CITY OF YORK

Early Intervention Program III
Long-Term Financial Improvement Initiatives Report
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Historical Review

Introduction

From 2009 to 2014, the City of York struggled to maintain a balanced budget by enacting several real estate property tax increases, raising the refuse fee, increasing the parking tax, reducing departmental costs and enacting health insurance changes to save money. Despite those efforts, which resulted in an overall tax revenue growth of almost 30 percent by 2013, York experienced general fund deficits in almost every year of the historical review period. That includes 2013, when the City saw declines in several of its main non-tax revenues as compared to 2012.

Notwithstanding the aforementioned deficits, the City's general fund tax receipts exceeded the amount projected in the 2011 Early Intervention Plan update. York's primary expenditure growth was in public safety labor costs, including a one-time arbitration award of $2.3 million for the Firefighters Union as well as contractual salary increases and growth in overtime and pension payments. The City was unable to fully fund its required Annual Minimum Municipal Obligation (MMO) payments — a trend that had been highlighted in prior Early Intervention Plans — causing York to incur interest payments at rates of 8 percent, increasing expenditures even further. The City successfully reduced costs in general government and, after a period of increases, was able to lower expenses in public works and sanitation by 2013.

Revenues and Expenditures

In general, the historical review uses audited figures for revenues and expenditures as opposed to figures reported by the City. The audit adjusted the City's reported numbers, primarily to account for year-end accruals. According to the audited figures, York experienced deficits in four out of five years from 2009 to 2013. Deficits through the period ranged from a high of $3.5 million in 2010 to a low of $767,367 in 2013. The only audited surplus year was 2012. Unaudited figures for 2014 indicate a surplus of $1.2 million. (See Table 1-1.)

Table 1-1
CITY OF YORK
Revenues, Expenditures, Surplus/(Deficit)
2009-2014

	2009	2010	2011	2012	2013	Change 2009 - 2013		2014
	Audit	Audit	Audit	Audit	Audit	$	%	Unaudited
Rev.	$33,865,075	$33,659,415	$36,776,825	$39,680,038	$39,089,895	5,224,820	15.4	$40,745,778
Expen.	35,555,222	37,149,756	37,841,429	39,052,624	39,857,262	4,302,040	12.1	39,499,963
Surplus/ (Deficit)	**-$1,690,147**	**-$3,490,341**	**-$1,064,604**	**$627,414**	**-$767,367**			**$1,245,815**

Revenues

The City's audited figures show steady tax growth but fluctuations in other revenue categories. Four of the City's main non tax revenue sources — charges for services, licenses and permits, fines and forfeits, and grants and contributions — dropped from 2012 to 2013. Charges for services, which includes refuse fees and is York's largest source of non-tax revenue, varied from a low of $7.7 million in 2009 and 2010 to a high of $9.3 million in 2012. Licenses and permits also peaked in 2012 at $1.9 million, falling to $1.7 million in 2013. Fines and forfeits ranged from $2.0 million in 2010 to almost $1.7 million in 2013. Grants and contributions fell at a steady pace from $2.0 million in 2010 to $1.4 million in 2013. (See Table 1-2.)

Table 1-2
CITY OF YORK
Total Revenues
2009-2013

	2009	2010	2011	2012	2013
	Audit	Audit	Audit	Audit	Audit
Taxes	$18,127,675	$18,016,004	$20,135,399	$22,490,390	$23,039,253
Licenses & Permits	1,649,765	1,568,755	1,642,890	1,907,766	1,702,577
Fines & Forfeits	1,697,043	1,983,889	1,918,957	1,706,138	1,650,787
Grants & Contributions	1,976,956	2,003,013	1,667,681	1,585,745	1,374,377
Charges for Services	7,746,503	7,723,568	8,928,729	9,280,911	8,440,547
Interest	49,750	0	210	0	14,894
Miscellaneous	167,211	91,583	79,423	199,731	212,693
Transfers In	2,450,172	2,272,603	2,403,536	2,363,257	2,654,767
Capital Lease	0	0	0	146,100	0
Total	**$33,865,075**	**$33,659,415**	**$36,776,825**	**$39,680,038**	**$39,089,895**

In order to analyze the performance of York's various sources of total tax revenue, the City's reported figures are used, which vary somewhat from the audited amounts due to prior year accruals. The City's general purpose real estate tax rate in 2010 was 12.365 mills, a slight increase from the 12.295 millage rate in 2009. General purpose millage was increased again to 13.864 mills in 2011 and to 18.346 mills in 2012. In 2013, general purpose real estate millage was reduced to 15.8810 mills. Although the general purpose rate fell, the overall millage rate, which also included separate millage for both recreation and debt, remained the same for property owners in 2013 at 20.37 mills. Real estate tax revenues mirror the pattern with increases in both 2011 and 2012 and a decrease in 2013. (See Table 1-3.)

Table 1-3
CITY OF YORK
Total Tax Revenue as Reported (Unaudited)
2010-2013

	2010	**2011**	**2012**	**2013**	**Change 2010 - 2013**	
	Actual	Actual	Actual	Actual	$	%
Real Estate Taxes	$11,904,979	$13,726,615	$16,381,112	$15,704,963	3,799,984	31.9
Earned Income	2,406,280	2,768,470	2,330,905	2,355,617	-50,663	-2.1
Local Services	1,200,927	1,218,710	1,180,181	1,203,489	2,562	0.2
Mercantile/Business Privilege	2,305,822	2,521,525	2,791,001	2,914,529	608,707	26.4
Parking Tax	192,685	194,105	231,604	298,676	105,991	55.0
Total Tax Revenue	**$18,010,692**	**$20,429,425**	**$22,914,803**	**$22,477,274**	**4,466,582**	**24.8**

York's 2011 Early Intervention Plan (EIP) update projected slow but steady growth in all tax revenue categories with the exception of real estate taxes, which were expected to remain virtually flat. This presupposed no increase in real estate tax rates from 2012 forward. As previously noted, the City raised real estate tax rates for general purposes by 32.3 percent in 2012, and then reduced them by 13.4 percent in 2013. The result was an overall growth in general fund real estate tax revenue between 2010 and 2013 of $3.8 million or 31.9 percent. Earned income tax also generally performed better than projected in the 2011 EIP, in spite of a decline in reported figures from 2011 to 2013. Mercantile and business privilege taxes were anticipated in the EIP to increase from $2.3 million in 2010 to $2.4 million in 2013. However, reported figures show a consistent rise from $2.3 million in 2010 to $2.9 million in 2014, an increase of $608,707 or 26.4 percent. During this period the parking tax was also increased from

10 percent to 15 percent, which was a recommendation in the 2011 EIP, resulting in revenue growth of 55 percent in 2013 compared to 2010.

Expenditures

In terms of expenditures, public safety experienced the largest absolute growth, rising steadily from 2009 to 2013 for an increase of $3.2 million or 12.9 percent. Public works expenses also rose, peaking at a high of almost $2.8 million in 2012 and then dropping to approximately $2.6 million in 2013, for an 11.5 percent increase over 2009's costs of $2.3 million. Sanitation spending remained flat, while general government expenditures fluctuated somewhat but saw an overall decrease by 2013. The change in general government from 2009 to 2013 was a drop of $304,738 or 14.7 percent. (See Table 1-4.)

Table 1-4
CITY OF YORK
Total Expenditures
2009-2013

	2009	2010	2011	2012	2013
	Audit	Audit	Audit	Audit	Audit
General Government	$2,076,533	$2,045,158	$1,875,290	$2,057,212	$1,771,795
Sanitation	2,982,420	3,000,122	3,074,541	3,107,220	3,027,744
Public Safety	24,793,550	25,844,141	26,547,070	26,984,324	27,994,840
Highways & Streets	548,679	528,787	603,327	635,335	687,982
Public Works	2,292,180	2,334,396	2,720,867	2,798,438	2,554,872
Community Development & Planning	2,241,515	2,506,463	2,146,151	2,174,681	2,232,993
Other Departments & Programs	116,565	128,323	193,519	203,397	195,405
Debt Service:					
Principal Retirements	0	0	0	11,095	27,391
Interest	0	0	0	2,355	4,889
Capital Outlay	0	0	0		0
Transfers out	503,780	762,366	680,664	1,078,567	1,359,351
Total	**$35,555,222**	**$37,149,756**	**$37,841,429**	**$39,052,624**	**$39,857,262**

Despite the fact that public safety spending accounted for the largest absolute increase in York's expenditures, public safety costs were lower than had been projected in the 2011 EIP. (See Table 1-5.)

Table 1-5
CITY OF YORK
Public Safety Expenditures Projected and Audited
2010-2013

	2010	2011	2012	2013
Public Safety Projected	$26,279,113	$27,684,974	$28,942,463	$29,986,834
Public Safety Audited	25,844,141	26,547,070	26,984,324	27,994,840
	-$434,972	**-$1,137,904**	**-$1,958,139**	**-$1,991,994**

Projections 2015-2020

Introduction

The City entered 2015 armed with savings it obtained in the new Fraternal Order of Police four-year contract including reduction of COLAs for police retirees and new health care costs contributions for active employees. In addition, 36 positions — 20 of which were vacant — spanning numerous departments were eliminated from the 2015 budget. York also increased the refuse fee by 6 percent and enacted an Act 205 distressed pension earned income tax of 0.25 percent that is levied on residents and nonresidents. The distressed pension EIT, which the City began to collect as of Jan. 1, 2015, will be used to defray future pension payment increases. It can also be used to service a pension bond should the City decide to pursue that option. York also plans to discontinue the pattern of annual late MMO payments by using savings it received in the new police contract to make a timely MMO payment in 2015.

Methodology

PEL prepared its general fund operating projections using the 2015 budget, the historical revenue and expenditure patterns outlined previously, the current collective bargaining agreements, actuarial pension data, amortization tables and similar information.

Revenue Projection Assumptions

- 1.25% annual growth in earned income tax revenue
- 0% annual growth in real estate tax revenue
- 0.5% annual increase in other tax revenue
- Non-tax revenues remain flat or increase 0.5% annually
- No increase in tax rates or fees for baseline projections

- Other revenues and transfers from other funds held at budgeted levels

Expenditure Projection Assumptions

- Employee counts were assumed to remain at 2015 budgeted levels
- Public works, non-bargaining and management salary increases 2.0% annually throughout the period
- Police and fire salaries were increased according to contractual rates and then 2.0% annually
- Healthcare increased at 6.0% annually
- No new debt incurred
- Other items adjusted using the Core Price Index

Revenues and Expenditures

Using conservative assumptions, York is projected to experience modest growth in revenues from 2015 to 2020 but the revenue growth will be unable to keep pace with expenditures, leading to increasing deficits starting in 2018. Revenues are anticipated to rise by only 1.9 percent or $806,005 compared to expenditure increases of 18.9 percent. The deficit is expected to grow from $562,756 in 2018 to almost $2.1 million in 2020. (See Table 1-6.)

