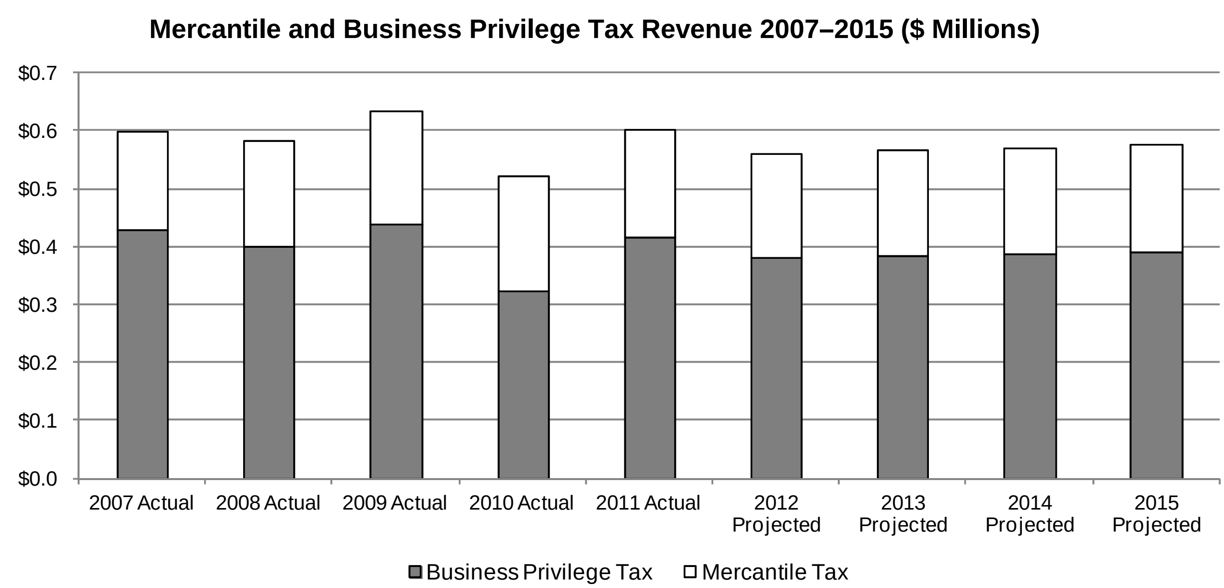


The Amended Recovery Plan baseline projection assumes a constant total EIT rate for residents and non-residents at 2012 levels through 2015. Based on recent annual results, revenue collected from residents is projected to remain flat while revenue collected from non-residents is projected to grow by 4.0 percent per year.



Mercantile and Business Privilege Taxes

Mercantile and business privilege taxes accounted for 5.9 percent of tax revenues and 4.3 percent of total revenues in the General Fund in 2011. The Mercantile Tax is a $1.50 tax per $1,000 of gross receipts on retail businesses and a $1.00 tax per $1,000 of gross receipts on wholesale businesses. The Business Privilege Tax is a $3.00 tax per $1,000 of gross receipts on service businesses. Mercantile and Business Privilege Tax revenues are directly related to economic activity in the City and did not have a consistent pattern of increase or decrease from 2007 through 2010. This Plan Amendment projects revenue from these sources will grow by 1.0 percent annually through 2015.



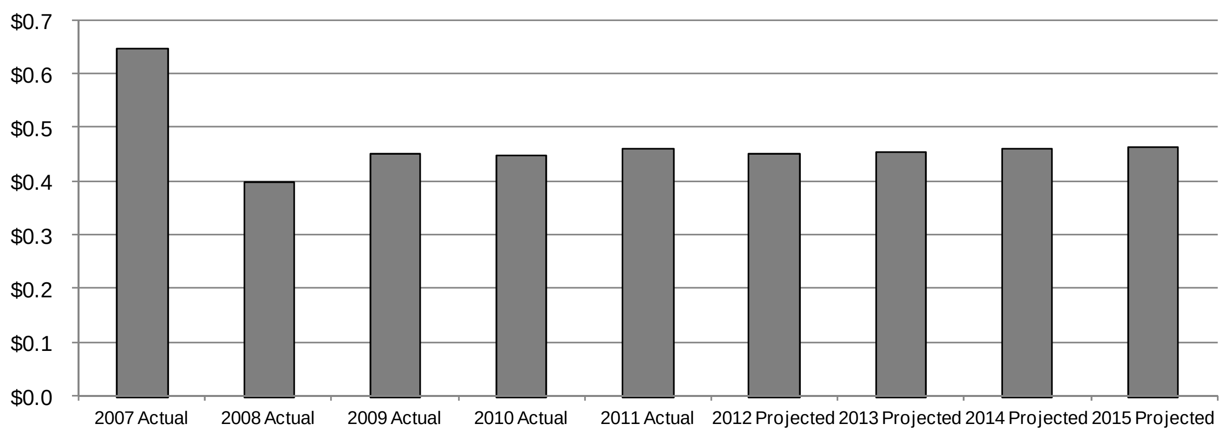
Local Services Tax

The Local Services Tax (LST) is a $52 per capita annual tax levied on all individuals who are employed within the City limits, regardless of where they reside. The LST replaced the Emergency Municipal Services Tax (EMST) in 2008, which in turn replaced the $10 per capita Occupational Privilege Tax (OPT) in 2005.

As part of the shift from EMST to LST, Act 7 of 2007 changed the method for withholding and remitting the tax. Effective in 2008, if the tax exceeds $10, it is withheld in installments based on the employer's number of pay periods. As a result, seasonal employees will not pay the entire $52. Because of the changes in withholding, employers began making quarterly payments to the City in 2008 based on the amount withheld in the previous quarter. The net impact for most Pennsylvania local governments was an approximately 25 percent reduction in 2008 collections, based on receiving only three quarters of revenue in that calendar year. Revenues then partially rebounded in 2009 once four quarters of revenue were remitted.

The Recovery Plan projects the City will collect $450,000 in 2012, which is close to the historical three-year average, with 1.0 percent annual growth.

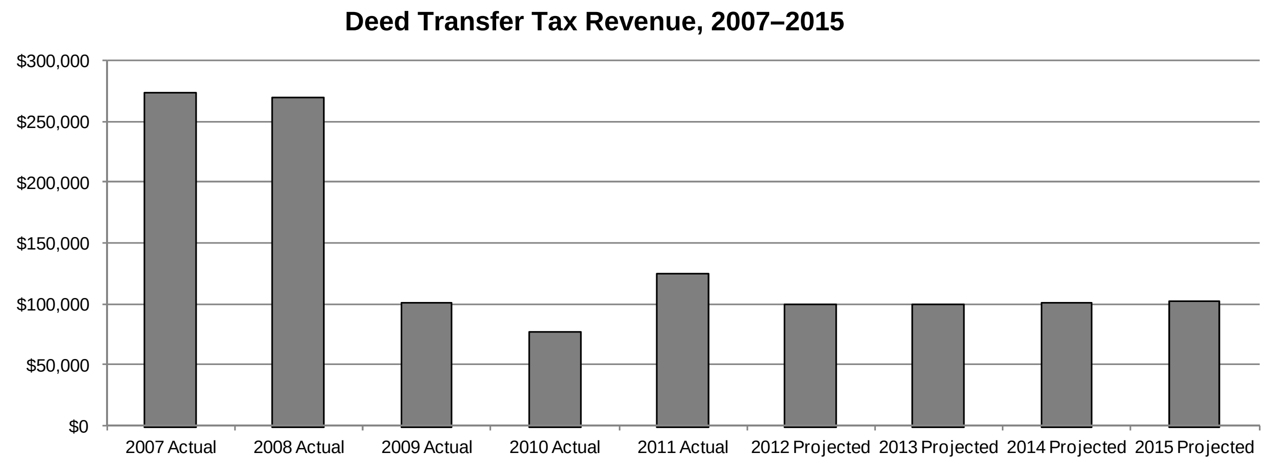
Local Services Tax Revenue, 2007–2015 ($ Millions)



