

CITY OF WARREN  
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November 5, 2015

**Mayor Cashman, Vice-President Lewis and Councilmembers Ferguson, Fraser, Harvey, Kolcharno, and Zavinski:**

In accordance with Article X Section 1003 of the City of Warren Home Rule Charter, presented herewith, for review, discussion and action, is the proposed 2016 Municipal Budget. One budget work session with all of Council has been scheduled for November 12, 2015 commencing at 5:30 PM.

Additional work sessions may be scheduled as needed. Council is required by the Warren Home Rule Charter to publish a summary of the proposed budget and the time and place of a public hearing on the proposed budget. At least fifteen days' notice of the hearing must be afforded.

Copies of the budget will be available for public review at the Warren Public Library and in the Administration Office once Council has made all significant modifications that it deems prudent.

If Council wishes to adopt the 2016 budget at its regular meeting on December 21, notice of the availability of the document for public inspection must be published by December 1 and the public hearing must occur between December 16 and December 18. These dates can be changed depending on Council's anticipated date of adoption.

Following the collection, analysis, and input of information from each of the department heads the overall budget, as prepared, reflects a spending increase of .98% from the 2015 approved budget (operations plus capital improvements).

The budget, as proposed, reflects expenditures of \$8,097,111 which is \$164,413 more than the 2015 budget, and is summarized as outlined in the consolidated budget which is included herein.

**I. Fund Balance Discussion**

The audited fund balance at 12/31/14 was \$2,935,917; of that amount, \$1,935,416 were available for spending at Council's discretion.

The budget for 2015 posited that \$127,231 would be needed to balance. If used, this would leave the City with a 2015 projected unrestricted ending fund balance of \$1,808,185. Thus far, it does not appear that any fund balance will be needed to augment 2015 expenditures. In fact, revenues for 2015 have been higher than anticipated due to receipt of the SPEDD Tax Appeal funds (one-time income), and

higher than projected realty transfer taxes. Additionally, the recycling fund collected 2014 revenue in early 2015. This, too, is a one-time event.

As for expenditures, they were lower than anticipated. As you may recall, the final health care premium rate was not available by the time the 2015 budget was adopted as we continued to explore coverage through various entities up until the very last minute; in addition, costs for gasoline, road treatment chemicals, and various other wage categories were lower than budgeted. Perhaps most importantly, paving bids were lower than anticipated and a better price was negotiated for street patching.

At this point in the budget process, it appears that the 2015 ending fund balance will approximate \$2,168,922. Keep in mind however that there are still two months of operations to fund in 2015 and unaudited figures will not be available until late January, 2016.

In the past, Council has discussed the appropriate percentage of fund balance to hold in reserve. Current City policy sets this amount at 4%; so, based on projected 2016 revenues and expenditures, the amount in reserve should be \$323,884. A balance of 4% is enough to fund about 14 days of City operations.

The Government Finance Officers Association recommends that 2 months of operating expenses be retained in the Fund Balance; for the City, that equates to \$1,331,040.

## **II. Capital Improvement Program (CIP)**

The 2016 proposed budget contains a balance transfer in of \$432,080, all of which would be used to fund CIP. The City's contribution to the proposed CIP budget for 2016 is \$495,650 with an overall expenditure of \$3,030,000.

More than half of the City's funding of CIP (\$301,000) would be for paving and street drainage projects. The majority of the remaining balance would be spent as match for already secured funding for recreational projects and leaf collection equipment.

## **III. Fund Balance**

One question is whether a proposed budget can be considered balanced if fund balance must be drawn down in order for expenditures to equal revenues. Based on the history of the past few years, this Council's answer to the query is yes. However, as fund balance is depleted, another method of funding CIP must be developed. Long-term borrowing or bond issuance are possible sources of additional revenue.

In either case, debt service would be created. Sound fiscal policy dictates that no more than 10% of General Fund expenditures be allocated to debt service. The debt service for 2016, in the General Fund only, is \$437,576; of that \$102,952 actually should be allocated to the Parking Fund (further discussion below). Thus additional debt service approximating \$450,000 could be undertaken. Of course, a tax increase would be needed to service the debt.

