



## 2017 MANAGER'S BUDGET MESSAGE

November 15, 2016

**Mayor Cashman, Vice-President Lewis, and Councilmembers Davis, Fraser, Gilbert, 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 2017 Municipal Budget. Council budget work sessions were held on October 24 and November 7, 2016 with each commencing at 7:00 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. A minimum of fifteen days' notice of the hearing must be afforded.

If Council completes its review of the budget, as revised, at the regular meeting of Council on November 21, a Legal Notice regarding availability of the budget for public inspection and the date and time of the Budget Public Hearing may be published by November 25, 2016. In such case, the Hearing may be held on December 12, 2016, at 5:00 PM.

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

The budget revisions, as discussed at the November 7 work session, include the following:

- A decrease of \$70,000 in the Advertising Budget;
- Deletion of revenue related to a Rental Unit Inspection Program;
- Decrease in Codes Department Capital purchases by \$3000;
- Deletion of expense for electronic notebooks for all Council members;
- Increase in Police overtime due to the resignation of one officer; and
- Addition of one DPW employee to meet staffing needs at the Sewage Treatment Plant.

Following the collection, analysis, and input of information from each of the Department Heads, the operational budget, as presented, reflects a spending increase of 9.7% from the 2016 approved operational budget. An operations deficit of \$419,288 is projected.

The 2016 Capital Improvements Program (CIP) budget was \$752,650. However, at this juncture, it is projected that \$607,831 will be expended by December 31, 2016. The 2017 budget requests an allocation of \$983,900 which is \$231,250 more than was allocated in 2016.

### **I. Fund Balance Discussion**

The audited fund balance at December 31, 2015 was \$3,520,951; of that amount, \$2,799,978 was available for spending at Council's discretion.

The budget for 2016 posited that a transfer of \$432,080 from General Fund Reserves would be needed to balance the CIP, which had a total allocation of \$752,650. The CIP amount for 2016 yet to be funded equals \$607,338. It is projected that there will be an operational surplus of \$500,000 at December 31, 2016 and, hence, the 2016 unrestricted ending fund balance will approximate \$2,677,147.

As of September 30, 2016, revenues were at 78.83% of budget while expenditures were at 59.36% of budget. Note, however, that there are some end-of-the-year adjustments for wages, etc. that must be made and are not currently included in the 59.36%. In addition, there are still two months of operations to fund in 2016 and unaudited figures will not be available until late January, 2017.

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

The 2017 CIP budget was initially presented in the amount of \$1,058,362. Taking into account deductions proposed by the Finance Committee, and the funding of several new items, the adjusted proposal requests an allocation of \$983,900. The 2016 allocation was \$752,650. Note that \$107,500 which was allocated to 2016 paving was not used and the roof replacement at the pool, although budgeted in 2016, was not undertaken and the expense is carried over into the 2017 CIP.

CIP funds will be used as matching funds for several recreation projects, as well as for street paving. City staff would like to begin the process of a Streetscape III project by making the block of Pennsylvania Avenue between Liberty Street and Market Street “shovel ready”. This means that the engineering must be commenced. Given President-Elect Trump’s statements regarding infrastructure, it is prudent to position the City so that it has a project that can be commenced within a short timeframe.

In addition, in 2017, the City will be required to dredge part of Conewango Creek and to obtain Rights-of-Way for the Glade Run Levee Improvement Project to be undertaken by the Department of Environmental Protection.

## **III. Fund Balance**

In the past, Council has discussed the appropriate percentage of fund balance to hold in reserve. Current City policy sets this amount at 4% (exclusive of CIP); so, based on projected 2017 revenues and expenditures, the amount in reserve should be \$343,608. 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 \$1,431,700.

Is a proposed budget 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 that 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 2017,

in the General Fund only, is \$361,888; of which \$102,951 actually should be allocated to the Parking Fund (further discussion below). Additional debt service approximating \$509,131 could be undertaken. Of course, a tax increase would be needed to service the debt.