Deed (or Realty) Transfer Tax

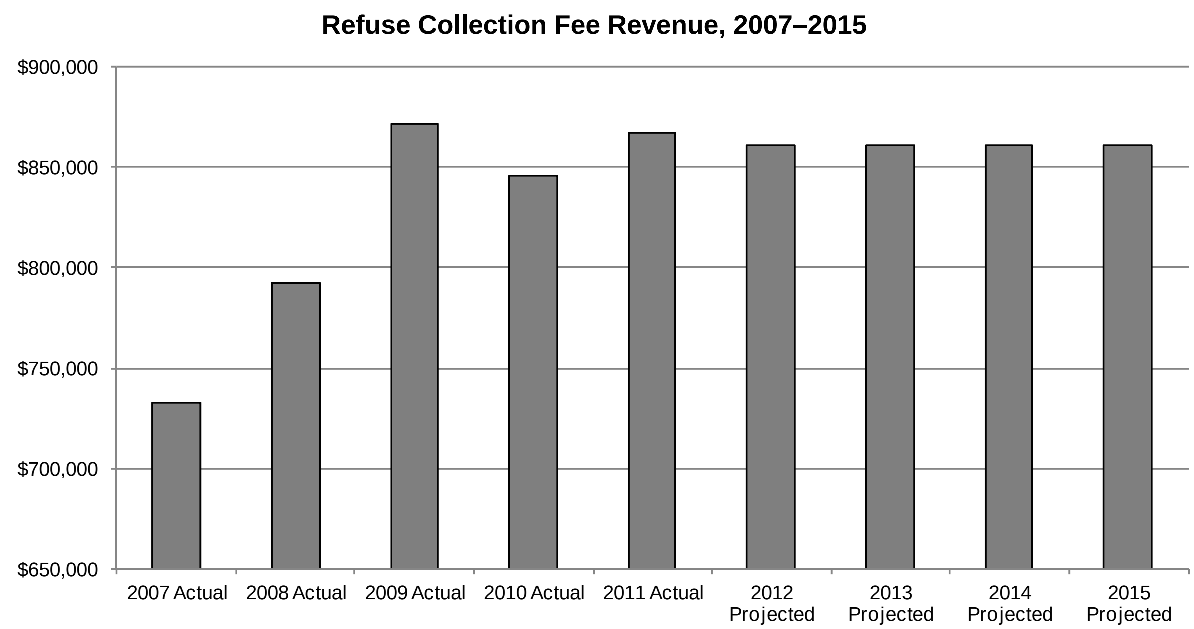
In 2007 City government levied a 1.0 percent on all real estate transactions in the City. In 2008 the New Castle Area School District also began levying a 0.5 percent deed transfer tax. Because State law limits the deed transfer tax to 1.0 percent maximum for New Castle, the School District effectively assumed half of the City's revenue in 2009. The City has a 0.5 percent transfer tax rate in 2012 and the School District charges another 0.5 percent.

Setting the rate changes aside, revenue has fluctuated with real estate transaction activity since 2009. The Recovery Plan uses $100,000 as the starting point in 2012 (close to the prior three year's average) and projects modest growth in future years given the trends discussed earlier in this chapter.



Refuse Collection Fee

One of the City's largest revenue sources and the most significant fee-for-service is the refuse collection fee. This $2.00 per garbage bag fee covers the cost of residential solid waste and recycling collection.[16] The City has increased this fee twice since 2007, raising it from $1.50 per bag to $1.70 in 2008 and then to $2.00 in 2009. Revenue dropped by 3.0 percent in 2010 and then rebounded slightly in 2011, though it is still below 2009 levels. The Recovery Plan projects $860,000 in annual revenue through 2015 (close to the prior three year's average). The baseline assumption is that the City will not increase the bag rates, though there is an initiative addressing possible increases in the Public Works Chapter.

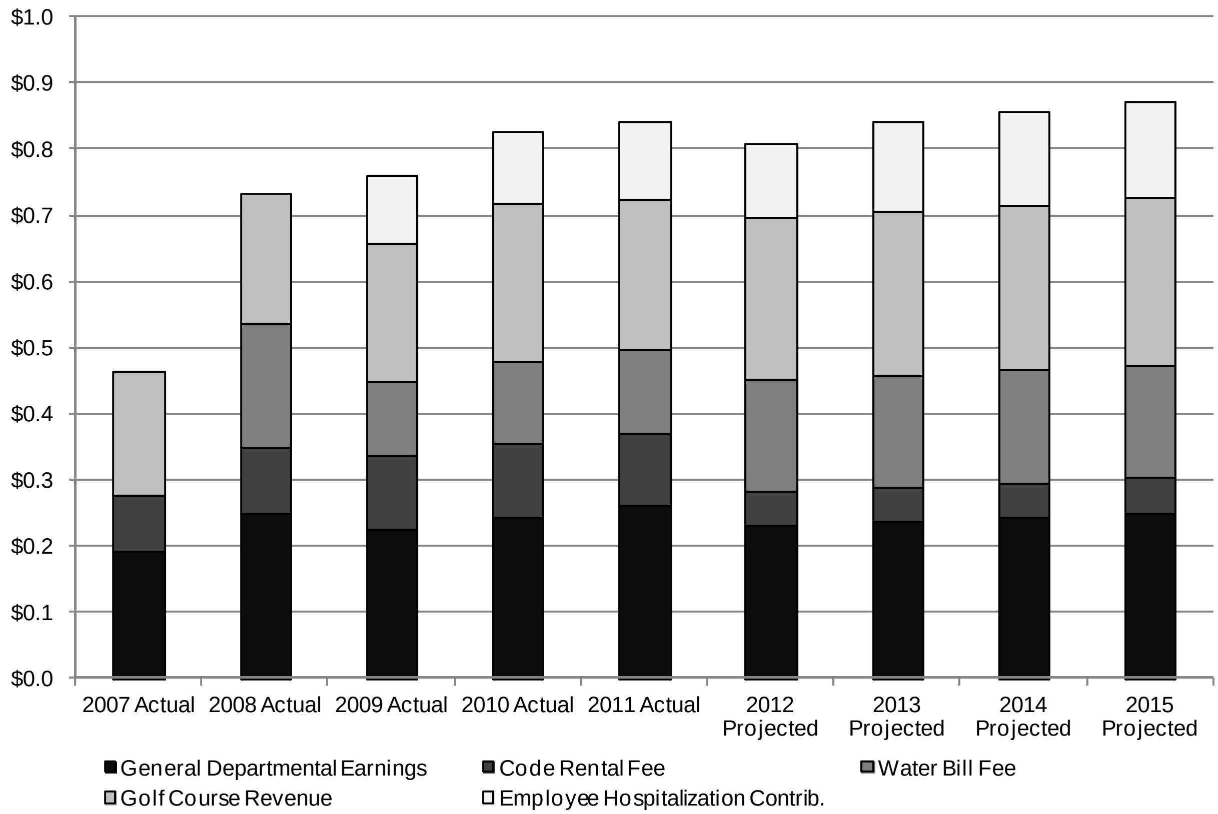


[16] Please see the Public Works Chapter for more information.

Departmental earnings

Departmental earnings are largely comprised of service charges paid by the individual who directly benefits from the service. These charges have been an increased area of focus for municipal governments nationwide. In 2011, 41 percent of city finance officers reported increasing their level of fees and charges and 23 percent reported increasing the number of fees.[17] Aside from the refuse collection revenue, the City's most significant service charges are related to the golf course and code enforcement. The City also includes its employees' monthly contributions to the cost of their health insurance in this category. In the aggregate, revenues from these sources have fluctuated from year to year. Projected revenue from the code rental fee drops by 54.0 percent in 2012 because the fee levels were reduced this year. Employee hospitalization contributions are projected to increase in 2013 when more civilian employees will start making higher monthly premium contributions.

Departmental Earnings Revenue, 2007–2015 ($ Millions)

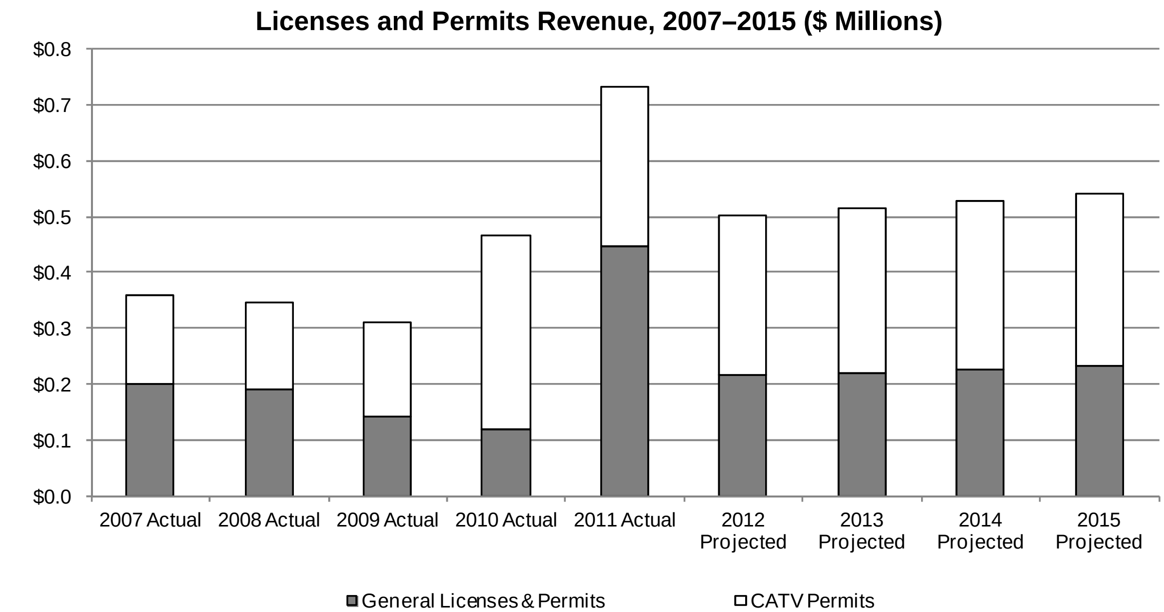


Licenses and Permits

This category consists of general licenses and permits including gas station, gaming device, beverage license, and building permits. In 2011, there was a one-time $263,000 increase in building permits due to a construction project at Jameson Hospital that boosted revenue. The projection assumes that building permit revenue will return to historical levels in 2012 and beyond.