Once allocations to CIP and the amount necessary to subsidize the Parking Fund are subtracted, it is expected that the Unrestricted Fund Balance will approximate \$1,577,199 at 12/31/16.

#### **IV. Revenue Discussion**

##### **A. General Fund**

The total assessed value of property in the City is \$115,390,514, which is \$1,802,989 higher than in 2014. One mil of tax generates \$115,390. Current real estate millage is 19.8.

1/10 of 1% of Earned Income Tax for residents generates approximately \$155,427. Current residential EIT is 2.2% with an additional .5% being paid to the school district. The non-resident levy is 1%; 1/10 of 1% of non-resident EIT generates \$22,642.

There are no new sources of revenue available; thus an increase in EIT or real estate tax is the only way to generate significant additional revenue. This should be considered as a way to fund future Capital Improvement Projects.

The City has never charged for a burglar or fire alarm system auto notification to dispatch. A new alarm system permit is recommended for systems that auto notify. There should be no fee for the system itself; however, a fee of \$25 for residential and \$50 fee for commercial false alarms seems appropriate. This would be a cost recovery program. No revenue was budgeted for this item. It will be placed before Council for discussion in 2016.

In addition, the City has never had a Rental Unit Inspection Program, nor has it enacted a vacancy registration requirement. These are important tools for fighting blight; they would also be an aid to the fire department –to know what type of structure they are entering and what to expect. This would be a revenue neutral program but funds generated would contribute to the salary and benefits package of Codes Department personnel who would perform the inspections. No revenue was budgeted for these items; per Council direction, these issues will be discussed in 2016.

##### **B. Parking Fund**

Although a new parking system was implemented in 2014, the full impact of this program will not be felt until 2016. The Midtown Lot was completely rehabilitated this past summer with the use of RACP funds. To accommodate construction, parts of the lot were inaccessible for several months, thus revenue generation was limited.

Repairs to make the Parking Garage more fully operational are needed; it is hoped that these repairs can be made by using current City staff. If the repairs are completed, it is likely that garage occupancy will increase. As an aside, some cameras have been installed in the garage. Once the Parking Fund is self-sustaining, more cameras should be added.

Revenues from the on-street parking permit program remained steady throughout 2015. Midtown Lot revenues should increase for the remainder of 2015 as the kiosks are operational and the lot is fully opened. Meters will generate income which is needed to meet the Parking Fund's debt service requirements.

This enterprise fund is currently responsible for the debt service on the Parking Garage loan which will be paid in full in 2017, and the loan for the metering equipment which will be paid in full in 2019.

Once the Garage Loan is satisfied in 2017, the Parking Fund should assume the debt service for the 2010 \$1,100,000 loan which the General Fund is currently paying; it should also reimburse the General Fund for the loan payments that it has made to date for the benefit of the Parking Fund. This loan will be satisfied in 2025.

C. Sewer Fund

The Sewer Fund remains stable. The new plant is operational although the old plant remains in use as well. Sludge is already being compressed which is contributing to lower operational costs.

This fund contributes to the debt service payments for the street sweeper and a pickup truck. Debt service payments for the new plant are scheduled to commence in the third quarter of 2016.

New Reserve Capacity Agreements with Glade, Conewango, and Pleasant Townships have been drafted and will be placed before Council for approval in early 2016.

This fund is self-sustaining and no money from the General Fund is needed to supplement its operations.

V. Expenditure Discussion

A. Healthcare Costs

The City realized significant savings by joining a municipal self-insured pool as of January 1, 2015. A higher deductible plan was negotiated with all three unions as were increased contributions to premium.

Premium increases for 2016 range from an increase of \$6.35 per month for employee only coverage to \$20.31 per month for family coverage. The increase by category was .985, quite a difference from the 26% increase sought by Highmark for 2015.

B. Post-Employment Benefits

The City has several retired employees that are entitled to post-employment healthcare benefits. The City pays for these benefits from the General Fund. The liability, per the Government Accounting Standards Board is reported in the financial statements. However, the amount is minimal and in the next few years will reduce to zero. Fortunately, aside from pension benefits, the City does not afford future retirees with any post-employment benefits.