#### IV. Revenue Discussion

##### A. General Fund

The total assessed value of property in the City is \$113,165,715 which is \$2,103,129 lower than in 2015. The decrease is due to the removal of the properties claiming tax exempt status (i.e. the Hospital, Library, Canterbury Court, etc.) and returns the City's valuation close to that of 2014. One mil of tax generates \$113,165. Real Estate millage has remained at 19.8 since 2013.

1/10 of 1% of Earned Income Tax (EIT) for residents generates approximately \$162,000. Current residential EIT is 2.2% with .5% being paid to the school district. This rate has been in place since 2013. The non-resident levy is 1%; 1/10 of 1% of non-resident EIT generates \$20,086.

There are no new, significant sources of revenue available; thus an increase in EIT or real estate tax is the only way to generate significant additional revenue. Over the last several years, the City has instituted "cost recovery" programs such as reimbursement for Police and DPW overtime and the implementation of special events fees.

The City has never charged for a burglar or fire alarm system auto notification to dispatch. An 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. (Thus far in 2016, there have been over 100 alarm calls). This would be a cost recovery program. No revenue was budgeted for this item. It may be placed before Council for discussion in 2017.

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. These would be revenue neutral programs but funds generated would contribute to the salary and benefits package of Codes Department personnel who would perform the inspections.

##### B. Parking Fund

No increase in permit or meter rates is proposed. Likewise, an increase in parking fines is not being requested. The deficit for this fund at December 31, 2016 was projected to be \$129,643. However, due to increased revenues and controlled expenses, it now appears that the deficit will approximate \$15,000.

A minimal increase in revenues is projected for 2017. The biggest change to this fund will be the repayment in full of the \$900,000 Parking Garage Construction Loan which will occur in January 2017.

The Parking Fund will begin making payments through the General Fund on the 2010, \$1.1M Garage Repair Loan. This loan will mature in 2025. If there is any surplus in this fund at year's end, it should be transferred to the General Fund to reimburse the General Fund for past payments which it made on this \$1.1 M loan and for past deficits which were covered by the General Fund. However, it appears at this point that this fund will have a \$93,399 deficit at December 31, 2017.

This fund is also responsible for the debt service on the loan which was taken to finance metering equipment which is noted as a capital lease on the Debt Service Schedule; this loan will pay out in 2019.

More repairs to make the Parking Garage fully operational are needed; it is hoped that these repairs can be made by using current City staff at a cost of approximately \$10,000. If the repairs are completed, it is likely that Garage occupancy will increase. Currently, 401 spaces are rented; this number generally decreases in the summer.

Several cameras were installed in the Garage in 2015. Once the Parking Fund is self-sustaining, more cameras should be added.

C. Sewer Fund

The Sewer Fund remains stable and, hence, no increase in rates is being requested for 2017. However, it should be noted that revenue has increased because we initially failed to include \$83,562 in Township loan payments; thus, the amount needed from retained earnings to balance is decreased by the same amount.

The new plant is fully operational. Council was advised early in the construction process that the new plant may require more personnel despite the fact that much of the work is computerized. STP staff has suggested that an additional full-time employee (FTE) be added, placing the full-time staff at four licensed operators; there are currently three licensed operators on staff on any workday. Aside from lab work, sewer lines need to be cleaned, PA One Calls must be answered, there is an increased amount of lab work that is now performed in-house, and sludge must be pressed and dried.

This fund contributes to the debt service payments for the street sweeper, bucket truck, excavator, and a pickup truck. Debt service payments for the new plant commenced in the third quarter of 2016.

New Reserve Capacity Agreements with Glade, Conewango, and Pleasant Townships were negotiated and signed in October of this year.

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

V. Expenditure Discussion

A. Health Care 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; although, those contributions are at a flat rate and are in no way related to premium increases.