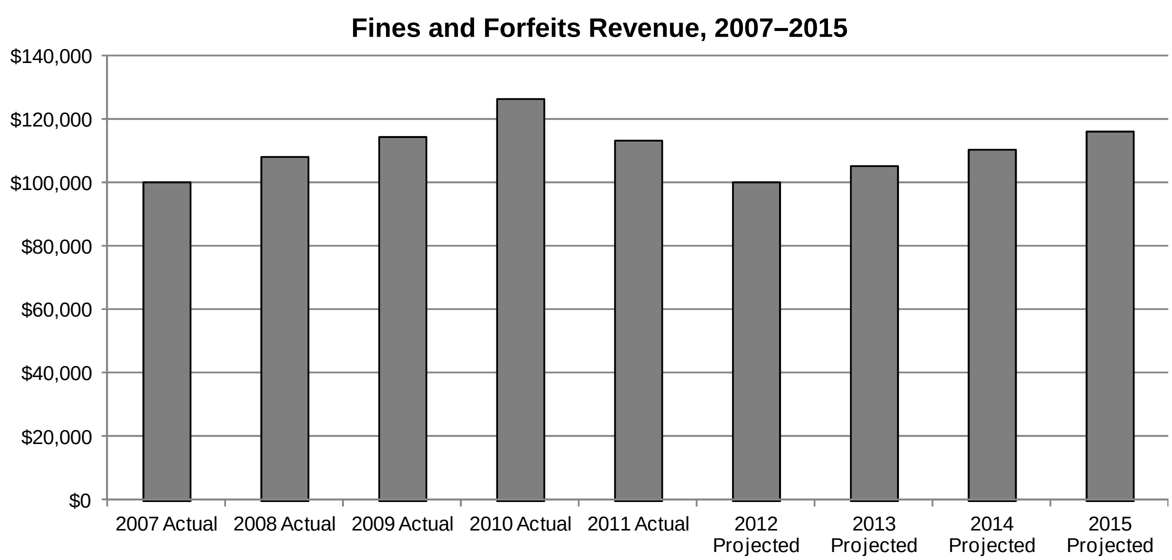
[17] Christopher W. Hoene and Michael A. Pagano. "City Fiscal Conditions in 2011." National League of Cities. October 2011.

In 2010, the City began receiving a five percent programming charge as part of its cable access television (CATV) earnings. That new charge coupled with a one-time change in when the fees are remitted to the City pushed CATV earnings $434,000 higher than the Recovery Plan projected since 2008. CATV permit revenue is projected to grow at an inflationary rate through 2015.



Fines and Forfeits

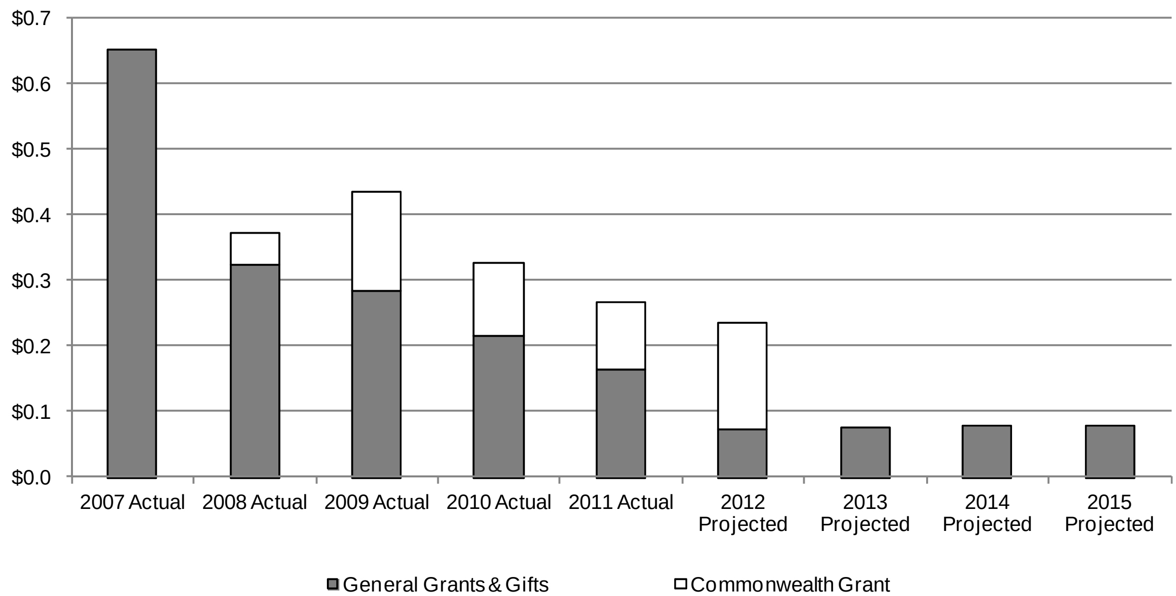
Fines and forfeits, which include traffic and general fines, are anticipated to grow 5 percent annually, in line with historical growth.



Grants and Gifts

New Castle's General Fund received $265,000 in grant and gift revenue in 2011. The largest component was the Commonwealth grant that the City received from the Department of Community and Economic Development under the original Recovery Plan ($101,000). Under the grant's terms, the City must spend the remainder of the grant before it expires in June 2012. That expiration will cut revenue in this category by 68.5 percent in 2013. Other historical grants or gifts of note include Lawrence County drug task force and a payment from the Lawrence County Housing Authority for police coverage. The Plan uses the City's 2012 budget as a starting point, eliminates the expiring Act 47 grant beginning in 2013 and assumes 2.5 percent annual growth as the City finds new grants or increases the reimbursement rate under existing ones.

Grants and Gifts Revenue, 2007–2015 ($ Millions)

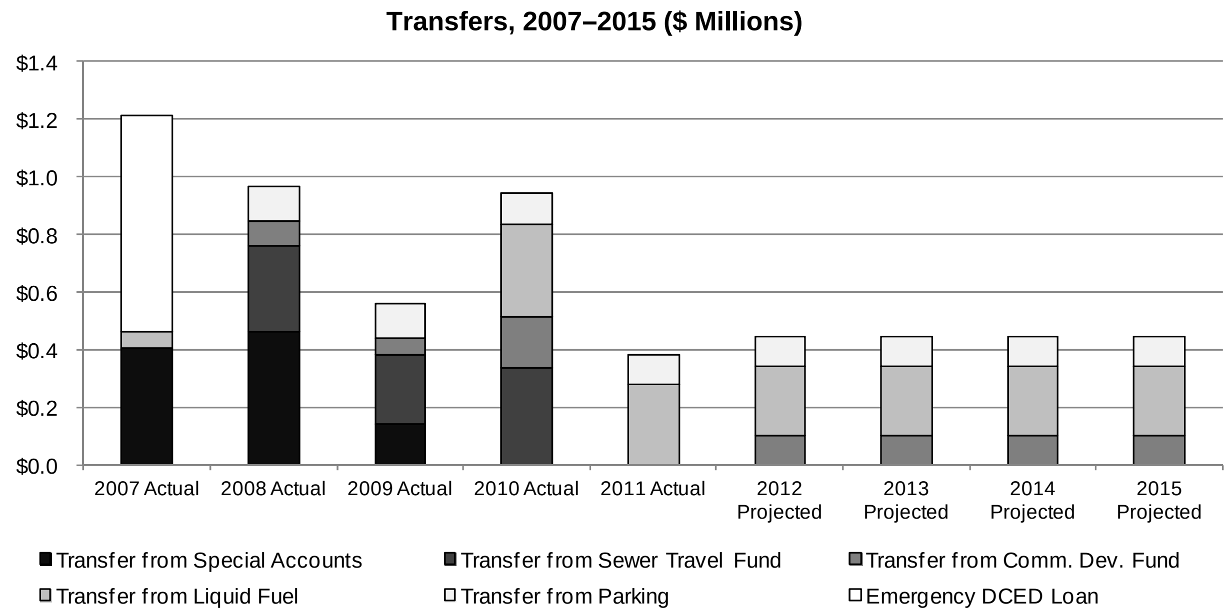


Transfers

This category consists of interfund transfers from City special funds to the General Fund. Before 2011, the largest transfer came from the Sewer Travel Fund where the City received sewer travel charge revenue, paid its sewer-related debt and then transferred the remainder to the City's General Fund.[18] In 2010 the City sold the sanitary sewer lines to the New Castle Sewer Authority and turned over its rights to the travel charge revenue. In exchange the City received a one-time payment of $17.3 million that the City used to pay down its debt and make capital investments (mostly road paving).[19] As of 2012 the largest transfers come from the Liquid Fuels, Community Development, and Parking funds. This Plan Amendment uses the 2012 budget as a starting point and assumes no growth in these transfers through 2015.

[18] The three-year average for the transfer was $434,000 from 2006-2009.

[19] Please see the Debt Management Chapter for more information on this sale.