Table 1-6
CITY OF YORK
Revenues, Expenditures and Surplus/(Deficit)
2015-2020

	2015	2016	2017	2018	2019	2020	Change 2015 - 2020	
	Estimated	Projected	Projected	Projected	Projected	Projected	$	%
Revs.	41,918,938	42,077,619	42,237,548	42,398,737	42,561,198	42,724,943	806,005	1.9
Exps.	37,660,174	41,228,689	42,059,795	42,961,493	43,861,119	44,778,618	7,118,444	18.9
Surplus/ (Deficit)	4,258,764	848,930	177,753	-562,756	-1,299,921	-2,053,674		

Revenues

Taxes, which account for almost 60 percent of York's revenues, are projected to show the most absolute growth, increasing by $424,429 or 1.7 percent through the projection period. Non-tax revenues, which make up 27 percent of revenues, are expected to increase by 2.4 percent, while transfers rise by 1.9 percent. Transfers are primarily from the Sewer Fund (approximately

$3.5 million annually) and the Inter-Municipal Sewer Fund (approximately $700,000 annually) (See Table 1-7)

Table 1-7
CITY OF YORK
Total Revenues
2015-2020

	2015	2016	2017	2018	2019	2020	Change 2015 - 2020	
	Estimated	Projected	Projected	Projected	Projected	Projected	$	%
Tax	$24,595,098	$24,678,223	$24,762,218	$24,847,094	$24,932,860	$25,019,527	424,429	1.7
Non Tax	11,397,796	11,451,596	11,505,664	11,560,003	11,614,614	11,669,498	271,702	2.4
Transfers	5,926,044	5,947,800	5,969,665	5,991,640	6,013,724	6,035,919	109,875	1.9
Total	**$41,918,938**	**$42,077,619**	**$42,237,548**	**$42,398,737**	**$42,561,198**	**$42,724,943**	**806,005**	**1.9**

York receives the bulk of its tax revenues from general purpose real estate millage, which is the only tax that the City is permitted by law to increase since it is the only tax that is below the statutory maximum. Since 2006, York has raised general purpose real estate millage seven times and lowered it once (from 18.346 in 2012 to 15.8810 in 2013). The projections do not anticipate any growth in real estate tax revenue because real estate property assessments are not expected to increase.

Although it is expect to rise 6.4 percent, York's regular EIT is only projected to generate an additional $150,593 when comparing the estimated 2015 revenue amount with the anticipated 2020 revenue amount. The overall tax revenue amount and low absolute growth is an indication of City poverty levels. In contrast, while the projected change in mercantile and business privilege revenue from 2015 to 2020 is only an additional $75,501, mercantile and business privilege is expected to remain a greater revenue source than regular EIT. (See Table 1-8)

Table 1-8
CITY OF YORK
Total Tax Revenue
2015-2020

	2015	2016	2017	2018	2019	2020	Change 2015 - 2020	
	Estimated	Projected	Projected	Projected	Projected	Projected	$	%
Real Estate	$15,245,098	$15,245,098	$15,245,098	$15,245,098	$15,245,098	$15,245,098	0	0.0
EIT	2,350,000	2,379,375	2,409,117	2,439,231	2,469,722	2,500,593	150,593	6.4
EIT-Pension	2,500,000	2,531,250	2,562,891	2,594,927	2,627,363	2,660,205	160,205	6.4
LST	1,215,000	1,221,075	1,227,180	1,233,316	1,239,483	1,245,680	30,680	2.5
Merc./Biz. Privilege	2,990,000	3,004,950	3,019,975	3,035,075	3,050,250	3,065,501	75,501	2.5
Admissions	75,000	75,375	75,752	76,131	76,511	76,894	1,894	2.5
Parking Tax	220,000	221,100	222,206	223,317	224,433	225,555	5,555	2.5
Total Tax Revenue	**$24,595,098**	**$24,678,223**	**$24,762,218**	**$24,847,094**	**$24,932,860**	**$25,019,527**	**424,429**	**1.7**

In terms of non-tax revenue, charges for services remains the second most significant source of funds for York, accounting for over 70 percent of non-tax revenue and averaging approximately $8.4 million. As noted previously, this category includes refuse fees. The City should continue to monitor license and permit revenues to ensure that it is collecting enough to cover the actual cost of providing the license and permit functions. Note that revenue from the grants and contributions category in the audit has been allocated to intergovernmental revenue, charges for services, donations and sales in the projected figures. (See Table 1-9)

Table 1-9
CITY OF YORK
Total Non-Tax Revenue
2015-2020

	2015	2016	2017	2018	2019	2020	Change 2015 - 2020	
	Estimated	Projected	Projected	Projected	Projected	Projected	$	%
Licenses /Permits	$1,057,650	$1,062,938	$1,068,253	$1,073,594	$1,078,962	$1,084,357	26,707	2.5
Fines /Forfeits	1,416,000	1,423,080	1,430,195	1,437,346	1,444,533	1,451,756	35,756	2.5
Intergovt Revenue	102,700	102,700	102,700	102,700	102,700	102,700	0	0.0
Charge for Services	8,288,159	8,329,564	8,371,177	8,412,997	8,455,027	8,497,266	209,107	2.5
Donations	505,687	505,713	505,739	505,765	505,792	505,818	131	0.0
Sales	27,600	27,600	27,600	27,600	27,600	27,600	0	0.0
Total	**$11,397,796**	**$11,451,596**	**$11,505,664**	**$11,560,003**	**$11,614,614**	**$11,669,498**	**271,702**	**2.4**

Expenditures

Consistent with historical trends, the greatest departmental expenditure is public safety, with the police department accounting for the largest percentage of expenses followed by the fire department. As noted previously, the 2014 FOP contract reduced future pension COLAs, which results in an estimated police pension credit of $2.2 million for both 2015 and 2016. So although police department spending is expected to rise by $4.6 million or 34.9 percent from 2015 to 2020, a large part of the difference between those two years is the loss of the pension credit. Fire department costs rise annually from $10.7 million in 2015 to $11.9 million in 2020, an increase of $1.2 million of 10.7 percent. Other departments increase by 10 percent over the projection period. Regarding expenditures by type, the largest absolute increases are in fringe benefits, which includes pensions; special items, which reflects transfers from the internal services funds for departmental costs associated with insurance, human resources, business administration and information systems; and payroll. Fringe benefits are projected to rise by $4.2 million or 142.8 percent — again, mainly because of the inclusion of the pension credit in 2015 — while special items are expected to grow by $1.2 million. Payroll, which makes up approximately 40 percent of overall expenditures, is anticipated to grow by $1.1 million or 6.5 percent. (See Tables 1-10 and 1-11.)

Table 1-10
CITY OF YORK
Total Departmental Expenditures
2015-2020

	2015	**2016**	**2017**	**2018**	**2019**	**2020**	**Change 2015 - 2020**	
Depart.	Estimated	Projected	Projected	Projected	Projected	Projected	$	%
Police	$13,124,021	$16,218,590	$16,565,758	$16,938,909	$17,318,458	$17,704,973	4,580,952	34.9
Fire	10,742,515	10,962,519	11,187,816	11,431,089	11,660,185	11,894,369	1,151,854	10.7
Public Works	6,819,059	6,943,639	7,070,506	7,211,526	7,355,366	7,502,084	683,025	10.0
Econ/ Com Dev	2,919,568	2,973,434	3,028,297	3,088,787	3,150,487	3,213,421	293,853	10.1
Business Admin	2,560,480	2,607,774	2,655,949	2,708,684	2,762,474	2,817,340	256,860	10.0
Electd/ Appointd	1,494,531	1,522,733	1,551,469	1,582,498	1,614,148	1,646,431	151,900	10.2
Total	**$37,660,174**	**$41,228,689**	**$42,059,795**	**$42,961,493**	**$43,861,119**	**$44,778,618**	**7,118,444**	**18.9**

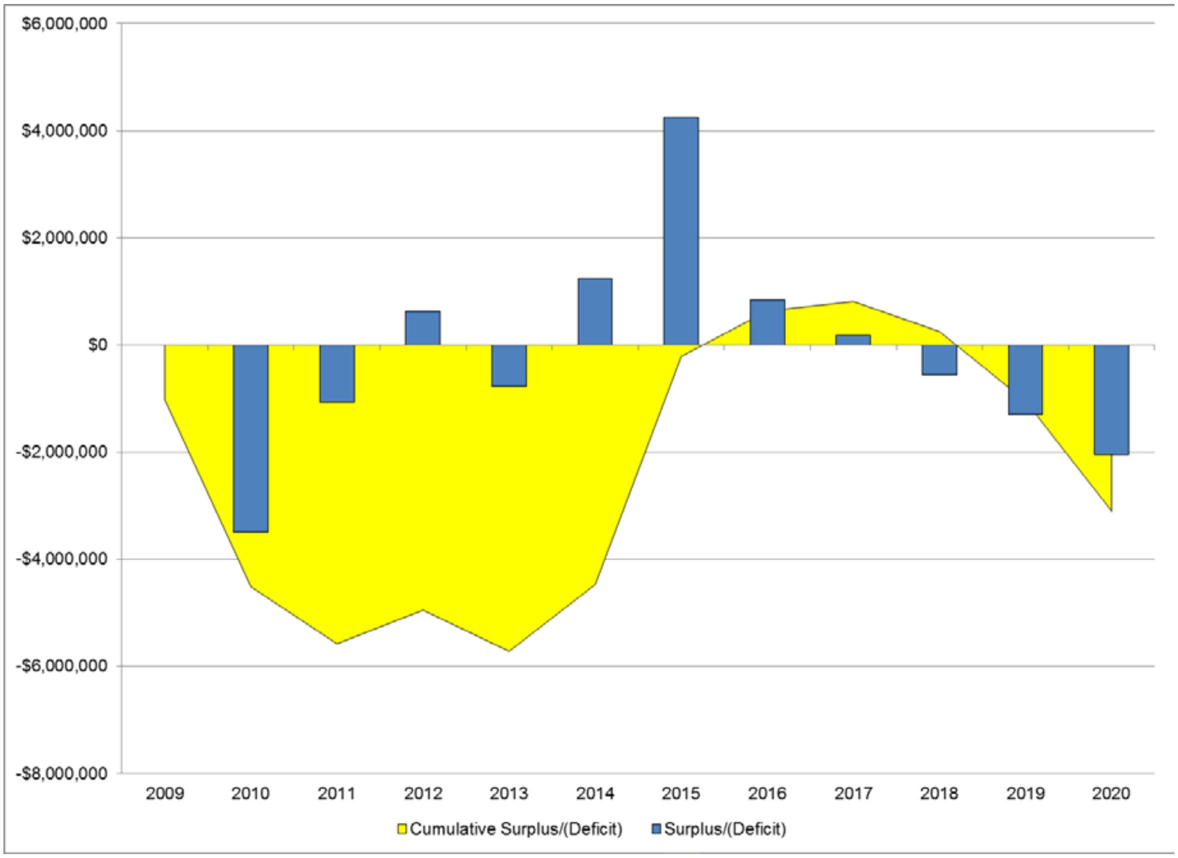
Table 1-11
CITY OF YORK
Total Expenditures by Type
2015-2020