Highmark premium increases for 2017 are 11.6%. However, this increase was lowered to 7.8% for 18 non-union employees because they have been enrolled in a higher deductible plan commencing January 1, 2017. In addition, premium contributions for this group in 2017 are calculated based on a percentage of the actual increase, using 2016 as the base rate.

B. Post-Employment Benefits

The City has several retired employees that are entitled to post-employment health care benefits. The City pays for these benefits from the General Fund. The liability, per the Government Accounting Standards Board, must be 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. Wages

Wage increases for 2017 are as negotiated with I.B.E.W. (DPW) employees receiving a 2.6% increase (non-union employees have traditionally been awarded the same wage increases as I.B.E.W. employees and this is what has been budgeted for 2017). F.O.P. (Police) employees are entitled to a 2.75% increase and I.A.F.F. (Fire) employees to a 2.6% raise.

D. Pension Contributions

The City has actuarial valuations for its three defined benefit pension plans prepared every two years. As part of these valuations, a calculation is prepared which determines the City's required contribution (the Minimum Municipal Obligation, or MMO) to the pension plan per Act 205. For 2017, the required contributions are:

Uniformed (Police) Plan	\$145,471
Firefighters' Plan	\$298,195
Non-Uniformed Plan	\$135,508

These amounts have been included in the 2017 budget. Note that the State Aid received and the employee contributions made generally are not sufficient to negate the need for additional contribution from the City. The exact amount of additional contribution will not be known until the State releases the unit value sometime in late summer 2017.

E. Contributions

No new contributions have been requested. The amounts budgeted are the same as in 2016.

F. Miscellaneous

The City continues to support an active Safety Committee and safety inspections of all facilities are undertaken on a regular schedule. The City's current workers' compensation mod is .735 which is very low. Due to the existence of the Safety Committee, the City saves 5% on its workers' compensation premium. The City is unable to shop this coverage as we have been unable to locate an insurance carrier that will write for paid fire; the Fire Department employees cannot be severed from the rest of the City's employees for purposes of workers' compensation coverage.

VI. Departmental Status

A. Fire Department

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

Over the past year, Chief Pascuzzi worked with the other departments in the Central District regarding the need to provide 24/7 emergency services. Council approved a plan which was also approved by the PA Department of Health for provision of services. Other local municipalities have opted in or out of the arrangement. Council will be kept informed of any progress in this regard as the plan is scheduled to go live on January 1, 2017.

The Department applied for, and was awarded, funding to purchase new Self-Contained Breathing Apparatus (SCBA). With additional funds from the City, 14 apparatus will be replaced.

The I.A.F.F. Collective Bargaining Agreement expires on December 31, 2017 and, hence, negotiations for a new agreement should occur prior to its expiration.

B. Police Department

The Police Department is currently minus one officer. There have been nine new hires since 2014, six of whom remain. 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 until completion of their first year of service. Both of these facts resulted in cost savings to the City.

Captain Jordan was on terminal leave from December 31, 2015 until his retirement in March 2016. Lt. Zavinski was promoted to Captain; the Lieutenant position will remain vacant. Chief Zydonik plans to run for Magisterial District Justice in 2017. If elected, his term would commence on January 1, 2018. Thus, the City may need to search for a new Police Chief once elections in November are held.

Further renovation of the City building is planned for 2017. There are plans to rehabilitate/relocate the Police locker, weight, and break rooms. These improvements are much needed.

The F.O.P. Collective Bargaining Agreement expires on December 31, 2017 and, hence, negotiations for a new agreement should occur prior to its expiration.

C. Recreation

Mary Ann Nau, City Administrator oversees programing related to recreation while Mike Holtz is responsible for the facilities.

Three City playgrounds hosted recreation programs this year. The City also again participated in the free lunch program offered through the School District. Field trips were to locales in the Warren area and the cost for the trips was minimized due to donations from the Warren business community. Prior to the first day of the Summer Program, all playground employees obtained the requisite Child Protective Services clearances and were trained in first aid.