Other revenues

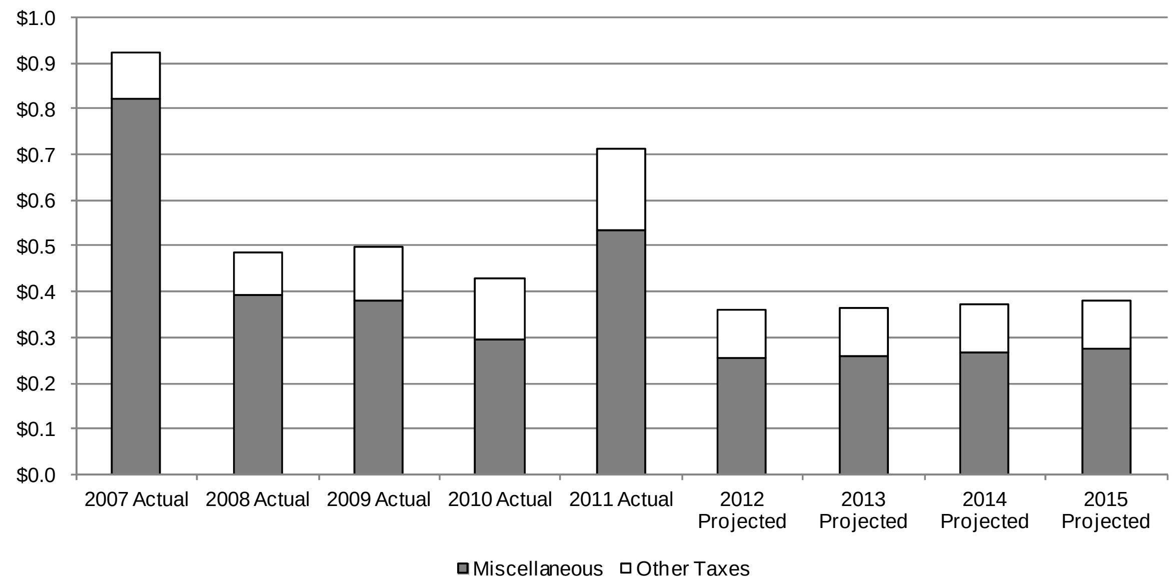
Other City revenue sources include Other Taxes, Interest and Rents, Sale of Property and Equipment, Miscellaneous Earnings. In the aggregate, these sources have not shown a pattern of consistent growth since 2007.

Other Taxes include miscellaneous prior year tax collections, utility taxes, and other small tax receipts. **Interest and Rents** consist of commissions and interest earnings off the General Fund and other special funds. **Sale of Property and Equipment** includes miscellaneous property sales. These sources are projected to grow at modest rates (0.5 – 1.5 percent) annually.

The largest component of **Miscellaneous Earnings** are the fees that the New Castle School District pays to the City for tax collection (22.2 percent of this category in 2011). With the aforementioned change in EIT collection, the City no longer collects that tax on behalf of the School District and its payment dropped accordingly. Other components include state snow removal revenue, a pension administrative reimbursement, and other miscellaneous revenues. This source is projected to grow at 2.5 percent.

State pension aid, which is collected outside the General Fund and does not appear in the graph below, is projected to grow at 2.0 percent each year.

All Other Revenues, 2007–2015 ($ Millions)



Initiatives

As noted above, the City depends on a few sources for most of its revenue. The City's property and earned income taxes accounted for two-thirds of total General Fund revenue in 2011 (63.6 percent). The tax base for these critical revenues is stagnant in the case of property taxes and resident earned income tax. There has been growth in the non-resident earned income tax base, but the City has to significantly reduce the non-resident EIT to exit Act 47. The City also has the highest tax rates of all Lawrence County municipalities in all three categories, which puts New Castle at a competitive disadvantage compared to its neighbors.

Despite these challenges, the City needs a reliable, sustainable revenue structure capable of funding required services. Since total expenditures are likely to rise with the projected increases in City pension contributions, the City needs additional revenue from existing sources, new sources or both to keep recurring revenues in balance with recurring expenses.

The ideal source for additional revenue is economic growth absent new or increased taxes. Rising property values, higher resident earned incomes and more business activity would benefit New Castle's residents and businesses and give City government more revenue to respond to the community's needs. This Plan devotes an entire chapter to strategies to help City government foster economic development.

Nevertheless, given the uncertain outlook for the regional economy and New Castle's slow pace of economic growth, City government cannot wait for natural growth to meet rising expenses. The City's pension contribution alone is expected to increase by at least $324,000 in 2013 and $1.3 million in 2015. To counter those rising costs and maintain critical services, the City has to control its expenditure growth in all areas and make strategic reductions, which is the focus of most other Plan chapters. And, to make progress toward exiting Act 47 oversight, the City has to balance its annual revenues with annual expenditures with less of a reliance on the non-resident earned income tax.

With those objectives and competing pressures in mind, the Amended Recovery Plan includes the following revenue initiatives that the City shall pursue in tandem with the expenditure-focused reductions described in other chapters.

Tax rate changes

RV01.	**Earned income tax rates**	
	Target outcome:	Balance annual budget
	Financial Impact:	N/A (see below)
	Responsible party:	Administration, City Council

As the other chapters of this Amended Recovery Plan explain, it will be very difficult for the City to keep its annual finances in balance through 2015, even with the considerable support that the City gets from the additional taxing authority granted under Act 47. The City's annual required contribution to the employee pension fund will double by 2015 and the City's tax base is not growing fast enough to cover the rising cost of providing local government services. Many initiatives in the Amended Recovery Plan focus on reducing the City's pension fund liability, providing the conditions for the tax base to grow and reducing the cost of local government to a level the City can afford. These initiatives are critical to the City's long term viability, but will take time to bear fruit.

Therefore, pursuant to Act 47, the City shall petition the Lawrence County Court of Common Pleas to increase the rate of earned income tax upon residents beyond the maximum rate otherwise provided by law as follows.

Resident Earned Income Tax Rates

	2011	2012	2013	2014	2015
Rate under Act 511	0.50	0.50	0.50	0.50	0.50
Act 47 supplement	1.10	1.05	1.15	1.15	0.95
Distressed pension rate	0.10	0.10	0.00	0.00	0.20
School District rate[1]	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
Total Rate	**2.20**	**2.15**	**2.15**	**2.15**	**2.15**

Similarly, pursuant to Act 47, the City shall petition the Lawrence County Court of Common Pleas to increase the rate of earned income tax upon non-residents beyond the maximum rate otherwise provided by law as follows.

[1] The School District EIT is not controlled by the City or subject to the provisions of this Recovery Plan.

Non-Resident Earned Income Tax Rates

	2011	2012	2013	2014	2015
Rate under Act 511	1.00	1.00	1.00	1.00	1.00
Act 47 supplement	1.00	0.95	1.05	1.05	.85
Distressed pension rate	0.10	0.10	0.00	0.00	0.20
Total projections	**2.10**	**2.05**	**2.05**	**2.05**	**2.05**

The City shall proceed with its petition to the Court as part of the budget process each year and, subject to Court approval, implement the levies shown above effective January 1 of each year. The additional revenue resulting from the City's petition shall not be subject to sharing with any other governmental entity, including the New Castle School District.

Tax rate contingent on other initiatives

As noted above, the Recovery Plan contains several initiatives that are intended to reduce the City's large long-term liabilities and provide the conditions for the tax base to grow, so that the City can bring its finances into balance without the additional taxing authority provided in Act 47. The City has to achieve that balance to exit Act 47 oversight.

The long term benefits of these initiatives do not reduce their importance. Instead, the opposite is true – because the benefits are not immediate, the City needs to make progress on them now to exit Act 47 oversight. Ideally the City will make progress on these initiatives, the local economy will improve and the City will be able to reduce the earned income tax rate provided under Act 47 and move toward exiting oversight relatively seamlessly. The City's elected and appointed leaders cannot control how the economy grows, but they can control their own efforts to implement the long term initiatives in this Plan. If City officials do not make progress on these initiatives, then the alternative path out of Act 47 is a mandatory reduction in the Act 47-authorized tax.

Therefore, the earned income tax rates described above for 2014 shall be contingent on the successful completion of the following initiatives by October 31, 2013:

- **AD03:** Consider reorganizing City government under a Home Rule charter to increase revenue flexibility
- **CE01:** Restructure the Department of Community and Economic Development
- **CE02:** Revise the Department Director position description and fill the position

If the City does not complete these initiatives as determined by the Recovery Coordinator, the Act 47-authorized supplemental EIT rate on residents and non-residents shall be reduced by 0.05 percent. In this scenario, residents shall pay a total EIT rate of 2.10 percent (1.6 percent to the City, 0.5 to the School District) and non-residents shall pay a total EIT rate of 2.0 percent (in most cases, 1.0 percent to New Castle and 1.0 percent to the home municipality).[21]

The earned income tax rates described above for 2015 shall be contingent on the successful completion of the following initiatives by October 31, 2014:

[21] The exact rate breakdown will depend on the home municipality's EIT rate.