	2015	2016	2017	2018	2019	2020	Change 2015 - 2020	
	Estimated	Projected	Projected	Projected	Projected	Projected	$	%
Payroll	$16,236,095	$15,881,206	$16,232,306	$16,591,064	$16,936,891	$17,289,514	1,053,419	6.5
Fringe Benefits	2,956,711	6,547,771	6,689,450	6,849,706	7,013,167	7,179,897	4,223,186	142.8
Prof. Services	1,555,404	1,583,401	1,611,902	1,644,141	1,677,023	1,710,564	155,160	10.0
Special Items	11,899,844	12,113,973	12,331,956	12,578,519	12,830,013	13,086,538	1,186,694	10.0
Contr. Services	4,334,784	4,412,810	4,492,241	4,582,086	4,673,727	4,767,202	432,418	10.0
Supplies/ Materials	670,536	682,606	694,893	708,790	722,966	737,426	66,890	10.0
Capital Equip.	6,800	6,922	7,047	7,188	7,332	7,478	678	10.0
Total	**$37,660,174**	**$41,228,689**	**$42,059,795**	**$42,961,493**	**$43,861,119**	**$44,778,618**	**7,118,444**	**18.9**

Cumulative Surplus/Deficit

The City had accumulated a cumulative deficit of $1.0 million in 2009, according to the 2011 EIP report. The cumulative deficit grew to $4.5 million in 2010, peaking at $5.7 million in 2013, despite a surplus in 2012. The anticipated $1.2 million surplus in 2014 is expected to reduce the cumulative deficit to $211,417 in 2015. By 2016, the City is expected to have a cumulative surplus of $637,513. However, in 2019, the City is projected to again have a cumulative deficit of $1.0 million, a result of a likely General Fund deficit in 2018. By 2020, York is anticipated to have a $3.1 million cumulative deficit.

This likely pattern of surplus/deficit gives York a window of opportunity for several years to make necessary financial changes in order to avoid the projected deficit of 2018 and the cumulative deficit in 2019.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Cumulative Surplus/(Deficit)
Surplus/(Deficit)

Third-Class City Comparison

York was compared to ten third-class cities on five indicators of financial distress: debt as a percentage of market value, debt as a percentage of total expenditures, the funded pension ratio, unfunded pension liability as a percentage of payroll, and core expenditures (general government, public safety, public works) as a percentage of revenue. The City performed amongst the bottom five cities on every measure. York was third from the bottom, ahead of Lancaster and Reading, in terms of debt as a percentage of market value with a rate of 8.4 percent. Lebanon had the lowest ratio at 0.1 percent, followed by Allentown (2.5 percent) and Scranton (2.6 percent). The City of York was also in the bottom five cities regarding debt as a percentage of expenditures, scoring 10.3 percent. Scranton was last at 21.3 percent and Lebanon had the best value at 0.3 percent. Best practices recommend that debt service as a percentage of general fund expenditures remain under 10 percent. The City's debt service on its pension obligation bonds is ascending, and together with the Qualified Energy Conservation Bonds and ice rink bonds exceeds 10 percent of its operating expenses. York was second only to Scranton with the highest unfunded pension liability as a percentage of payroll and lowest funded pension ratio. However, in terms of the funded pension ratio, Scranton’s ratio of 34.5 percent is considered severely distressed, while York’s 62.0 percent is only moderately distressed. Other comparison cities with a moderately distressed pension fund include Allentown and Easton. York is currently collecting an Act 205 distressed pension EIT on both residents and nonresidents in order to improve the pension’s funded ratio. Lebanon ranked the best on the two pension measures followed by Lancaster. Finally, York had one of the lowest ratios of core expenditures as a percentage of revenue at 37.4 percent, with only Bethlehem lower at 35.0 percent. (See Tables 1-12 and 1-13)

Table 1-12
CITY OF YORK
Third Class City Comparison

City	Debt as a % of Market Value*	Unfunded Pension Liability as a % of Payroll**	Debt as a % of Expenditure	Core expenditures as % of Revenue*	Funded Pension Ratio**
Allentown	2.5%	261.4%	6.7%	57.1%	64.3%
Altoona	2.8%	182.6%	6.5%	51.1%	76.3%
Bethlehem	3.6%	142.2%	10.2%	35.0%	78.1%
Easton	4.1%	200.9%	8.6%	61.6%	68.8%
Erie	4.1%	199.1%	13.3%	42.0%	75.0%
Lancaster	11.1%	79.9%	8.2%	41.6%	83.0%
Lebanon	0.1%	49.1%	0.3%	78.1%	92.4%
Reading	12.0%	216.1%	19.8%	51.5%	74.9%
Scranton	2.6%	607.2%	21.3%	49.4%	34.5%
Wilkes-Barre	7.6%	205.3%	20.2%	51.3%	72.5%
York	**8.4%**	**310.2%**	**10.3%**	**37.4%**	**62.0%**

*Five-year average 2007-2011
**2011

Table 1-13
CITY OF YORK
Third Class City Comparison

	Lower % Higher Rank			**Higher % Higher Rank**	
Rank	Debt as a % of Market Value*	Unfunded Pension Liability as a % of Payroll**	Debt as a % of Expenditure	Core expenditures as % of Revenue*	Funded Pension Ratio**
1	Lebanon	Lebanon	Lebanon	Lebanon	Lebanon
2	Allentown	Lancaster	Altoona	Easton	Lancaster
3	Scranton	Bethlehem	Allentown	Allentown	Bethlehem
4	Altoona	Altoona	Lancaster	Reading	Altoona
5	Bethlehem	Erie	Easton	Wilkes-Barre	Erie
6	Easton	Easton	Bethlehem	Altoona	Reading
7	Erie	Wilkes-Barre	**YORK**	Scranton	Wilkes-Barre
8	Wilkes-Barre	Reading	Erie	Erie	Easton
9	**YORK**	Allentown	Reading	Lancaster	Allentown
10	Lancaster	**YORK**	Wilkes-Barre	**YORK**	**YORK**
11	Reading	Scranton	Scranton	Bethlehem	Scranton

*Five-year average 2007-2011
**2011

Chapter 2
City of York
Debt Restructuring, Cash Defeasance and/or Monetization of Assets

A. Introduction

The City of York owns or controls a variety of assets that generate revenue. These revenue-generating assets also have debt associated with them. A review was completed of the City's debt profile during which we assessed the total debt service burdens on, and benefits to, the City's general fund that arise out of ice rink, parking and sewer operations. The parking and sewer assets have historically generated sufficient revenue to pay for their own operations, capital improvements and all of their associated debt service. The general fund of the City benefits from some cash flow generated by these assets to the extent such cash flow defrays direct and indirect overhead and other permitted costs of the City. The ice rink does not generate sufficient revenue to pay for its own operations, capital improvements and debt service. The City's general fund has been subsidizing the Ice Rink ("Ice Rink") for years.

B. Definitions

1. **Debt Restructuring:** involves refinancing the debt in question in order to reduce debt service cost in certain years. This technique may increase cash flow to the City but may also have a present value cost to the City if the debt repayment period is extended so that the City is required to pay additional interest for a longer period of time.
2. **Cash Defeasance:** can be used in combination with a debt restructuring or on a stand-alone basis, and involves taking cash (from any available sources including reserve funds or perhaps a monetization which is described below) and using it to pay debt service (or pension obligations) either immediately upon application, or if the debt is not currently payable or pre-payable (callable), the cash can be deposited into an escrow account, earn interest, and then be applied once the debt can be prepaid in accordance with its terms.
3. **Monetization:** a general term for taking all or a portion of the net cash flow generated by an asset and turning it into either upfront, lump sum payments,

periodic payments, or both. A monetization can take the form of an outright sale of the asset, a long-term lease or concession, a long-term operation or management agreement, or one of a variety of other structures. The sale or long-term lease could be to a public or private entity.

C. Asset Review

1. City of York General Authority's Ice Rink Debt.

The City has been paying all or a substantial portion of the debt service on the Ice Rink debt for some time, including $531,425 in 2014. Payment is made on this debt from the City's general fund pursuant to the City's guaranty of the York General Authority's Ice Rink debt. The elimination of this burden on the general fund should be a priority pursuit of the City both from a debt management standpoint and from the standpoint of creating a structurally balanced budget. If this debt could be repaid or refinanced for debt service savings, the City's general fund would enjoy a direct reduction in the amount it is required to subsidize under its guaranty agreement over each of the next six years (remaining life of the Ice Rink debt). The City has explored refinancing the Ice Rink in the past; however, to date the options have not been considered economical.

2. Sewer Authority Debt.

As described elsewhere in this report, the Sewer Rental Act places certain limitations on use of sewer rents to pay for direct and indirect overhead of the City as well as limitation on use of sewer rents for reserves and other costs relating to sewer operations. An operation and maintenance arrangement or monetization of the sewer assets may be worth considering for one or more of the following reasons:

a) improve the cash flow to the general fund (so long as such cash flow is used for one of the permitted purposes);
b) use proceeds of monetization to pay down other debt (Ice Rink and/or Parking);

c) use proceeds of monetization to make a deposit into one or more of the City's pension funds, improving the structural balance of the general fund and reducing the MMO in future years;

d) protect the City from some of the operational risk of regulatory mandates and/or the cost of future capital improvements; and

e) improve operating efficiencies so that rate increases can be mitigated.

3. Parking Assets

Parking assets may be monetized for similar reasons including:

a) improve the cash flow to the general fund;

b) use proceeds to pay down other debt (Ice Rink and/or sewer);

c) use proceeds of monetization to make a deposit into one or more of the City's pension funds to improve the structural balance of the general fund;

d) protect the City from some of the capital improvement costs and risks associated therewith; and

e) improve technology and operating efficiencies which can result in increases in revenue transfers to the general fund and improved parking experience in City.

D. Approach Recommended.

We have reviewed the City's outstanding debt, pension and budget challenges, and certain legal issues. We have also discussed with the City's actuary the impact of recent proposed changes to the City's Minimum Municipal Obligations (MMO) over the next several years. Based on the foregoing, we recommend that the City continue discussions relating to debt restructuring, refinancing and monetization of assets but within the context of the goals and outcomes it is seeking to achieve. These discussions should take into account existing budget challenges, labor considerations, regulatory mandates, capital improvement programs and public policy considerations included elsewhere in this plan.

While it is easy to say, "this should be a comprehensive plan where each decision informs other choices and decisions," the rigor it takes to successfully move through this process in a comprehensive manner is both challenging and essential to an optimal outcome.