The 2016 Summer Program was overseen by a professional educator. The children and returning park staff were all enthusiastic about the Summer Program which was revamped last year. The leaders followed a formal Operating Procedure that was developed last summer. It is anticipated that the program will operate in a similar manner in 2017.

The use of the YMCA to manage the Municipal Pool was again positive overall. The agreement expired at the end of the season and a new agreement must be negotiated for 2017.

The Pennsylvania Avenue walkway will soon be completed; the bird viewing platform should be completed in 2017. Also slated for completion in 2016 is the rehabilitation of the main restroom facility at Betts Park to make it ADA compliant. Other projects in Betts Park, including landscaping and the placement of a pavilion to honor Nick Creola, will be completed in 2017.

A new roof for the Municipal Pool building, which has been delayed for several years due to funding concerns, should be installed in 2017, to preserve the improvements that were made to the facility in 2015.

The 2016 DCNR application requested funding for the rehabilitation of Lacy Park. Thus far, notice of an award has not been received. New playground equipment was installed at DeFrees Park. Planning for a Healing Garden and an extension of the walkway through Crescent Park have been underway; this, hopefully, will be the subject of the City's 2017 DCNR application.

Overall, the recreational facilities owned by the City are in good shape. Mulberry Park could benefit from new equipment and other improvements. Barring any unforeseen circumstances, Mulberry Park will be the focus of the City's 2018 DCNR application.

Thanks to the Betts Foundation's support, Betts Park continually receives upgrades.

Special Events are addressed via a collaborative process involving all departments. This process has been in place for several years and works well. A calendar of events and their status is part of each monthly Council packet. In addition, pavilion rentals continue to be popular as the cost is reasonable and the amenities at the City's parks are well-maintained.

D. Public Works

City residents continue to applaud the work done by this department, especially during leaf season. They also do a tremendous job in keeping the streets clear of ice and snow.

As a result of the City's purchase of an excavator, the City's DPW crew was able to repair and/or replace over 30 catch basins throughout the City during 2016. The crew also rebuilt storm sewers along two blocks of Franklin Street prior to commencement of the Community Development Block Grant (CDBG) Street/Road Improvement Project. This in-house work resulted in large cost savings to the City.

This summer, 28 City blocks were repaved. Over the past three years, 98 of 529 blocks of City streets have been paved. Generally speaking, a street should be repaved every 10-12 years. The City's roads need much more in the way of investment. Given the weather in this area, it is prudent to plan for extensive paving each year. For 2017, the budget proposes that \$380,000 be spent on paving and strip patching. An additional \$160,000 (\$40,000 from the Sewer Fund) will be spent rebuilding the concrete intersection at Lexington Avenue and Parker Street. Additionally, \$80,000 has been allocated to concrete streets per Council direction at its October 17, 2016 meeting.

In addition, the City's DPW garage and salt shed are in need of repair. Funding has been allocated in the 2017 DPW operational budget to address these issues. There are no grant funds available to assist with the cost of making the necessary repairs.

DPW was busy this summer with the Streetscape Project on Liberty Street and the new ramp that was installed at the back entrance to the City building. As a part of the latter project, the public restroom was made ADA-compliant which required making the adjacent conference room smaller.

The Pennsylvania Department of Environmental Protection is preparing to rehabilitate the Glade Run Levee. The estimated cost to DEP is \$3.5M. Prior to construction, the City must obtain rights-of-way as the boundaries for the levee have changed since it was first installed in the 1950's. In addition, in 2017, part of the Conewango Creek must be dredged.

Employees in the Garage portion of DPW staff are cross-trained so that the absence of one employee does not impact the overall performance of the Department. STP operators are also trained in other departmental operations.

The I.B.E.W. Collective Bargaining Agreement expires on December 31, 2017 and, hence, negotiations for a new agreement should occur prior to its expiration.