- **CE04:** Develop a short-term action plan (for economic and community development)
- **RV04:** Inventory and divest City-owned tax exempt properties

If the City does not complete these initiatives as determined by the Recovery Coordinator, the Act 47-authorized supplemental EIT rate on residents and non-residents shall be reduced by 0.05 percent below the rates in effect for 2014.

The City's earned income tax rate shall also be contingent on the City's compliance with initiative AD01 which governs the maintenance of a rainy day reserve, the use of the anticipated gas lease revenue and the use of other windfall benefits. If the City does not comply with this initiative, the earned income tax rates shall be subject to the same reductions in 2014 and 2015 described above.

The Coordinator shall determine whether the City has completed and complied with the initiatives described above and provide a statement to that effect as part of the City's petition to the Court of Common Pleas in 2013 and 2014.

Tax collection improvement

RV02.	**Centralize EIT, LST, BPT and mercantile tax collection**	
	Target outcome:	Increased revenue
	Financial Impact:	N/A
	Responsible party:	Administration, Treasurer's Office

In 2011 the City shifted responsibility for collecting earned income tax from its Treasurer's Office to the external entity designated as the EIT collector for all Lawrence County municipalities. The City made this shift a few months in advance of the Commonwealth-mandated change subject to the process outlined in Act 32 of 2009. As of June 2012, the Treasurer's Office collected current year local services tax (LST), business privilege tax (BPT) and mercantile taxes. Another private organization collected delinquent LST, BPT and mercantile taxes.[22]

LST is similar to the earned income tax in terms of who pays it (people employed in the City regardless of their residence) and how it is collected (withheld from employee's paychecks on a regular basis). Though there are some instances where people are subject to one tax and not the other, there is generally enough overlap in the tax base where it would be more efficient to have one collector instead of two.

The BPT and mercantile taxes are different from the EIT and LST in that they are based on business receipts instead of an employee's earnings or employment status. But there is still overlap with the EIT. A business that withholds the EIT from employees will generally have receipts subject to the BPT and mercantile tax.

The City may be able to increase its total tax revenue by shifting LST, BPT and mercantile tax collection to the same entity that handles current year EIT collection. That single collector can more easily audit whether a business meeting its obligations for one tax is also doing so for the others.

[22] Berkheimer Tax Administrator is the centrally designated EIT collector for Lawrence County. Sharp collects delinquent EIT due to the City before 2011 and all other kinds of delinquent taxes, except delinquent real estate taxes.

The collector could then pursue any corrective action necessary and increase the total amount of City receipts.

Using one collector could also be more convenient for the businesses withholding these taxes since it would provide one point of payment for these taxes instead of two. Plus the external tax collector offers more payment options, such as online tax payment and filings, than the City's Treasurer's Office does.

As of July 2012, the City had introduced ordinances that would shift responsibility for collecting LST, BPT, and mercantile tax to the same entity that collects EIT. The Coordinator supports this proposed change.

RV03.	**Improve current year property tax collection**	
	Target outcome:	Increased revenue
	Financial Impact:	N/A
	Responsible party:	Administration, Treasurer's Office

As noted in the original Recovery Plan, the City has historically collected most of its real estate tax during the year in which it is due. As the chart below shows, the City's current year collection rate has hovered around 81 percent. Once delinquent collections are included, the City has only surpassed the 100 percent mark three times in the last 10 years. Please note that the delinquent collections include revenue from all prior years. For example, the City achieved a 103.7 percent collection rate in 2005 including the money that was due any year up to and including 2004.

New Castle Real Estate Tax Collections, 2001-2010*

Year	Assessed Valuation	Total City Millage	Total Real Estate Tax Levy	Current Fiscal Year End Collections	Percent Current Collections to Current Levy	Current and Delinquent Collected	% Current and Delinquent Collections to Current Levy
2001	117,226,360	33.71	3,951,701	3,212,600	81.30%	3,895,222	98.57%
2002	115,857,800	35.71	4,137,282	3,398,084	82.13%	4,107,636	99.28%
2003	516,058,300	8.416	4,343,147	3,516,450	80.97%	4,198,333	96.67%
2004	509,730,800	8.416	4,289,894	3,571,249	83.25%	4,339,679	101.16%
2005	502,445,300	8.416	4,228,580	3,495,229	82.66%	4,384,932	103.70%
2006	502,530,950	9.916	4,983,097	4,057,125	81.42%	4,469,183	89.69%
2007	506,410,200	9.916	5,021,564	4,061,896	80.89%	4,541,392	90.44%
2008	503,211,600	10.342	5,143,221	4,175,962	81.19%	5,091,096	98.99%
2009	505,365,400	11.726	5,811,142	4,659,644	80.18%	5,442,231	93.65%
2010	502,985,600	11.726	5,775,389	4,663,843	80.75%	5,784,654	100.16%

*Source: City of New Castle Official Statement: General Obligation Bonds, Series of 2012. January 26, 2012

The International City/County Management Association suggests local governments should aim to achieve at least a 95 percent collection rate for current real estate taxes as a general rule.[23] Not all local governments are able to meet this standard, but New Castle's rate is much lower than other municipalities in similar circumstances. For example, the City of Reading, which entered Act 47

[23] Robert L. Bland. *A Revenue Guide for Local Government.* Second Edition. ICMA. 2005.

oversight in 2010, collected 89 percent of the current year levy in 2009. Lawrence County achieved a 90.0 percent collection that same year while New Castle lagged far behind at 80.2 percent.

The City's stagnant assessed valuation and limited budget flexibility heightens the importance for the City to do all it can to improve its performance in this area. Because real estate taxes are the City's largest source of revenue, even a marginal improvement has a significant impact. A one percent improvement in current year property tax collection would have netted an additional $58,000 in 2010.

The City Treasurer shall evaluate the following alternatives to improve current year property tax collections. The Treasurer shall report his findings including any other recommended improvements to City Council, the Administration, the Act 47 Coordinator and the Commonwealth by March 31, 2013. The Administration and Council shall then work cooperatively to enact any ordinances necessary to institute the improvements by June 31, 2013.

Alternatives for consideration include:

- **Sending notices for past due payments:** The City generally mails its property tax bills in February or March of each year. The School District's property tax bill is mailed later to correspond with its July-June fiscal year. As of 2011, the City then sends the first follow-up notice to delinquent tax payers in November since the City and School District taxes are both past due at that time. The City could follow up with select tax payers that are delinquent on City taxes earlier in the year.

- **Partial payments:** The City previously has not allowed residents to pay their taxes in installments throughout the year. This may have a negative impact on current collections if residents cannot afford to pay the full tax amount all at once. In contrast, the New Castle School District allows home owners to pay the full amount due over the course of a year. The City should consider providing a similar option for residents. This payment structure could help the City collect taxes from residents who otherwise may become delinquent.

- **Increase collection locations and improve ease of payment:** Since the vast majority of tax collection occurs through voluntary compliance, one of the most basic tenets of tax collection is to provide taxpayers with numerous and convenient collection options. Currently, New Castle residents can pay their real estate taxes through US mail or in person at the City Treasurer's office. Other local governments that have improved tax collection by increasing the number of locations where citizens can pay taxes. Providing multiple convenient and accessible collection points and office hours should be the foundation for improving current property tax collection.[24] Potential changes include adding a lockbox for after office hours payments that would be processed the following business day and allowing the use of credit cards or other payment methods.

Tax exempt properties

Like many other Pennsylvania cities, and especially cities that serve as county seats, New Castle has a concentration of tax exempt properties within its borders. That includes the properties held by the City itself, other levels of government, small and large non-profit organizations and different places of worship. According to the City's own research, there are approximately 1,300 tax exempt properties in the City.

In 2010 the Lawrence County Assessor's Office provided a list of properties that were exempt from paying property taxes as of September 15, 2010. The list included over 100 parcels where the City

[24] See prior footnote.

itself was listed as the owner. Setting aside the parcels that hold City government facilities or are City parks, the City takes ownership of properties because of tax delinquencies or other issues. Many parcels on the list are very small or do not list a value for "improvements," implying that they do not have a structure of significant value. It is also possible that some of these properties were incorrectly listed as owned by the City or have since been transferred to other owners. Nevertheless, the number of properties is too large to ignore. The first initiative in this section addresses the City-owned tax exempt properties.

Several of the City's largest employers are tax exempt including Jameson Memorial Hospital, New Castle Area School District and Lawrence County government. These organizations own several parcels that appear on the September 2010 list. That list shows at least 35 parcels that each has a combined value of at $500,000 or more (i.e. land plus improvements).[25] The parcels include:

- Two owned by Jameson Hospital or Jameson Health Services with a combined assessed value of $24.6 million.
- Seventeen owned by churches with a combined assessed value of $16.0 million.
- Nine parcels owned by the Lawrence County Housing Authority with a combined assessed value of $11.3 million.

Jameson Hospital is an important source of employment-related income for the City and has occasionally provided grants to the City. The Housing Authority has made a payment-in-lieu of taxes in some years and pays the City for police coverage. The church congregations include many residents who pay property, income and other taxes to the City. While the City government benefits from these organizations' presence in New Castle, the opposite is also true – these organizations rely on the City to maintain roads, provide police protection and respond to fires. The second initiative in this section involves the City's arrangement with these large tax exempt organizations.