C. Fire Department

Due to the provisions of the ACA, it will be necessary to offer healthcare coverage to some of the Utility Firefighters and their dependents. The City will still save a great deal on firefighter overtime with the use of these part-time personnel, even in light of the additional healthcare premiums that may be required.

The Fire Chief is working with the other departments in the Central District regarding the need to provide 24/7 emergency services. A draft plan was recently forwarded to the PA Department of Health for review and comment. Eventually, municipalities will opt in or out of the arrangement. Council will be kept informed of any progress in this regard.

D. Police Department

The Police Department is currently minus one officer. There have been three new hires in recent years. New hires start at a lower salary and it takes four years for pay to equalize; also, new hires are not eligible to participate in the Uniformed Pension Plan for their first year. Both of these facts will result in cost savings to the City.

Captain Jordan is scheduled to retire in March 2016 and will begin terminal leave in December 2015. Lt. Zavinski will be promoted to Captain; the Lieutenant position will remain vacant.

Note that the renovation of the Police locker room could not be accommodated under the current RACP. Other needs such as equipment replacement and repairs to the fire hall and municipal building were also not funded. Per Council's direction, the fire hall and the City building will be "warm, safe and dry". To fund additional rehabilitation, the City did apply for an additional \$1,000,000 of RACP funding that was allocated to City projects in 2008. It is unknown whether this request will be funded. If it is, the City has \$1,000,000 in appraised value property remaining to use as match.

E. Recreation

Three City playgrounds hosted recreation programs again this year. The City also again participated in the free lunch program offered through the Warren County School District. Field trips were kept local this summer. There were a few complaints but from a risk management perspective, the decision not to transport kids out of state, or out of the County, for activities was a good one. In addition, the new Child Protective Services Law restricted the City's use of volunteers who had been used to supplement City staff for these outings. Next year, all playground employees and volunteers, if any, will be required to have the necessary certifications.

The 2015 Summer Program was overseen by two professional educators. The children, and retuning park staff were all enthusiastic about the changes made to the program. The leaders developed a formal Operating Procedure that will be of great value to those running the program in future years.

It is anticipated that the program will operate in a similar manner in 2016.

The use of the YMCA to manage the pool was positive overall and City staff is working with the YMCA to refine and improve the program for future years.

The Pennsylvania Avenue walkway and bird viewing platform project should be completed next year. Also slated for next year is the rehabilitation of the main restroom facility at Betts Park to make it ADA compliant. And, a new roof for the Municipal Pool building will be installed.

City staff is seeking partial funding to install new playground equipment at DeFrees Park. Use of CIP to fund the remainder of the project is included in the 2016 budget.

Overall, the recreational facilities owned by the City are in decent shape. Mulberry and Lacy Parks could benefit from new equipment; Lacy has been targeted for the 2016 DCNR grant round. Thanks to the Betts Foundation, Betts Park continually receives upgrades.

F. Public Works Department

As Council is aware, the City's roads need much more in the way of investment. Last year, Mr. Holtz presented a five-year paving plan to Council (copies are available, if needed). Significant investment is needed to address road conditions; given the weather in this area, it is prudent to plan for extensive paving each year. Mr. Holtz opines that the City should expend at least \$500,000 per year to maintain adequate road surfaces.

In addition, the City's DPW garage and salt shed are in need of repair. No funding has been allocated to these projects as of yet and an extensive inspection of the facility is needed. There are no grant funds available to assist with the cost of making the necessary repairs.

G. Building Codes Department

The Building Codes Department operated for most of 2015 with a contracted service for residential inspections and a part-time employee. Unfortunately, we have not been able to replace the Code Official that resigned in 2014. Initially, the newly hired Code Official will be responsible for enforcing the Property Maintenance Code and will, hopefully become certified to do inspections per the UCC.

More effort will be placed on fighting blight in 2016. As mentioned previously, rental inspection and vacancy registration ordinances have been used successfully in other communities to maintain an acceptable level of housing stock. Forty-two percent of the housing stock in the City is rental properties. Early intervention is necessary.