E. Building and Codes

The Building and Codes Department became fully staffed in 2016. Much credit is due to Mary Ann Nau, City Administrator, for the turnaround in this department. As you may recall, this department operated for most of 2015 with a Building Code Official (BCO), a secretary, a part-time employee who did UCC commercial inspections, and with contracted services for plan review and for residential inspections.

In March, Ken Hinton, a newly-retired City of Warren Police Officer was hired to be a Property Maintenance Code Official who will also be trained as a UCC Residential Inspector. Simultaneously, Jessica Roudybush, the secretary in the Department was promoted to fill the second Code Official position; she will eventually also fill the role of Zoning Enforcement Officer. A new secretary was hired.

A part-time employee still conducts UCC inspections. And, the City still uses a third party for plan review as it is felt that separation of duties provides more protection for the City in what could be a very litigious area.

Efforts in 2016 centered on training personnel and on a survey to rate sidewalk conditions in the City. Property Maintenance enforcement is still reactive (i.e. complaint driven). However, efforts to educate the public about property maintenance are taking place and it is staff's plan to become proactive and address observable property maintenance issues before a property becomes blighted.

In early 2017, the staff in this department will formulate a plan to address the deficient sidewalks in the City. The sidewalk survey which began in 2016 will be completed in the spring of 2017. In addition, a parcel-by-parcel survey of each lot in the City will be conducted so that accurate information can be input into the City's Land Management System. This system will track all activity that occurs through the City (e.g. through the issuance of permits and Notices of Violation or NOV's) on a given parcel of land. It will record the type of property (i.e. commercial, residential, multi-family etc.), which is information that is not currently readily available.

The staff recognizes the importance of rental unit inspection and vacancy registration ordinances. Such 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 are rental properties, a number of which are owned by persons residing elsewhere.

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 with one visit being near the date of license renewal and 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.

Mary Ann Nau, who serves as the Building Code Official and who manages this department plans to retire on May 31, 2017. Discussions concerning her replacement are underway and plans to advertise this position have been made.

F. Administration

A new tax collector was hired in October of 2015. To the extent possible, she will be cross-trained to provide back-up for other departments.

In January a clerical position was filled. This position is a “floater”, who will be trained to cover all clerical positions in Administration and will aid in the Finance Department. Jessica Byler, the Administrative Assistant in Finance became certified by the Society for Human Resource Management and has taken on more of a Human Resources role so that all of the City’s hiring, training, and wellness initiatives are, to the extent possible, uniform. She is also involved in the discipline process.

In November 2016, the City’s request for technical assistance to determine whether the return to a Borough form of government would be beneficial was approved by DCED. The results of that study will not be available until next year.

In addition, City staff has requested that Council allocate funds so that it can apply to the PA Department of Community and Economic Development for participation in the Early Intervention Program (EIP). This does not mean that the City is on the point of being distressed. City staff needs assistance with financial planning and trending analysis. EIP can provide funding and will assist in the engagement of a consultant that can address the specific needs of the City. The City can also request a review of operations to determine if there are any cost saving measures that can be implemented.

As a result of the award of a Pennsylvania Historical and Museum Commission grant, funds remaining in the RACP, and the transfer of General Fund monies from concrete street work that was to have been completed in 2016, additional renovations to the City building are planned. In addition to the renovations to the Police space mentioned above, work in the rotunda, the stairwells, and Council Chambers will be undertaken. Chambers will be completely renovated and made ADA compliant.

**Conclusion**

Ideas, thoughts, and suggestions concerning the 2017 budget have been made since January 1, 2016. Discussions concerning the development of the 2017 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.

I wish to thank the Finance Committee for the time that it 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, Teena Leary, Cindy Knapp, Sandy Copeck, and Ellen Nelson should also be acknowledged.

As I have remarked on many occasions, the City is fortunate to have a 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 continue to provide an excellent level of service to City residents.

Respectfully submitted,



Nancy K. Freenock  
City Manager