E. Determination of Goals

In thinking about debt options, the City should identify its goals and then assess any transactions in light of the ability to accomplish such goals. By way of illustration we offer the following:

1. Ice Rink

Because the Ice Rink was not originally intended to be an enterprise that the general fund would need to subsidize, the goals regarding the Ice Rink would include reducing or, better still, eliminating the burden it has become on the general fund. In each of 2012 and 2013, the general fund had to subsidize the Ice Rink debt in the amount of approximately $620,000. In 2014, we understand the Ice Rink paid between $90,000 and $100,000 of the debt service on the Ice Rink Bonds resulting in an approximately $531,000 drain on the general fund. We recommend the City continue to explore the following goals:

a) Eliminate the remaining debt on the Ice Rink.
b) Refinance or restructure the Ice Rink debt to reduce the annual cost to the General Fund.
c) Increase cash flow at the Ice Rink. Renegotiate the management agreement or look at alternative arrangements such as a lease purchase or long term lease.
d) Transfer ownership or benefits of ownership to the Ice Rink along with the debt to reduce or eliminate the debt burden on general fund. The City should consider cash defeasance, prepaid management contract, ground lease, etc.

The Ice Rink Bonds currently may be refinanced in accordance with their terms, but the City has not been able to find financing with terms that were sufficiently economical. Another way to eliminate or reduce the debt is to cash defease the Ice Rink Bonds with proceeds generated by a sale, lease or monetization of the Ice Rink or new pre-funded management agreement. Finally, the City could consider using a portion of proceeds from any monetization of sewer assets or Parking assets for this purpose. If the Ice Rink bonds were cash defeased, the benefit to the general fund is projected to be approximately $622,000 in 2016 and approximately $3.7 million over the next six years.

2. Parking

The Parking assets are generating sufficient revenues to pay for their own operations, capital improvements and associated debt service. We understand that these assets are generating a little under $1,100,000 per year of net revenue for the general fund. That being said, there are several ways the City may wish to consider enhancing the value of the Parking assets and/or increasing the cash flow generated by the Parking assets for the use by the general fund:

a) Eliminate or reduce the remaining debt related to Parking.
b) Refinance or restructure the Parking debt to increase payments to general fund.
c) Increase cash flow through a private management contract or consultant who can better correlate on-street and off street rates, improve fines and collections (enforcement), as well as invest in technology that could improve net revenue of the system.
d) Monetization, the proceeds of which could be used for one or more of the following purposes:
    i. Repay all or a portion of the Ice Rink debt.
    ii. Repay all or a portion of the Parking debt.
    iii. Make a deposit into one or more pension funds to reduce the City's annual costs.
    iv. Use revenue share to increase subsidy to the general fund.

A cash defeasance of the 2013 parking notes could free up approximately $400,000 per year of extra transfers to the general fund that otherwise would have been used to pay debt service. Of note is the fact that, through a variety of enhancements, the Harrisburg Parking monetization resulted in significant upfront proceeds *and* improvement of cash flow to the City's general fund. The process discussed later in this report would need to be undertaken to see if that is possible in the City and would require a study of the rate structure, demand and physical condition of the assets, among other things.

3. Sewer

The sewer assets are generating sufficient revenues to pay for their own operations, capital improvements and associated debt service. That being said, there are several ways the City may wish to consider enhancing the value of the sewer assets and/or the cash flow generated by the sewer assets for the use by the general fund, and by which the City may wish to address long-term risks associated with capital investment and regulatory mandates. These options may include:

a) eliminating some or all of the remaining debt related to sewer;
b) refinancing or restructuring the sewer debt to increase payments to the general fund;
c) increasing cash flow through private management contract; or
d) pursing monetization, the proceeds of which could be used for one or more of the following purposes:
    i. Repay all or a portion of the Ice Rink debt.
    ii. Repay all or a portion of the Parking debt.
    iii. Make a deposit into one or more pension funds.
    iv. Use revenue share to increase subsidy to general fund.

Some of the Sewer Bonds are non-callable and some are not yet callable, which would increase the cost of a refinancing or cash defeasance of these bonds.

F. Potential Value of restructuring, refinancing or monetization of assets.

In analyzing any restructuring, refinancing or monetization of assets, there are a variety of metrics that can be used. Because we know that the City will have a difficult time issuing general obligation debt at low interest rates at this time, we will not focus on issuing general obligation refunding bonds. Instead, we have first analyzed the cash defeasance approach. For a cash defeasance, proceeds of a monetization would be used to (i) immediately pay off currently callable debt and/or (ii) to invest in State and Local

Government Securities (a form of U.S. Treasury securities commonly referred to as SLGs) in sufficient amounts so that the SLGs would mature and pay amounts sufficient to satisfy the debt at the earliest call date for bonds that were not currently callable. For example, if the City monetized the sewer system by entering into a long term lease, long term management arrangement or sale, and the City received up front proceeds in exchange that it could apply, what would be the best way to apply such amounts (after satisfying all debt service obligations remaining on the Sewer Bonds) in order to optimize the value to the City of any such transaction?

Estimated refinancing options show that $7.6 million would be required, based upon the assumptions set forth above, to defease the Parking Bonds (Series of 2013) and the Ice Rink Bonds (Series of 2001), which would reduce general fund expenditures by approximately $1.02 million per year through 2021 and $400,000 per year thereafter until 2028. This would occur because Parking revenues would no longer have to support debt service in the amount of approximately $400,000 per year, and the general fund would not have to pay approximately $620,000 of Ice Rink debt service each year through 2021. As to Parking, the assumption is that capital improvements and repairs could be paid out of current cash flow and/or upfront proceeds of the monetization. An engineer's study and long-term capital plan would be required to confirm this to be the case. The aforementioned does not take into account operational efficiencies which should also be considered and could further improve cash flow to the general fund, nor does it necessarily include a pledge of on-street revenues that could lead to further improvements in the structure and economics of a transaction.

The City would then compare this use to other uses such as funding a deposit into the pension funds of the City. Based upon discussions with the City's actuary, a $7.6 million deposit into the pension fund is projected to reduce the City's required payments by approximately $720,000 per year for 20 years, a considerably greater period than the nominal savings realized through a debt defeasance.

While the above discussion has compared the two options on a nominal cash flow basis, a present value (PV) comparison can and should also be made (present value describes how much a future sum of money is worth today). The debt defeasance generates PV savings of approximately $540,000 over the life of the transaction. The pension deposit could generate PV savings of approximately $2.95 million based on a 20-year projection assuming the deposited assets earn the actuarial rate of eight percent.

Of note, the benefit of the deposit into the pension fund is not fixed and is by no means a certainty — it is variable in that market loss or gain of the invested assets can at any time reduce, wipe out, or enhance all or a portion of the benefit of the deposit, whereas with defeasance of the debt, those savings are fixed, not variable. The City has past experience with pension obligation bonds, which were designed to make the pension obligations of the City more affordable on an annual basis but can be undermined as a result of significant volatility in the stock market and timing of such deposits.

Recommended Process

The asset that potentially could generate the most up front proceeds for the City is the sewer system. The next section of this report includes a summary of the recommended process to explore a potential transaction involving the sewer system. As previously noted during meetings with representatives of the City, key assessments that will have a material bearing on valuation of the Sewer System include:

1. An update and standardization (with recalculated cost sharing) of the City's inter-municipal sewer agreements with neighboring municipalities; and
2. A comprehensive capital needs assessment for the sewer system including a longer- term capital improvement plan with cost estimates in 2015 dollars.
3. A study of original cost and depreciation of all assets in the Sewer System.

As to the Parking assets, the same summary of asset monetization process would be used, and the City could use that process of determining potential valuation without undertaking demographic or market demand studies, both of which could be passed off to the winning bidders as an expense of their proposal and/or any eventual transaction. Alternatively, the City may wish to undertake a Market Study and Forecast in order to form some basis of the Parking assets' value, prior to pursuing such a time consuming process as an RFQ and RFP. We note that there are currently several parking monetizations being explored in Pennsylvania. Teams of financial partners and parking operators needed to successfully complete such a transaction are actively seeking monetization opportunities involving municipal enterprises such as sewer and parking.

For the Ice Rink, we would recommend preliminary discussions with the existing management company prior to moving forward, as such discussions could inform any process, and such process would be truncated as compared with sewer and parking due to the nature of this asset and operations.

Monetization Process – Initial Phase

As outlined above, the City desires to explore possible monetization of its sewer operations including current inter-municipal agreements governing sewer flow into the York City sewer plant, potential sale/lease of the wastewater collection system, and potential sale/lease of the York City sewer plant. Below are the recommended steps to initiate that process. Once the various reports have been completed and other information gathered, the City will be in a position to determine whether an asset monetization may be in its long-term best interests.

A. **Inter-municipal Sewer Agreement Review**

   The City should engage the professionals at Salzman Hughes, P.C. to review, update and standardize the City's inter-municipal sewer agreements through negotiation with neighboring municipalities regarding treatment of collected sanitary wastewater. The purpose of such negotiations are to: modernize the agreements to reflect the most current environmental compliance standards; recalculate cost sharing provisions concerning operating expenses based on metered flow and capital expenses based on reserve capacities; and provide the City with the flexibility to unilaterally pursue any potential monetization scenario (privatization/long-term lease/private operator/manager contract/etc.), without requiring the consent of any neighboring municipal counterparty.

B. **Capital Needs Assessment**

   The City should also undertake a comprehensive capital needs assessment for the sewer system per the recommendations contained in the May 2013 Buchart Horn report.

   In addition to the annual Chapter 94 report prepared by in-house engineers at the York City Sewer Authority (the "Authority") and submitted to the Pennsylvania Department of

Environmental Protection, the City should also engage a third-party engineer to prepare an *independent* report assessing the system's capital needs over the ensuing seven to 10 years. Independent third-party reports are necessary for private market evaluations and standard practice for municipalities considering a potential asset monetization. Such a report would be expected by private market participants and its absence would delay the pursuit of any monetization or privatization strategy.

The capital needs assessment should take into account anticipated system growth, maintenance, capital repairs and replacements. This information will allow the City to establish a baseline understanding of the future costs associated with operating the system and maintaining the "status quo" into the future. The baseline will enable the City to effectively analyze and determine whether keeping the status quo or pursuing a potential monetization of the system is in its long-term interests. In addition, the information will provide context to the City as it reviews and analyzes different proposed monetization plans and accompanying revenue estimates. Armed with this information, the City will be better able to understand the long-term value of any monetization proposal, compare how one proposal may differ from another, and enable the City to appropriately analyze and evaluate each potential course of action.

C. Act 73 Analysis

The City should undertake - perhaps in conjunction with the City's Salzman Hughes engagement - a formal Act 73 of 2012 (53 P.S. § 5612) analysis of Authority payments to the City. Act 73 is designed to ensure that municipal authority funds are only used for expenditures in service of, or for projects directly related to, "the mission or purpose" of the authority. Thus, the City should confirm the amount of payments it receives from the Authority that can reasonably be based on the value of services provided or assets contributed.