This department is also responsible for food licensing in the City. A licensing and inspection program is in place and is working well. There have been no complaints from the restaurants or their patrons. Generally, each establishment is visited twice per year, once near license renewal, with the second visit being unscheduled. The City's health inspector works with the businesses to assure that they meet PA Department of Agriculture standards. Remember, this is all the result of a state law.

H. Administration

The tax collector recently retired and a new tax collector has been hired; however, it will take time to train her. To the extent possible, she will be cross-trained to provide back-up for other departments.

Recently, Council approved the addition of one full time employee who will be a "floater". That position will be trained to cover all clerical positions in Administration and will aid in the Finance Department. Jess Byler, the Administrative Assistant in Finance will be taking on more of an HR role so that all of the City's hiring, training, and wellness initiatives are, to the extent possible, uniform.

I. Pension Contributions

Uniformed (Police) Plan	\$133,197
Firefighters' Plan	\$293,375
Non-Uniformed Plan	\$136,779

These amounts have been included in the 2016 budget. Note that the State Aid received and the employee contributions are not sufficient to avoid additional contribution from the City.

VI. 2015 Goals Update & Goals for 2016

- A. Development, with public input, of a visioning statement for the City;
- B. Development of a Strategic Plan for the City – performance measurements may be a part of this process;
- C. Engagement of a consultant through the Redevelopment Authority (RDA) to assist with creation and implementation of a plan for development of various City-owned parcels with an eye toward economic development; **in process**
- D. Review of the Parking Program once it has been operational for 6/9 months; **in process**
- E. Implementation of any changes required due to the revision of the Third Class City Code; **in process**
- F. Implementation of web-based computer program for citizens to report issues to City; **completed**
- G. Development of a 360 evaluation program; **in process**
- H. Completion of an Employee Handbook; **in process**
- I. Commencement of Street Scape II; **Phase 1 completed; Phase 2 in process; Phase 3 being engineered;**
- J. Development of a business recovery plan for City operations to be implemented in case of emergency; **information has been gathered but no progress in developing a plan**
- K. Continued construction of the STP; **on schedule**
- L. East Street rehabilitation; **completed**
- M. Parking Plan has been implemented; **review of plan is underway**
- N. Work with the Fire Department on the possible development of a shared ambulance service in a format acceptable and beneficial to all participating municipalities; **in process**

- O. Continue normal City operations, assuring that the needs of our citizens are met as expeditiously as possible. **Continual process**
  
- P. Implementation of a Veteran's Banner Program is being explored.

**Conclusion**

Ideas, thoughts and suggestions concerning the 2016 budget have been made since January 1, 2015. Discussions concerning the development of the 2016 budget began in earnest in August. Department Heads believe that all possible downsizing and outsourcing has been accomplished. In other words, all of the "low-hanging fruit" has been plucked. Transmitted herewith is the proposed 2016 budget, with projections for 2017, 2018, and 2019. The 2016 budget was prepared based on a zero tax increase. But, there are difficult questions which Council must answer:

1. What is the appropriate level of fund balance? If 4% of expenditures is to remain the norm, then at some point in the future, Council must be prepared to obtain a Tax Anticipation Note should borrowing for the short term become necessary.
  
2. How will the City address its aging infrastructure? Most asphalt streets need repaving every 10-12 years; cement and brick streets also need to be replaced, rehabilitated, or repaired and this is quite costly.
  
3. How will the City address its future CIP needs?

I wish to thank Mayor Cashman for the time that he expended in assisting staff in the development of this budget. I also wish to thank the City's Finance Director, Donna Risinger for the countless hours invested in preparing this document; other staff including: Mike Holtz, Chiefs Pascuzzi and Zydonik, Mary Ann Nau, and Teena Leary should also be acknowledged.

During the budget work session, department heads will provide a brief overview of the differences between 2015 expenses and those projected for 2016. We will all be present to answer any questions that you might have.

As I have remarked on many occasions, the City is fortunate to have dedicated staff and a dedicated Council, working together for the betterment of the community. I look forward to working with each of you in order to stabilize the City's finances while providing an excellent level of service to City residents.

Respectfully submitted,

Nancy K. Freenock  
City Manager