Once the parcels owned by the City, the largest non-profits and other governments are removed from the list, there is still a very large number of privately owned tax exempt parcels in New Castle. If this database is accurate, the amount of tax exempt acreage hampers New Castle's ability to generate sufficient revenues to meet the cost of basic municipal services. The City should be vigilant to ensure that only organizations that are legally qualified to receive tax exemption do so. The third initiative addresses this issue.

RV04.	**Inventory and divest City-owned tax exempt properties**	
	Target outcome:	Increased revenue
	Financial Impact:	TBD
	Responsible party:	Director of Economic Development

The City does not maintain a list of all the tax-exempt properties that it owns. Creating a list is the first step in improving how they are managed. Once the City completes the process for filling the new Director of Economic Development position,[26] the Director shall develop a database of these properties as a priority assignment. Ideally the City would be able to map these properties using Geographic Information Systems (GIS) software. The County or a regional planning organization

[25] These 35 exclude parcels owned by the federal, County or City government; the New Castle School District and the New Castle Area Transit Authority.
[26] Please see the initiative section of the Economic Development Chapter for more information.

may be able to help the City create that map so officials can more easily see where they are concentrated, whether there is other developable land nearby and other useful information for divestment decisions.

Once the City has that inventory, the Director shall recommend a program to the Mayor and City Council to divest the City of the parcels that it owns or co-owns with the New Castle School District.[27] While the content of the program is up to the Director, possible program elements include selling the properties through auctions; marketing the properties for development; or granting the land to organizations that can commit to maintaining it and paying taxes on it.

RV05.	**Seek payments in lieu of taxes**	
	Target outcome:	Increased revenue
	Financial Impact:	$219,000
	Responsible party:	Mayor, City Council

Jameson Hospital is the City's largest employer as well as its largest private tax exempt organization. It owns the two tax exempt properties with the highest value in the City. Led by the Mayor, the City shall enter into discussions with the Hospital regarding regular financial support to help the City provide necessary municipal services.

The Coordinator recognizes that some of the other large tax exempt organizations have limited financial resources. But the Amended Recovery Plan relies on contributions from all members of the community, including those individuals who will have to pay higher taxes from their limited means. Therefore, the City shall financial solicit support from other non-governmental tax-exempt institutions in the City during the 2012 budget process. The eventual goal should be a PILOT program that generates a total of $125,000 annually, approximately 1 percent of 2012 budgeted revenues.

Financial Impact

	2013	2014	2015	Total
Discount %	75%	50%	0%	
Fiscal Impact	$31,000	$63,000	$125,000	$219,000

RV06.	**Audit tax-exempt properties**	
	Target outcome:	Increased revenue
	Financial Impact:	TBD
	Responsible party:	Solicitor, Treasurer

The City, in conjunction with its Treasurer and Solicitor, shall verify that all privately held properties with a combined assessed value of $500,000 and a listed real estate tax exemption are legally entitled to the exemption. If any property is not entitled to an exemption, the City shall take appropriate action to end the exemption and place the parcel to its tax rolls. Once the City completes its review of these largest properties, it shall review the properties with a value of $300,000 to $500,000.

[27] This excludes the parcels with City government facilities.

Other

RV07.	**Adjust fee levels to account for rising costs**	
	Target outcome:	Increased revenue
	Financial Impact:	TBD
	Responsible party:	Business Administrator, City Council

In 2011 the City collected $113,000 from fines and forfeits and $723,000 from departmental charges for service other than the refuse collection fee.[28] From 2007 through 2010 the City averaged $165,000 per year in revenue from general licenses and permits. While periodic incremental adjustments to any individual charge will not generate significant new revenue, the City should adjust these charges over time to alleviate some of the need to collect more revenue through taxes. The Business Administrator shall evaluate the City's charges, fines, permits or license fees each year during the budget process to determine if any adjustments are necessary.

[28] The refuse collection fee is addressed in the Public Works Chapter. The departmental earnings do not include the employee contributions for health insurance, which are addressed in the Workforce Chapter.

Appendices

Appendix A – Plan Initiatives

Chapter	No.	Page	Initiative	2013	2014	2015	Total
Pension	PN01	13	Use 75 percent amortization for MMO in 2013 and 2014	432,000	533,000	0	965,000
Pension	PN02	13	Lower interest earnings assumption	0	(279,000)	(282,000)	(561,000)
Pension	PN03	14	Property tax increases in 2013 and 2015	0	407,000	814,000	1,221,000
Pension	PN04	15	General fund transfer to cover pension gap	356,000	1,018,000	1,290,000	2,664,000
Pension	PN05	17	Evaluate costs and benefits of pension bonds	N/A	N/A	N/A	N/A
Pension	PN06	18	Moratorium on benefit enhancements for current retirees and current employees	N/A	N/A	N/A	N/A
Pension	PN07	19	Police pension plan cost reduction	N/A	N/A	N/A	N/A
Pension	PN08	19	Firefighter pension plan cost reduction	N/A	N/A	N/A	N/A
Pension	PN09	19	Non-uniformed employee pension plan cost reduction	N/A	N/A	N/A	N/A
Debt	DB01	30	Monitor debt refinancing opportunities	N/A	N/A	N/A	N/A
Debt	DB02	30	Adopt debt policy	N/A	N/A	N/A	N/A
Workforce	WF01	46	Professional assistance for negotiations governed by Act 111	N/A	N/A	N/A	N/A
Workforce	WF02	47	Establish a labor/management committee for all employee groups	N/A	N/A	N/A	N/A
Workforce	WF03	48	Incorporate specific City contributions to employee health insurance into collective bargaining agreements	0	106,000	148,000	254,000
Workforce	WF04	50	Contain post-retirement health care costs	N/A	N/A	N/A	N/A
Workforce	WF05	50	Fraternal Order of Police employee compensation allocation	42,000	85,000	87,000	214,000
Workforce	WF06	53	International Association of Firefighters employee compensation allocation	0	42,000	60,000	102,000
Workforce	WF07	56	Non-represented employee compensation allocation	(5,000)	16,000	16,000	27,000
Workforce	WF08	57	Prohibition on new or enhanced benefits for non-uniformed employees	N/A	N/A	N/A	N/A
Administration	AD01	61	Maintain fund balance and direct unanticipated additional funds to major liabilities (One-time use of gas lease proceeds in 2013)	507,000	TBD	TBD	507,000
Administration	AD02	62	Explore the potential long-term lease or privatization of parking assets	N/A	N/A	N/A	N/A
Administration	AD03	63	Consider reorganizing City government under a Home Rule charter to increase revenue flexibility	N/A	N/A	N/A	N/A
Intergovernmental Cooperation	IG01	67	Pursue intergovernmental cooperation	N/A	N/A	N/A	N/A
Fire	FR01	76	Restructure department to reduce costs	0	455,000	472,000	927,000

Chapter	No.	Page	Initiative	2013	2014	2015	Total
Fire	FR02	79	Continue discussions with the County to change medical dispatch protocol	N/A	N/A	N/A	N/A
Fire	FR03	80	Improved use of performance data	N/A	N/A	N/A	N/A
Fire	FR04	80	Impose and actively enforce a false alarm fee	25,000	25,000	25,000	75,000
Fire	FR05	82	Confined space rescue fee	10,000	10,000	10,000	30,000
Fire	FR06	82	Fire vehicle purchasing program	N/A	N/A	N/A	N/A
Police	PD01	90	Increase department revenues	25,000	50,000	50,000	125,000
Police	PD02	91	Police vehicle purchasing program	N/A	N/A	N/A	N/A
Public Works	PW01	95	Review alternatives to replace the public works garage	N/A	N/A	N/A	N/A
Public Works	PW02	96	Index blue bag fees to maintain cost recovery	N/A	N/A	N/A	N/A
Public Works	PW03	97	Establish a vehicle replacement program	N/A	N/A	N/A	N/A
Public Works	PW04	97	Establish a maintenance supply inventory program	N/A	N/A	N/A	N/A
Public Works	PW05	98	Commission a study of the parks and playground system	N/A	N/A	N/A	N/A
ED & CD	CE01	114	Restructure the Department of Community and Economic Development	N/A	N/A	N/A	N/A
ED & CD	CE02	115	Revise the Department Director position description	N/A	N/A	N/A	N/A
ED & CD	CE03	117	Electronically track code enforcement activity	N/A	N/A	N/A	N/A
ED & CD	CE04	118	Develop a short-term action plan	N/A	N/A	N/A	N/A
Revenue	RV01	139	Earned income tax rates	N/A	N/A	N/A	N/A
Revenue	RV02	141	Centralize EIT, LST, BPT and mercantile tax collection	N/A	N/A	N/A	N/A
Revenue	RV03	142	Improve current year property tax collection	N/A	N/A	N/A	N/A
Revenue	RV04	144	Inventory and divest City-owned tax exempt properties	N/A	N/A	N/A	N/A
Revenue	RV05	145	Seek payments in lieu of taxes	31,000	63,000	125,000	219,000
Revenue	RV06	145	Audit tax exempt properties	N/A	N/A	N/A	N/A
Revenue	RV07	146	Adjust fee levels to account for rising costs	N/A	N/A	N/A	N/A

Appendix B – Act 133 Projections

Act 133 of 2012 requires that an Act 47 recovery plan formulated by the Recovery Coordinator include "projections of revenues and expenditures for the current year and the next three years, both assuming the continuation of present operations [baseline] and as impacted by the measures in the plan." Act 133 requires the projections include an "itemization" of revenues and expenditures, though the items listed in the Act are not specifically defined, overlap with one each other and are not parallel (i.e. some are specific and others general).