The City must understand what payments it may be entitled to receive from the Authority going forward and on what basis those payments are calculated. Further, this analysis will inform the City's decision of whether to move forward with any proposed monetization of its interest in the wastewater collection and/or treatment assets or continue to operate under current terms.

D. Summary

The City should assemble and review the following reports and other items to determine whether an asset monetization may be in York's long-term best interests.

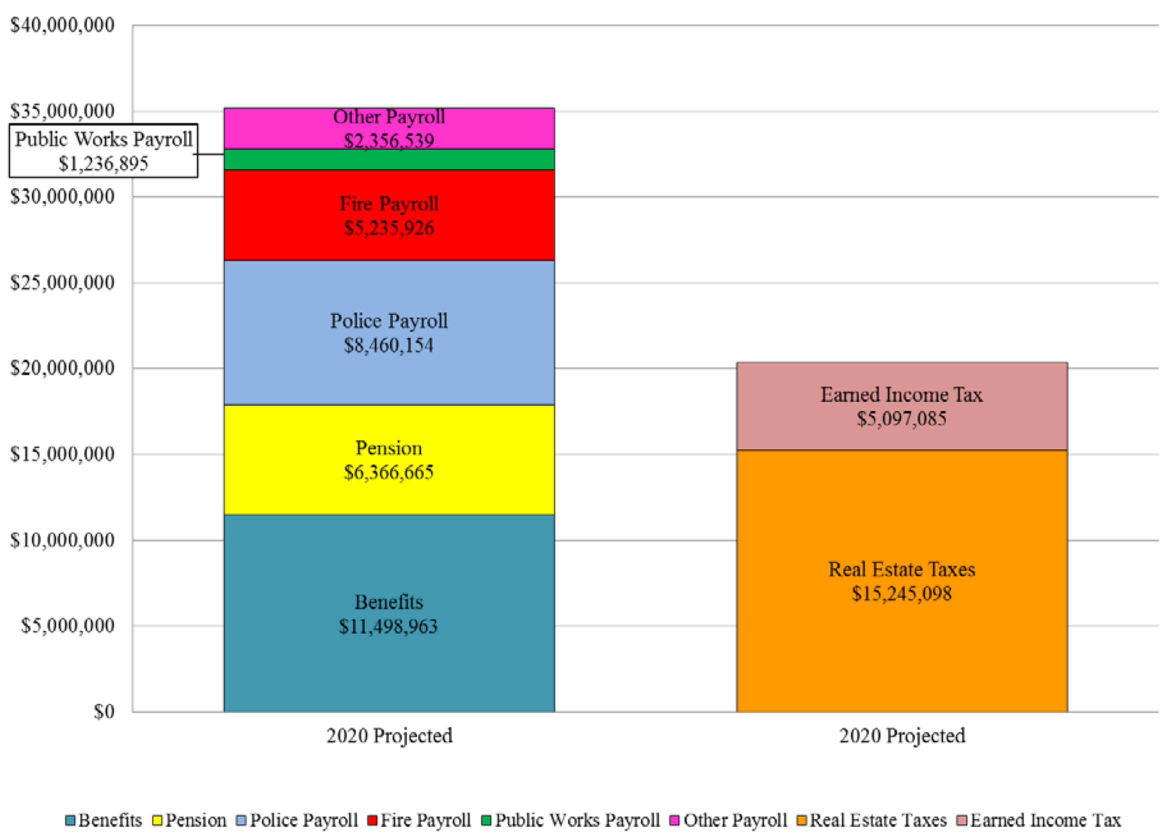
a) Existing contracts (including inter-municipal agreements with other municipalities);
b) Current engineering reports;
c) Most recent asset valuation report or appraisal;
d) Current financial reports/statements;
e) Outstanding indebtedness documentation; and
f) Other related documentation.

Chapter 3
City of York
Labor Considerations

Introduction

Employee compensation costs, including healthcare, pension costs, salaries and other benefits, are one of the biggest cost drivers in the City's budget. Thus, to regain control of its fiscal health, the City must take steps to control personnel expenses across the City's bargaining units as well as non-represented staff. Without taking steps to control its personnel costs, particularly the costs of compensation and benefits for current and retired employees, the City will have significant trouble regaining its fiscal health. This is demonstrated by Graph 3-1 that compares 2020 projected payroll, pension and benefit expenditures to 2020 projected earned income tax and real estate taxes. In 2020, the City's two prime revenue sources are only expected to cover pension and benefit costs along with a portion of police payroll.

Graph 3-1
CITY OF YORK
Projected Payroll, Pension, Benefits Compare to Earned Income Tax and Real Estate Taxes
2020



Currently, the City has five bargaining units represented by the York Public Employees' Association, affiliated with AFSCME/AFL-CIO (YPEA); the International Brotherhood of Electrical Workers, Local Union No. 229 (IBEW); the Chauffeurs, Teamsters and Helpers, Local No. 776 (Teamsters); the Rosewood Lodge No. 15, Fraternal Order of Police (FOP) and Firefighters Union Local No. 627, IAFF. The City entered into a four-year agreement with the FOP in 2014, and York is entering into negotiations this year with the YPEA, the IBEW and the Teamsters, whose contracts expire this year. The IAFF contract expires in 2017.

In order to assist the City control personnel costs, this chapter includes budgeted and projected expenditures that were segregated related to each collective bargaining unit using the baseline cost projections contained in Chapter 1. This expenditure breakout will provide the City with guidance relative to current and future labor contract negotiations.

EIP Team Labor Recommendations

A. Establish a Bargaining Pattern: As soon as possible, the City should develop an acceptable and fiscally responsible collective bargaining strategy which sets a pattern for all of its bargaining units for the future. The City's fiscal landscape does not provide the City with leeway to expand or increase benefits and this scenario must be highlighted and fully explained during negotiations. This must be done both to enable the City to achieve the flexibility and cost reductions that are necessary under the circumstances and to achieve an effective and convincing bargaining pattern. The City's fiscal condition also mandates that any collective bargaining agreement must be kept to the shortest possible term. The City needs to achieve the mandated cost reductions and controls to gain much needed flexibility and avoid an otherwise unavoidable reduction in services and its employee census.

B. Benefits Audit: Considering the City's limited fiscal resources and its expenses related to employee compensation, the City will not successfully close its deficit unless it makes progress in this area.

   The City should embark on a benefits audit to determine the total level of benefits provided to each bargaining unit and the real cost of such benefits. The audit must also analyze the total cost of all compensation and benefits provided to each bargaining unit. This analysis must calculate the cost to the City and the value to employees of all compensation and benefits, including wages, longevity, uniform stipends and reimbursements, current and retiree health care, pension benefits, all accrued leave, the impact any form of compensation has on pension benefits and pension liability, etc.

a. Health Care Options: with respect to health care, the typical approach is to focus on the level of coverage as well as the cost sharing obligation between the City and employees. While those two areas should remain the focus, a new matrix of benefit choices and cost sharing options should be investigated to allow employees to select a less expensive health care plan with lower cost sharing obligations or more expensive plans with higher cost sharing. The multiple options would allow the City to provide several plans with different plan designs from which the employees can choose depending upon their needs and cost sharing preferences. A defined contribution approach to health care should also be investigated so that the City would provide a sum certain or stipend to employees to purchase the benefits they choose. The stipend should be the maximum that the City would pay for health benefits for each employee, regardless of the plan chosen by the employee. The Audit (and future negotiations) must also analyze the utility and legality of any funding vehicle used to reimburse future employee health care costs, particularly under the ACA.

b. Affordable Care Act Implications: The health care portion of the audit should be conducted with a special focus on the potential impact of the Cadillac tax (a 40 percent excise tax on high-cost group health coverage) in 2018 and the impact of other fees, costs or excise taxes in the Affordable Care Act (ACA), such as the tobacco user fee. Many public employers are finding that the plans they offer either are now, or are certain to be, subject to the Cadillac tax in 2018. This potential liability cannot be overlooked. Hoping that the tax is repealed is not an effective planning strategy. Options have to be developed to insure that the City's plans are not subjected to the Cadillac tax and that the City is not responsible for paying the tax in addition to all existing and future health care costs. Likewise, the cost of the tobacco user fee should be passed on to any employee who either uses or has a spouse or dependent who uses tobacco.

c. Eligibility Audits: Eligibility coordination rules for employees who have access to health care elsewhere should be developed for all employees and enforced. Periodic eligibility audits should be conducted. The audit should also ensure that the City has management flexibility and carve outs for certain contingencies. If an employee can get comparable coverage elsewhere or his or her dependents can do so, the City should not be obligated to provide coverage. Having this option is useful, but its utility is limited if there is no effective periodic audit or enforcement procedure in place.

d. Post-Retirement Health Care: The same idea should be applied to post-retirement health care. Although legal obstacles may exist and will be a hurdle in this area, creative ideas should be evaluated. For example, the City should pursue the elimination or significant reduction of such benefits, particularly for new hires. In addition, employees should be required to contribute to the fund. Coordination with Medicare and eliminating any lingering obligation to provide a supplemental plan should also be reviewed. The obligation to provide this benefit should be significantly reduced if not eliminated for future employees.

e. Pension Benefit Changes: Under the current law, the City is limited with respect to changing pension benefits for uniformed personnel. However, all pension plans must be reviewed to determine what benefits, if any, can be reduced for current employees or eliminated for future employees. The effectiveness and utility of making retirement based on a minimum age, in addition to years of service, should be evaluated. This retirement age should be a work requirement, not just a contribution requirement, which currently appears to be the case in the police contract. Benefits for new hires should be the minimum required benefits under the law and contributions should be the maximum required. The City should also eliminate any inclusion of lump sum payments or overtime into any pension calculation. Pension contributions should be maintained at the highest level possible. No new benefits should be added in the future until it is clear that any such new benefit will not reduce the pension plan's funding percentage to below 100% while also leaving a cushion for any downturn in the investment market. Future public services should not have to be reduced to fund pension or other legacy costs.

f. Pension Benefits for New Hires: In addition, the City should consider starting a new pension benefit, even if only for all newly hired employees. To the fullest extent possible, the City should try to move away from defined benefit plans. While the City is restricted in terms of the minimum benefits provided to uniformed employees, the Third Class City Code provisions for pensions of non-uniformed elected or appointed officers and employees are permissive, rather than mandatory, with respect to the question of whether or not to establish such a pension. If such a plan is established, however, the Code requires certain benefits. The City should investigate taking advantage of this option to control future pension costs.

g. Wages and Other Compensation: With respect to wages and other compensation, the City should review and consider the following:

   i. A freeze in wage, step and longevity increases.

   ii. Freeze longevity or convert the longevity pay formula to a fixed dollar amount instead of a percentage.

   iii. A new expanded wage scale for new employees, particularly uniformed employees, and possibly other categories of employees, including an elimination or adjustment of the longevity formula.

   iv. The reduction in holidays and sick days. Thirty (30) days of sick leave per year is excessive. Fourteen holidays a year, in addition to vacation and personal time off, is also excessive. The City also should consider bargaining and adopting a sick leave policy and personal leave policy where days are earned every month or through some other formula. The concept of "earning" sick and all other forms of leave over a period of time, i.e. each month, can be phased in over a period of time. The goal should be to require employees to earn sick and other forms of leave and not to receive a lump sum amount at the start of each year.

v. Carefully analyze the contract with a focus on controlling or eliminating forms of compensation that result in compounding of pay or that cause an increase of salary and a possible resulting increase in pension liability. For example, limiting the payout for unused leave time. While incentives should be provided for not using leave time that benefits the City, accruals and payout of all or a portion of unused leave time at the end of a year or at retirement merely creates an unfunded liability and a hidden increase in salary. As a result, the accrual of unused leave days and carryover of leave time from year to year should be eliminated. Leave should be earned and used in each calendar year.

vi. Eliminate or reduce minimum manning requirements. It is important to note that the elimination of such requirements does not mean the City will not or cannot staff at that level or at an even higher level if the City determines there is a need for such manning on any specific shift. It simply means that the City has more flexibility to determine its staffing needs based upon the circumstances and finances and the need to reduce overtime costs.

vii. Reimbursement levels should be frozen and made only upon the production of a paid receipt up to a specific cap. This is administratively more difficult but more appropriately compensates employees for the intended cost. Such reimbursements should be limited or capped at a lower amount with respect to new hires.

viii. Avoid the adoption of any limitation on the City's need or ability to layoff or furlough employees or to subcontract services (Teamsters CBA). This includes any minimum staffing requirements that would inhibit the City's ability to layoff when needed.

ix. Overtime. The reduction of overtime costs is necessary, but achieving this goal will typically involve schedule changes and manning changes, particularly in the fire department. The City should eliminate any such obligation for any exempt and non-represented employee.

1. With a minimum staffing requirement, such changes are often difficult to achieve. However, this issue should be studied to determine what fire companies and fire apparatus can be put out of service safely.

2. Evaluate staffing to determine whether any City department's staffing can and should be adjusted in a manner that will cut overtime costs while also reducing overall payroll expenses (including all costs of a new employee).

3. Evaluate staffing requirements and limitations in all departments to provide the City with flexibility, such as any limitation on the ability of the City to move personnel between shifts or duties as needed.

4. Adjust the overtime pay requirements to be brought in line with the minimum mandates of applicable law. This would include eliminating overtime paid for hours worked in one day and utilizing the public safety personnel exception contained in the Fair Labor Standards Act.

5. Review the use of compensatory time and its effectiveness in allowing the City to best utilize its resources. Compensatory time allows the City to avoid paying overtime when it is worked, but it also can increase overtime costs when compensatory time is used. It also increases overtime costs in that the time is paid out at the employee's future rate of pay. If compensatory time is available, limitations on its accrual and use should be developed.

6. Not only should each department be allotted an overtime budget if it has the need for such a budget, each budget must be carefully monitored and each Department head must seek prior approval for exceeding the allotted overtime budget. If such prior approval is not sought, the Department head must be held responsible for such an overrun. The overtime practices of each department should be reviewed and all practices that result in unnecessary or excessive unplanned overtime should be addressed and eliminated.

C. Regionalization and Shared Services: Regionalization and shared services should be considered. Any applicable collective bargaining agreement from the new regionalized service must be carefully analyzed, however, to determine if it would reduce City personnel expenses.

D. Suggested Workforce Expenditure Guidance: Projections indicate that the City will begin to experience general fund operating deficits in 2017. One way to reduce the magnitude of future deficits is by controlling labor costs. The tables below show budgeted and/or projected costs through the last contract year for each bargaining unit based on the projections in Chapter 1. The City should consider the amount given for the last contract year as the maximum dollars available annually for each bargaining unit's new contract. In other words, the City must attempt to control the overall growth in labor contracts by evaluating all items included in the agreements. These amounts are prior to any adjustments through good faith negotiation or arbitration.

The Chauffeurs, Teamsters and Helpers, Local No. 776

	2015
	Budget
Base Salary	$2,508,206
Longevity	0
Overtime	62,705
FICA/Medicare	195,903
Heathcare/Presciption	896,000
Clothing Allowance	0
Cleaning Allowance	0
Footwear Allowance	0
Retiree Healthcare	0
Total Costs	**$3,662,815**

York Public Employees' Association

	2015
	Budget
Base Salary	$843,520
Longevity	44,108
Overtime	22,191
FICA/Medicare	69,328
Heathcare/Presciption	372,000
Clothing Allowance	0
Cleaning Allowance	775
Footwear Allowance	0
Total Costs	**$1,351,922**

The International Brotherhood of Electrical Workers, Local Union No. 229

	2015
	Budget
Base Salary	$201,687
Longevity	15,688
Overtime	5,434
FICA/Medicare	16,978
Heathcare/Presciption	102,820
Clothing Allowance	0
Cleaning Allowance	0
Footwear Allowance	600
Total Costs	**$343,207**

Non-Affiliated Employees (NAFF)

	2015
	Budget
Base Salary	$4,882,103
Longevity	0
Overtime	0
FICA/Medicare	372,016
Heathcare/Presciption	1,510,000
Clothing Allowance	0
Cleaning Allowance	0
Footwear Allowance	0
Total Costs	**$6,764,119**

Firefighters Union Local No. 627, IAFF

	2015	2016	2017
	Budget	Projected	Projected
Base Salary	$3,235,965	$3,333,044	$3,433,035
Longevity	253,809	274,114	296,043
Overtime	987,000	987,000	987,000
FICA/Medicare	64,913	66,615	68,383
Heathcare/Presciption	1,800,000	1,908,000	2,022,480
Clothing Allowance	47,000	47,500	47,540
Cleaning Allowance	16,750	16,750	16,750
Footwear Allowance	4,000	4,500	4,540
Total Costs	**$6,409,437**	**$6,637,523**	**$6,875,771**

Rosewood Lodge No. 15, Fraternal Order of Police

	2015	2016	2017	2018
	Budget	Projected	Projected	Projected
Base Salary	$6,903,263	$7,110,361	$7,323,672	$7,543,382
Longevity	479,298	517,642	559,053	603,777
Overtime	450,000	450,000	450,000	450,000
FICA/Medicare	113,572	117,131	120,825	124,659
Heathcare/Presciption	3,039,000	3,221,340	3,414,620	3,619,498
Clothing Allowance	46,350	46,350	46,350	46,350
Cleaning Allowance	33,475	33,475	33,475	33,475
Footwear Allowance	15,450	15,450	15,450	15,450
Total Costs	**$11,080,408**	**$11,511,749**	**$11,963,445**	**$12,436,591**

Chapter 4
City of York
Alternative Approaches to Financial Stability

The City of York's continued struggle to overcome the financial challenges that threaten to adversely impact the health, safety and welfare of its citizens is well documented. As stated in the City's 2015 State of the City message by Michael Doweary, York Business Administrator: "The challenge is to find a way to make an antiquated revenue generating system yield adequate revenue to pay rising costs without further impoverishing the local population, while, at the same time, struggling to wring every penny of savings from the City's expenditure obligations."

The potential for York to enter the Commonwealth's Act 47 program for distressed municipalities is one option that has been proposed as a method to correct the City's ongoing imbalance between revenues and expenditures. In order to determine the value of seeking an Act 47 designation, it is necessary to examine the types of relief the Act 47 program would offer versus what could be viewed as the detriments to entering the program. Further, the review must include a look at what options the City already has available under its current statutory authority. Finally, the potential of relief through a change to a Home Rule Charter should be considered.

While the current resident Earned Income Tax (EIT) of 1.0 percent is shared equally by the City and the York City School District, the School District would not share in the enhanced EIT options described below.

CURRENT STATUTORY AUTHORITY

Act 205 Earned Income Tax (EIT): The City is eligible to increase its EIT above the level of 1.0 percent for both residents and nonresidents (commuters) because of its moderately distressed pension designation. Any increase must be used solely to defray additional pension funding costs and may not be used to reduce the City's current pension funding obligation. The City is using this provision starting in 2015 by increasing the resident and nonresident EIT by 0.25 percent. The increase is estimated by the City to raise $2.5 million annually in additional deposits to the City pension funds. The tax can continue as long as the pension is considered distressed and does not require court approval. The tax imposed on residents must be equal to or greater than the tax on non-residents, according to a recent Lackawanna County Court of Common Pleas decision.

Monetization: The City is exploring the monetization of assets, including parking and the sewer system, as described earlier in this report. This approach is not only permitted now, it also has the added advantage of not placing further tax burden on City residents.

Financial assistance from York County: In the mid-1990s, the Rusk Report suggested that York County levy an additional 1.0 mill and use the funds as a form of revenue sharing with the County's 72 local governments. The suggested reason for the revenue sharing was to reimburse local governments for the amount of funds lost to tax exempt property. This assistance could benefit the City considering that almost 40 percent of the City's properties are tax exempt. While not expressly authorized under the applicable County Code, we have seen no statutory prohibition on such appropriations. The issue may warrant further legal analysis as part of the subsequent report.

Other options: Debt restructuring, regionalization opportunities, and competitive contracting can all be accomplished under the current statutory authority without the need to enter Act 47 or switch to Home Rule. There are ongoing discussions at the Commonwealth about providing some state assistance to severely distressed pension funds. The City should continue to follow developments in this area.

ACT 47 OPTIONS

Act 47 EIT: Act 47 permits distressed municipalities to levy an increased EIT on residents and nonresidents (commuters) for general purposes with annual court approval. The EIT increase imposed on residents must be equal to or greater than the tax imposed on non-residents. Statutory authority to seek the higher EIT is only available while a community is in the Act 47 program. Because of new time limits on the Act 47 designation, municipalities are limited to only five years of the enhanced Act 47 EIT, with the possibility of an additional three years assuming the community is granted a three-year Act 47 exit plan. It bears repeating that this additional revenue is only available while the community is in Act 47, and the City would have to increase other revenues, decrease expenses or both in an amount sufficient to make up for the loss of these revenues once it exits Act 47.

Local Services Tax (LST): Under recent changes to Act 47, municipalities can seek annual court approval to triple the current flat $52 LST rate. However, if the municipality has an Act 205 EIT, which the City is imposing in 2015, the current LST rate can only be doubled. In addition, the exempted income threshold increases from $12,000 to $15,600. Also, an Act 47 municipality cannot levy both a higher Act 47 EIT and a higher LST. Like the Act 47 EIT, an increased LST is only available so long as the municipality is designated as distressed under Act 47. So, like the Act 47 EIT, serious consideration should be given as to how the community would wean itself off of this revenue in five to eight years, which has proven to be very challenging in other Act 47 communities.