In reference to the list in Act 133, the Recovery Coordinator provides these projections of the City's revenues and expenditures in the baseline scenario and after the measures in the Amended Recovery Plan are implemented. The projections cover the revenues and expenditures in the General Fund, Sinking Fund and Pension Funds. There is a glossary to explain the categories in more detail placed after the baseline projections.

Revenue Projections - Baseline

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Real Estate Taxes	5,995,133	6,008,043	6,021,082	6,034,252
Resident Wage Tax	3,778,114	3,716,608	3,716,608	3,716,608
Non-resident Wage Tax	2,333,994	2,396,596	2,492,459	2,592,158
Local Service Tax	450,000	454,500	459,045	463,635
Business Privilege Tax	380,000	383,800	387,638	391,514
Mercantile Tax	180,000	181,800	183,618	185,454
Deed Transfer Tax	100,000	100,500	101,505	103,028
Other Taxes	105,000	105,525	106,580	108,179
Local taxes subtotal	**13,322,241**	**13,347,371**	**13,468,536**	**13,594,828**
Licenses & Permits subtotal	**504,900**	**517,523**	**530,461**	**543,722**
Fines & Forfeits subtotal	**100,000**	**105,000**	**110,250**	**115,763**
Interest and Rents	**39,100**	**40,078**	**41,079**	**42,106**
Commonwealth Grant	*161,965*	*0*	*0*	*0*
Act 147 C.O.L.A. Pension aid	*29,000*	*29,725*	*30,468*	*31,230*
Drug Task Force Grant	*30,000*	*30,750*	*31,519*	*32,307*
CDBG Funding	*246,000*	*246,000*	*246,000*	*246,000*
Other Grants And Gifts	13,000	13,325	13,658	14,000
Grants & Gifts subtotal	**479,965**	**319,800**	**321,645**	**323,536**
Refuse Collection Fees	*860,000*	*860,000*	*860,000*	*860,000*
Golf Course Fees	*245,000*	*247,450*	*249,925*	*252,424*
Other Departmental Earnings	563,488	593,755	606,322	619,462

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Departmental Earnings subtotal	**1,668,488**	**1,701,205**	**1,716,247**	**1,731,886**
Sale of Property and Equipment	**100**	**101**	**102**	**103**
Miscellaneous Earnings	**216,435**	**221,846**	**227,392**	**233,077**
Transfers	**447,198**	**447,198**	**447,198**	**447,198**
State Pension Aid	**618,667**	**631,041**	**643,661**	**656,534**
General Pension Revenue	**150,000**	**153,750**	**157,594**	**161,534**
TOTAL REVENUES	**17,547,095**	**17,484,911**	**17,664,164**	**17,850,287**

Expenditure Projections by Category - Baseline

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Workforce Costs (including MMO)	10,442,739	11,588,152	12,396,459	12,887,045
Other Professional Services	950,704	977,519	1,005,161	1,033,660
Materials and Supplies	1,918,350	1,877,206	1,961,144	2,050,590
Inter-Departmental Charges	709,362	560,362	563,392	566,452
Other Charges	883,520	983,108	965,186	989,615
Debt Service	2,762,564	2,841,991	2,854,585	2,983,248
Pension Admin. & Other Costs	150,000	153,750	157,594	161,534
TOTAL EXPENDITURES	**17,817,239**	**18,982,088**	**19,903,520**	**20,672,144**

Expenditure Projections by Function - Baseline

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Mayor's Office	99,918	102,413	105,003	107,692
City Council and Clerk	177,758	182,005	186,360	190,825
City Controller	34,494	36,419	38,494	40,732
Elected & Executive Officials subtotal	**312,170**	**320,838**	**329,857**	**339,248**
Financial Management subtotal	**557,313**	**571,734**	**586,600**	**602,195**
Police	3,235,212	3,397,208	3,560,106	3,732,347
Fire	2,546,135	2,700,670	2,807,319	2,920,086
School Crossing Guards	59,203	60,388	61,597	63,444
Public Safety subtotal	**5,840,550**	**6,158,266**	**6,429,021**	**6,715,877**

	2012	2013	2014	2015
	Projected	**Projected**	**Projected**	**Projected**
Sewer Maintenance	77,134	159,270	163,478	168,369
Streets and Bridges	614,797	631,006	647,731	669,802
Street Lighting	408,000	418,200	428,655	439,371
Infrastructure Costs subtotal (highways, roads & wastewater)	**1,099,930**	**1,208,476**	**1,239,864**	**1,277,542**
Refuse Collection	670,050	563,953	578,249	595,605
All Other Maintenance Costs	1,027,817	1,074,289	1,124,046	1,179,905
Maintenance Costs subtotal (recycling, trash, disposal & removal)	**1,697,867**	**1,638,242**	**1,702,295**	**1,775,510**
Parks and Recreation subtotal	**540,961**	**556,036**	**571,691**	**591,039**
Community and Econ. Development	**770,969**	**789,847**	**809,621**	**833,679**
Other Professional Services subtotal	**425,888**	**439,829**	**454,303**	**469,331**
Capital Improvements subtotal	**252,000**	**100,000**	**100,000**	**100,000**
Central Services (utilities, postage, internet, etc.)	**1,213,809**	**1,242,320**	**1,271,604**	**1,301,891**
Employee Benefits (including pension)	**2,343,218**	**3,114,510**	**3,554,079**	**3,682,582**
Debt Service	**2,762,564**	**2,841,991**	**2,854,585**	**2,983,248**
TOTAL EXPENDITURES	**17,817,239**	**18,982,088**	**19,903,520**	**20,672,144**

Glossary

Revenue categories

Commonwealth Grant: Grant provided by the Pennsylvania Department of Community and Economic Development (DCED) under the original Recovery Plan. The grant expired in June 2012.

Act 147 C.O.L.A. Pension: State funding for pension cost-of-living adjustment (COLA).

Drug Task Force Grant: Allocation from Lawrence County to support City police narcotics work.

CDBG Funding: Federal Community Development Block Grant funding. The City tracks its CDBG-funded activity outside the General Fund, but it is included here for reference.

Commonwealth pension aid is shown separately of other Pennsylvania grants in the chart.

The City receives its Commonwealth Liquid Fuels allocation in a fund that that is separate from the General Fund. The City pays for some street-related activities in that fund and then transfer the remainder to the General Fund to support related expenditures. The transfer to the General Fund is tracked under transfer revenue.

Expenditure categories

Elected and Executive Officials: Total expenditures for the Mayor's Office, City Council and City Controller. The City Treasurer, who is also an elected official, is included in the financial management subtotal since the majority of his staff (and expenditures) are for revenue collection, a primary function of financial management.

Financial Management: Administration, Treasurer's Office and Parking unit which is supervised by Finance staff.

Public Safety: Police Department, Fire Department, and School Crossing Guards.

Infrastructure Costs (including highways, roads and wastewater systems): Expenditures for the Sewer Maintenance and Streets and Bridges units in the Department of Public Works. This category also includes the expenditures for street lighting. The sanitary sewer system is controlled by the New Castle Sanitation Authority. The City's expenditures in its separate Liquid Fuels fund are not shown here.

Maintenance Costs: Expenditures for the Public Works Administration, Electrical Maintenance, Municipal Garage, Public Building and Refuse Collection units in the Department of Public Works. Landfill fees are shown under central services.

Parks and Recreation: Expenditures for the Golf Course, Park Maintenance and Recreation Administration units in Public Works.

Community and Economic Development: Expenditures for the Code Enforcement, Planning and Zoning and Health departments. The Director of Community and Economic Development is budgeted under Administration (Financial Management). The City tracks its CDBG-funded activity outside the General Fund, but it is included here for reference.

Other professional services: City Solicitor's Office, Engineering services and the annual contribution to the New Castle Area Transit Authority.

Capital Improvements: The City's capital spending primarily supports public safety and public works operations.

Central Services: Utilities and centrally-budgeted expenditures including postage, printing, telephone and internet service. Also contains miscellaneous expenditures such as tax anticipation note interest.

Employee Benefits: Annual contribution to the employee pension fund, pension administrative costs, workers' compensation insurance and unemployment insurance. These costs support employees throughout City government but are budgeted centrally.