Expenditure limits for collective bargaining agreements: Currently, the City has five bargaining units represented by the York Public Employees' Association, affiliated with AFSCME/AFL-CIO; the International Brotherhood of Electrical Workers, Local Union No. 229; the Chauffeurs, Teamsters and Helpers, Local No. 776; the Rosewood Lodge No. 15, Fraternal Order of Police (FOP); and Firefighters Union Local No. 627, IAFF. The City must begin to take steps to control expenses by cutting its personnel costs across the City's bargaining units as well as with non-represented staff.

Employee compensation, including health care, pension costs, salaries and other benefits for public safety personnel represent a significant draw on the City's General Fund budget. As discussed in more detail in Chapter 3, such costs for the City have increased significantly, particularly for public safety. Much of this cost is related to the growth of pension, health and post-retirement benefits for certain employee groups. One benefit of the Act 47 designation is that it allows the City to develop an effective method to gain control over these personnel costs.

Under Act 47, "a collective bargaining agreement or arbitration settlement executed after the adoption of a plan shall not in any manner violate, expand or diminish its provisions." Although Act 47 provides a very limited exception to the foregoing rule, Act 47, if properly utilized, is an extremely effective tool to regain control over labor and personnel costs. Once a recovery plan that is developed in good faith and is reasonable under the circumstances becomes effective, a new collective bargaining agreement or arbitration award cannot deviate from the recovery plan if such deviation would "cause the distressed municipality to exceed any limits on expenditures for individual collective bargaining units imposed under the plan."

Act 47, as currently amended, requires that a Recovery Plan segregate costs related to each collective bargaining unit included in the baseline cost projections contained in the plan, assuming both the continuation of current operations and as impacted by plan measures. The Recovery Plan Coordinator must project revenues and expenditures for the current and next three fiscal years and include a cap on expenditures for individual collective bargaining units that the distressed municipality may not exceed. With limited exceptions, arbitration awards for Act 111 units are also subject to this provision. In order to assist the City control its personnel costs, Chapter 3 includes proposed limits on expenditures for collective bargaining units and non-affiliated employees that are patterned after those required for distressed municipalities under Act 47.

Act 47 grants and loans: Act 47 municipalities are eligible for emergency state grants and interest-free loans in order to pay for Act 47 plan initiatives. The City should appeal to DCED to consider extending the grants and loans for further studies as recommended in Chapter 5 of this report.

HOME RULE OPTIONS

Relief from statutory tax rate caps: Home Rule communities may raise general purpose real estate taxes, resident EIT and real estate transfer tax above statutory levels. As a third-class city, York is currently capped at 30 mills for general purpose real estate taxes with an additional 5 mills available with court approval. As noted above, the current EIT limit is 1.0 percent. The maximum real estate transfer tax rate is 1.0 percent subject to sharing with the York City School District (YCSD). Currently, the YCSD collects the entire 1.0 percent while the City receives the full $52 local services tax (LST). The LST is also subject to sharing with the YCSD, with the YCSD able to receive a maximum of $5. The City averages approximately $1.2 million annually in LST. The YCSD would gain — and the City would lose — approximately $115,000 if it received $5 from the LST. Meanwhile, based on real estate transfer taxes received by the YCSD from 2009-10 to 2012-13, the City would have received a high of $345,348 in 2009-10 and a low of $189,516 in 2011-12 had it split the 1.0 percent real estate transfer tax with the school district. The agreement of how the City and the YCSD handle the two taxes that are subject to sharing is well established. While revisiting this issue with the school district is something that the City could explore, the City could also increase the real estate transfer tax as a Home Rule municipality without reducing revenue to the YCSD.

The table below illustrates the key tax revenue options available to the City under current statutory authority, Act 47 and Home Rule:

	Status Quo	Act 47	Home Rule
Increased EIT (Residents)	N/A	✓ Time limits	✓ No time limit
Increased EIT (Nonresidents)	N/A	✓ Time limits	N/A
Increased Local Services Tax (Residents/Nonresidents) $156 with no Act 205; $104 with Act 205	N/A	✓ Time limits	N/A
Act 205 EIT (Residents/Nonresidents) Pension Funds Must be Distressed	✓	✓	✓
Increase General Purpose Real Estate Millage over Statutory Limits	N/A	✓ Time limits	✓ No time limit
Increase Real Estate Transfer Tax over Statutory Limits	N/A	N/A	✓ No time limit

CONCLUSION

Act 47 has been held forth by some as a potential panacea for York's financial challenges. There is no disputing that Act 47 would give the City some additional revenue options and important expenditure controls. The question is whether those initiatives trump what is already available to the City or, in the case of Home Rule, might be available without what is often perceived as the negative connotations of an Act 47 designation, which could potentially depress economic and/or residential development.

One of York's main challenges is the economic resources of its citizens, especially when compared to the surrounding county. The City's unemployment rate is 3.1 percentage points higher than the county as a whole (7.7 percent versus 4.6 percent as of September 2014), it has more than triple the number of people below the poverty line (37.1 percent versus 10.1 percent), and its median household income is much lower ($30,282 versus $58,745). These numbers demonstrate why City officials have understandably expressed concern over placing additional tax burdens on City residents.

Meanwhile, the City serves as the county seat and an important economic hub for the area, with many residents from surrounding wealthier communities commuting to jobs within its borders. Nonresidents who work in the City, in recognition of the public services provided where they are employed, currently pay a $52 LST to the City. One of the City's goals has been finding a mechanism to increase that type of nonresident revenue in order to offset City expenditures.

REVENUE OPTIONS

Generally, LST (and, to some extent, the parking tax) is the only tax revenue that is available to the City from nonresidents. However, as noted above, there are options to increase so-called commuter revenue in certain circumstances. The City is already eligible for one of those options – the Act 205 EIT – without the need to enter Act 47. Although the Act 205 EIT is strictly limited to reducing unfunded pension liability and the Act 47 EIT can be used for general purposes, the Act 205 EIT still has other advantages. It does not require annual court approval and its time limit is based on the funding ratios of the pension rather than an arbitrary Act 47 deadline. The Act 205 EIT can also be used to pay debt service on a pension bond that could be used to reduce unfunded pension liabilities.

In the case of the Act 205 EIT, the tax can remain until the problem of pension distress is resolved. If the City were to maintain the Act 205 EIT for as long as possible, proceeds of a monetization may be better spent on a cash defeasance of the Ice Rink debt and/or parking debt. The Act 47 EIT must end after a certain number of years regardless of the City's condition. There does not appear to be a limitation on enacting both enhanced EITs (Act 47 and Act 205) but doing so is problematic. Would the City be willing to raise EIT even higher on its own residents in order to generate additional EIT from commuters, keeping in mind that the EIT increase for nonresidents under Act 47 must be equal to or less than the EIT increase for residents? Each 0.1 percent increase in the resident EIT is estimated to generate approximately $450,000 in additional revenue, but the City must still consider where that revenue can produce the best results long-term.

In terms of the LST provision under Act 47, the City would be limited to doubling the amount it collects assuming it continues with the Act 205 EIT. Doubling the LST is estimated to generate additional revenue of approximately $1.2 million. But like the Act 47 EIT, that revenue would be limited to five to eight years and require court approval. It also comes with the price of a perceived negative label of an Act 47 municipality, as well as the bureaucratic burden of going through the Act 47 process.

EXPENDITURE CONTROL

Another advantage under Act 47 is the ability to place good faith expenditure limits on personnel costs with which all negotiated and arbitrated collective bargaining agreements would have to comply. The City approved a new, four-year contract with its police in December that contains significant cost savings of approximately $2.2 million. Among the contract items are pension COLAs set at 2.5 percent, an increase in the retirement age for new hires, and new employee health care cost contributions.

The EIP team is available to periodically meet with the City and its labor counsel to discuss and analyze the City's options for labor issues. The goal is to develop an overall strategy for labor in order to manage its costs and provide the City with flexibility on labor issues. As noted in Chapter 3, the EIP team has developed proposed cost limits for all bargaining units. The City and its employers should abide by those costs limits when negotiating new agreements in order to reduce the possibility of being declared distressed under Act 47. Controlling labor and personnel costs, particularly legacy costs, through effective negotiation and arbitration results is imperative in order for the City and its employees to avoid Act 47 and to enhance the effectiveness of the financial options discussed above. However, Act 47 remains a viable option for the City if it is unable to obtain recommended measures including controls on labor and personnel costs.

LOCAL CONTROL

Another key consideration of an Act 47 declaration is the loss of local control. Act 47 brings with it a degree of oversight by the Act 47 Coordinator, and through the Coordinator, the Commonwealth. For example, a new section of Act 47 requires the Coordinator to review a distressed municipality's proposed annual budget and determine if it is consistent with the Recovery Plan. If the adopted budget is inconsistent with a Recovery Plan, the Commonwealth may take remedial actions including the withholding of state funding or taking other actions provided in Act 47. Also, the potential three-year extension of distressed status that is now included in Act 47 should not be considered a "free ride." Act 47 now includes requirements for a strict three-year exit plan that would "ensure" termination of distressed status. The specific language is as follows:

(b) Contents of exit plan.--The exit plan prepared by the coordinator shall contain such elements ***as may be necessary to ensure termination of distressed status after three years****, including, but not limited to:*

(1) The sale, lease, conveyance, assignment or other use or disposition of the assets of the distressed municipality.

(2) ***Functional consolidation of or privatization of existing municipal services.***

(3) The execution, approval, modification, rejection, renegotiation or termination of contracts or agreements of the distressed municipality, provided, however, that the provisions of section 252 shall apply to any exit plan adopted in accordance with this subchapter.

(4) ***Changes in the form of municipal government or the configuration of elected or appointed municipal officials and employees as permitted by law.***

Note: Emphasis added

Lastly, the City would be eligible for Act 47 emergency loans and grants. Based on the current cash flow, it does not appear that the City will need emergency funds for 2015. In addition, there are other avenues to obtain state loan and grant assistance (including the current EIP process) without having to enter the Act 47 program. Recent Act 47 amendments also give distressed municipalities priority in all state community and economic development funding.

HOME RULE CONSIDERATIONS

Development of a Home Rule Charter for the City is another option that would permit York to increase its revenue by lifting current statutory caps on various tax rates including resident EIT. Unlike Act 205 and Act 47, a higher nonresident EIT is not permitted under a Home Rule Charter. Enacting a higher EIT on residents under Home Rule would give the City more flexibility in determining its revenue mix by adjusting other tax impositions. For example, officials might decide to raise the EIT rather than increasing property taxes so that the tax increase does not impact senior citizen property owners on fixed incomes. Regardless, the City should be cautious that it does not raise the EIT so high as to become an undue burden. Generally, the total EIT rate, including the school district portion, should not exceed 2.0 percent.

Both a Home Rule Charter and an Act 47 determination would allow the City to raise the general purpose real estate tax rate above the statutory maximum of 30 mills (35 mills with court approval) for third-class cities. One mill generates approximately $878,000 at the City's current collection rate. Under Act 47, increasing general purpose property taxes over the limit would require court approval and be subject to the same time limits (five years with the possibility of three more years) discussed above. At this time there is no need for the City to exceed 30 mills to generate revenue since the City is well under the third-class city cap at 16.0347 mills or, put another way, the City can still tap over $12 million in currently enabled real estate taxes. A Home Rule Charter would also enable York to gain revenue from real estate transfer taxes since it could raise the amount above the 1.0 percent statutory limit, which is now collected only by the school district.

A Home Rule Charter would give the City more flexibility to generate revenue through increased taxes, which could be a long-term consideration for the future. The charter process is fairly lengthy (one to two years) and comes with its own set of unknowns concerning what the elected charter study commission would recommend. A charter also must be approved by City voters. Given the time frame associated with the Home Rule Charter process, such a pursuit would not be effective to address fiscal problems in the short term unless it is part of a broader, more robust pursuit of other short and long term financial solutions.

SUMMARY

The City already has avenues to address its financial problems without entering Act 47, including the Act 205 EIT, monetization and increasing property taxes. Assuming that the City decided to retain the Act 205 EIT but also entered Act 47, the chief revenue advantage seems to be the ability to double the LST for a limited number of years. On the expenditure side, Act 47 provides potentially significant cost controls through caps on collective bargaining agreements and settlements.

The new exit procedures for Act 47, which involve new, stricter time limitations, must also be considered. The Act 47 designation and its various revenue enhancements and expenditure controls are no longer semi-permanent. In the past, municipalities used those provisions for years as communities remained in the program. In fact, one of the factors cited as an impediment to exiting Act 47 was that municipalities did not believe they could survive without Act 47's enhanced revenue provisions. On the other hand, one of the reasons often cited by municipalities for not entering the program was the perception that they would languish in Act 47 for years or even decades.

Depending on the City's needs and goals, York could use Act 47's short-term revenue enhancements and expenditure relief to provide financial breathing room while the City crafts a long-term financial strategy. The new time limits alleviate concerns that the City would languish in the program – and be subject to the program's oversight – indefinitely. If the City enters the program, it must be cognizant that Act 47 revenue enhancements in particular would have to be replaced for the long-term.

One potential scenario is to use the revenue enhancements and expenditure limits in Act 47 as a financial bridge to enacting a Home Rule Charter. Other communities, such as the cities of Nanticoke, Altoona, Shamokin, and Plymouth Township, are taking this bridge approach and are expected to successfully exit Act 47 with new charters as a result. York could employ this same tactic; however, it is worth repeating that a charter lifts tax rate caps only for resident EIT, property and real estate transfer taxes. A general purpose nonresident EIT (as opposed to the Act 205 EIT) is still prohibited. As previously stated, statutory real estate tax millage maximums would not apply under a Home Rule Charter. But although that could be a future advantage, the City is already well below its rate cap.

Currently, there are missing pieces to the puzzle that must be put in place before the City can make a final decision regarding Act 47. For instance, information must be obtained on the various monetization and debt strategies, each of which may offer regionalization of revenue due to operating revenues from non-residents. Each strategy should be coupled with the actuaries projected changes to the City's Minimum Municipal Obligation (MMO) and the projected improvements associated with Act 205 EIT revenues. That data, in turn, must be weighed against the City's projected finances. Depending on the dollar value of the contracts, the City potentially could gain immediate cost controls on three union collective bargaining agreements (Teamsters, YPEA and IBEW) that expire in 2015. Once the City has a handle on this additional information, it will be in a better position to make an educated decision concerning Act 47. As stated previously, Act 47 remains an alternative if efforts to control labor costs through collective bargaining fail and/or other initiatives do not materialize or provide enough relief.

As you know, there is a new administration in Harrisburg taking a fresh look at how to assist municipalities with distressed pensions and other financial issues. We are aware of several proposals that could be very useful for the City of York and will advise the City as to any additional options as these proposals take shape.

Chapter 5
City of York
Conclusion and Recommendations

Introduction

The City of York has taken numerous steps since its 2011 Early Intervention Plan (EIP) update to reduce expenditures and increase revenues in order to restore the City to solid financial footing, eliminate annual deficits and provide citizens with the services necessary to provide for their health, safety and welfare. Among the actions taken were increases in real estate property taxes, the refuse fee, and parking taxes and fees; implementation of an Act 205 earned income tax; ongoing modifications to health care benefits to reduce costs; departmental staff reductions; and negotiated contract changes with the police for both active and retired employees.

Despite these efforts, York continued to experience annual deficits during the historical review period, and projections indicate that additional deficits are a probability in the future, although unaudited 2014 figures show a modest surplus. This is due to numerous factors, many of which are shared by other third-class cities in Pennsylvania. Among those challenges are escalating legacy costs; a high percentage of residential poverty; a large amount of tax exempt properties; inflexible taxing options that largely preclude York from gaining revenue from the wealthier commuters and surrounding communities that benefit from the City's position as the county seat and regional economic hub; and the need to provide a high level of public services to its own population and those who look to the City as a site for business, medical treatment, education, entertainment and other reasons. As City officials have noted, it is unreasonable to merely enact ever higher taxes on the residential population, which is already strained by high poverty levels.

Given the current statutory limits that curtail York's expenditure and revenue options, it is incumbent on the City to take fresh approaches to leveraging its assets, gain control of personnel costs that are the biggest cost drivers of York's budget, and have the appropriate expert support so that it can make sound financial decisions. Recent amendments to Act 47 have codified the EIP process, with the program's purpose to serve as a preemptive step to avert fiscal crisis and provide fiscal stability. The EIP process provides resources to assist municipalities in identifying, prioritizing and addressing financial difficulties. **As such, York should leverage the**

EIP process to avoid Act 47 and seek financial assistance from the Commonwealth to accomplish the recommended measures outlined below.

<u>Sewer System</u>

- Monetization Model — As previously noted, third-class cities across the Commonwealth are struggling with financial issues that are similar to those experienced by York. The City is interested in serving as a model regarding sewer monetization that could be used by other municipalities statewide. However, upfront costs associated with exploring a monetization are prohibitive given York's financial situation. Based on the potential statewide benefit, the City should pursue state funding to undertake a monetization assessment to include elements such as a depreciated original cost report or a complete valuation of the asset. The City should request state funds of up to $80,000 for these studies.
- Act 73 Analysis — Act 73 is designed to ensure that municipal authority funds are only used for expenditures in service of, or for projects directly related to, "the mission or purpose" of the authority. Thus, the City should confirm the amount of payments it receives from the Authority that can reasonably be projected to be based on the value of services provided or assets contributed. The City should request state funds of $25,000 for this study.
- Seven to Ten Year Capital Needs Assessment — The capital needs assessment should take into account anticipated system growth, maintenance, capital repairs and replacements. This information will allow the City to establish a baseline understanding of the future costs associated with operating the system and maintaining the "status quo" into the future. The baseline will enable the City to analyze and determine whether keeping the status quo or pursuing a potential monetization of the system is in its long-term interests. The City should request state funds of $50,000 for this study.
- Inter-municipal Sewer Agreement Review — Engage the professionals at Salzman Hughes, P.C. to review, update and standardize the City's inter-municipal sewer agreements through negotiation with neighboring municipalities regarding treatment of collected sanitary wastewater. The purpose of the review is to modernize the agreements consistent with current environmental compliance standards, recalculate cost sharing

provisions, and provide the City with flexibility to pursue potential monetization. The City should request state funds of $30,000 for this study.

Parking

- Seven to Ten Year Capital Needs Assessment – As suggested with the sewer system, a similar analysis should be done regarding the parking system. The capital needs assessment information will allow the City to understand the future costs associated with operating the system and maintaining status quo. It will also enable the City to determine whether a monetization of the system is in its long-term interests. The City should request state funds of $10,000 for this study.

- Parking Demographic Study – This study of long term demographic trends should assist the City measure trends in population, work force, commercial expansion and the likely effects on the demand for and location of the City's parking assets. As noted in Chapter 2, the cost of this report may likely be passed off to a potential winning bidder; however, the City may lack use/access of the report and be unable to control the timing, analytical content and findings of the report. The City should request state funds of $20,000 for this study.

- Parking Demand Study – Parking demand can be shaped by many factors including economic development, demographics, pricing, capacity, and competition and relationship between garage and meter rates. As noted in Chapter 2, the cost of this report might be passed off to a potential winning bidder; however the City may lack use/access of the report and be unable to control the timing, analytical content and findings of the report. The City should request state funds of $50,000 to $75,000 for this study.

Ice Rink

Capital Needs Assessment/Appraisal – We recommended in Chapter 2 that the City first open discussions with the current management company, then allow those discussions to inform whether the City chooses to move forward with any monetization strategy and if so, which form of transaction. Certain kinds of transactions, such as contractual management by a new independent operator may be accomplished in a much faster time frame than a sale or long-term lease monetization. The City should request state funds of $10,000 for this effort and study.

Financial Consulting

The City requires outside financial expertise on several matters including determining the best use of a potential upfront, lump sum asset monetization payment (reserve funds, debt payoff, contingency funds, capital expenditures and/or unfunded pension liability), conducting an indirect cost analysis to review allocations that the City charges to various funds including sewer and parking. The City should request state funds of $35,000 for this study.

In addition, the City is in need of assistance in the form of ongoing review of the City's budget versus actual revenues and expenditures — including development of and training for a cash flow model — internal accounts review, budget preparation assistance and similar support. The City should request state funds of $25,000 for this work.

Labor Negotiations

As noted in Chapter 3, employee compensation costs such as healthcare, pension, salaries and other benefits are one of the biggest cost drivers in the City's budget. In order to regain its fiscal health, York requires outside expertise for all labor negotiations including development of a game plan, coordination of short-term and long-term goals, creation of priorities and direction regarding a timeline. The City should request state funds of $70,000 for this study.

Other Capital Needs Assessments

In addition to the capital needs assessments for City assets listed previously, York should seek an independent, third-party review of capital needs for other city facilities, parks, lots, etc. so that City officials can properly plan, maintain and budget for these facilities. The City should request state funds of $10,000 for this study.

Resident Housing Market Demand Study

Through its economic and community development efforts, the City seeks to increase the value of its tax base and foster a thriving urban community that improves the quality of life for City residents. In order to continue with its mission of creating and initiating housing initiatives, neighborhood-building and similar efforts, the City should conduct a resident housing market demand study that will identify the optimum market position for new urban housing through adaptive re-use of existing non-residential buildings and new construction. The study will include a focus on the realistic housing potential for underutilized, fragile and emerging neighborhoods. The City should request state funds of $20,000 for this study.