Debt Service: Principal and interest payments on debt

Revenue Projections with Amended Recovery Plan Initiatives Applied

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Real Estate Taxes	5,995,133	6,039,043	6,491,082	6,973,252
Resident Wage Tax	3,778,114	3,716,608	3,716,608	3,716,608
Non-resident Wage Tax	2,333,994	2,396,596	2,492,459	2,592,158
Local Service Tax	450,000	454,500	459,045	463,635
Business Privilege Tax	380,000	383,800	387,638	391,514
Mercantile Tax	180,000	181,800	183,618	185,454
Deed Transfer Tax	100,000	100,500	101,505	103,028
Other Taxes	105,000	105,525	106,580	108,179
Local taxes subtotal	**13,322,241**	**13,378,371**	**13,938,536**	**14,533,828**
Licenses & Permits subtotal	**504,900**	**517,523**	**530,461**	**543,722**
Fines & Forfeits subtotal	**100,000**	**105,000**	**110,250**	**115,763**
Interest and Rents	**39,100**	**40,078**	**41,079**	**42,106**
Commonwealth Grant	*161,965*	*0*	*0*	*0*
Act 147 C.O.L.A. Pension aid	*29,000*	*29,725*	*30,468*	*31,230*
Drug Task Force Grant	*30,000*	*30,750*	*31,519*	*32,307*
CDBG Funding	*246,000*	*246,000*	*246,000*	*246,000*
Other Grants And Gifts	13,000	13,325	13,658	14,000
Grants & Gifts subtotal	**479,965**	**319,800**	**321,645**	**323,536**
Refuse Collection Fees	*860,000*	*860,000*	*860,000*	*860,000*
Golf Course Fees	*245,000*	*247,450*	*249,925*	*252,424*
Other Departmental Earnings	563,488	653,755	691,322	704,462
Departmental Earnings	**1,668,488**	**1,761,205**	**1,801,247**	**1,816,886**
Sale of Property and Equipment	**100**	**101**	**102**	**103**
Miscellaneous Earnings	**216,435**	**728,846**	**227,392**	**233,077**
Transfers	**447,198**	**447,198**	**447,198**	**447,198**
State Pension Aid	**618,667**	**631,040**	**643,661**	**656,534**
General Pension Revenue	**150,000**	**153,750**	**157,594**	**161,534**
TOTAL REVENUES	**17,547,095**	**18,082,911**	**18,219,164**	**18,874,287**

Expenditure Projections by Category with Plan Initiatives Applied

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Workforce Costs (including MMO)	10,442,739	11,114,152	11,401,549	12,408,839
Other Professional Services	950,704	977,519	1,005,161	1,033,660
Materials and Supplies	1,918,350	1,877,206	1,961,144	2,050,590
Inter-Departmental Charges	709,362	560,362	563,392	566,452
Other Charges	883,520	983,108	965,186	989,615
Debt Service	2,762,564	2,841,991	2,854,585	2,983,248
Pension Admin. & Other Costs	150,000	153,750	157,594	161,534
TOTAL EXPENDITURES	**17,817,239**	**18,508,088**	**18,908,610**	**20,193,938**

Expenditure Projections by Function with Plan Initiatives Applied

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Mayor's Office	99,918	102,413	105,003	107,692
City Council and Clerk	177,758	182,005	186,360	190,825
City Controller	34,494	36,419	38,494	40,732
Elected & Executive Officials subtotal	**312,170**	**320,837**	**329,857**	**339,249**
Financial Management subtotal	**557,313**	**571,734**	**586,600**	**602,195**
Police	3,235,212	3,355,208	3,462,106	3,613,347
Fire	2,546,135	2,700,670	2,221,409	2,278,880
School Crossing Guards	59,203	60,388	61,597	63,444
Public Safety subtotal	**5,840,550**	**6,116,266**	**5,745,112**	**5,955,671**
Sewer Maintenance	77,134	159,270	163,478	168,369
Streets and Bridges	614,797	631,006	647,731	669,802
Street Lighting	408,000	418,200	428,655	439,371
Infrastructure Costs subtotal (Highways, roads & wastewater)	**1,099,931**	**1,208,476**	**1,239,864**	**1,277,542**
Refuse Collection	670,050	563,953	578,249	595,605
All Other Maintenance Costs	1,027,817	1,074,289	1,124,046	1,179,905
Maintenance Costs (Recycling, trash, disposal & removal)	**1,697,867**	**1,638,242**	**1,702,295**	**1,775,510**

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Parks and Recreation subtotal	**540,961**	**556,036**	**571,691**	**591,039**
Community and Economic Development	**770,969**	**789,847**	**809,621**	**833,679**
Other Professional Services subtotal	**425,888**	**439,829**	**454,303**	**469,331**
Capital Improvements subtotal	**252,000**	**100,000**	**100,000**	**100,000**
Central Services (Utilities, postage, internet, etc.)	**1,213,809**	**1,242,320**	**1,271,604**	**1,301,891**
Employee Benefits (including pension)	**2,343,218**	**2,682,510**	**3,243,079**	**3,964,582**
Debt Service	**2,762,564**	**2,841,991**	**2,854,585**	**2,983,248**
TOTAL EXPENDITURES	**17,817,240**	**18,508,088**	**18,908,611**	**20,193,938**

Appendix C – Summary Projections

These projections show the City's revenues and expenditures from its General Fund, Sinking Fund and Pension Fund under the baseline scenario and after the Amended Recovery Plan initiatives have been applied. This summary level projection is provided to help the reader more clearly see the projected changes in the City's annual results and cumulative fund balance through 2015.

Baseline Projections

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Real Estate Taxes	5,995,133	6,008,043	6,021,082	6,034,252
Resident Wage Tax	3,778,114	3,716,608	3,716,608	3,716,608
Non-resident Wage Tax	2,333,994	2,396,596	2,492,459	2,592,158
Other Taxes	1,215,000	1,226,125	1,238,386	1,251,811
Licenses & Permits	504,900	517,523	530,461	543,722
Fines & Forfeits	100,000	105,000	110,250	115,763
Interest and Rents	39,100	40,078	41,079	42,106
Grants & Gifts	479,965	319,800	321,645	323,536
Departmental Earnings	1,668,488	1,701,205	1,716,247	1,731,886
Sale of Property and Equipment	100	101	102	103
Miscellaneous Earnings	216,435	221,846	227,392	233,077
Transfers	447,198	447,198	447,198	447,198
State Pension Aid	618,667	631,040	643,661	656,534
General Pension Revenue	150,000	153,750	157,594	161,534
TOTAL REVENUES	**17,547,095**	**17,484,911**	**17,664,164**	**17,850,287**
Personal Services	8,821,835	9,211,152	9,555,459	9,936,045
Contractual Services	950,704	977,519	1,005,161	1,033,660
Materials & Supplies	1,918,350	1,877,206	1,961,144	2,050,590
Inter-Departmental Charges	709,362	560,362	563,392	566,452
Other Charges	883,520	983,108	965,186	989,615
Debt Service	2,762,564	2,841,991	2,854,585	2,983,248
Pension MMO Payment	1,620,904	2,377,000	2,841,000	2,951,000
Pension Admin. & Other Costs	150,000	153,750	157,594	161,534
TOTAL EXPENDITURES	**17,817,239**	**18,982,088**	**19,903,520**	**20,672,144**
Annual Surplus/Deficit	**(270,144)**	**(1,497,177)**	**(2,239,356)**	**(2,821,857)**
Cumulative Fund Balance	**2,997,595**	**1,500,418**	**(738,938)**	**(3,560,794)**

Projections with Amended Recovery Plan Initiatives Applied

	2012 Projected	2013 Projected	2014 Projected	2015 Projected
Real Estate Taxes	5,995,133	6,039,043	6,491,082	6,973,252
Resident Wage Tax	3,778,114	3,716,608	3,716,608	3,716,608
Non-resident Wage Tax	2,333,994	2,396,596	2,492,459	2,592,158
Other Taxes	1,215,000	1,226,125	1,238,386	1,251,811
Licenses & Permits	504,900	517,523	530,461	543,722
Fines & Forfeits	100,000	105,000	110,250	115,763
Interest and Rents	39,100	40,078	41,079	42,106
Grants & Gifts	479,965	319,800	321,645	323,536
Departmental Earnings	1,668,488	1,761,205	1,801,247	1,816,886
Sale of Property and Equipment	100	101	102	103
Miscellaneous Earnings	216,435	728,846	227,392	233,077
Transfers	447,198	447,198	447,198	447,198
State Pension Aid	618,667	631,040	643,661	656,534
General Pension Revenue	150,000	153,750	157,594	161,534
TOTAL REVENUES	**17,547,095**	**18,082,911**	**18,219,164**	**18,874,287**
Personal Services	8,821,835	9,169,152	8,871,549	9,175,839
Contractual Services	950,704	977,519	1,005,161	1,033,660
Materials & Supplies	1,918,350	1,877,206	1,961,144	2,050,590
Inter-Departmental Charges	709,362	560,362	563,392	566,452
Other Charges	883,520	983,108	965,186	989,615
Debt Service	2,762,564	2,841,991	2,854,585	2,983,248
Pension MMO Payment	1,620,904	1,945,000	2,530,000	3,233,000
Pension Admin. & Other Costs	150,000	153,750	157,594	161,534
TOTAL EXPENDITURES	**17,817,239**	**18,508,088**	**18,908,610**	**20,193,938**
Annual Surplus/Deficit	**(270,144)**	**(425,177)**	**(689,887)**	**(1,319,651)**
Cumulative Fund Balance	**2,997,595**	**2,572,418**	**1,882,972**	**563,321**