The McKeesport Plan

Early Intervention Program
EIP Management Plan

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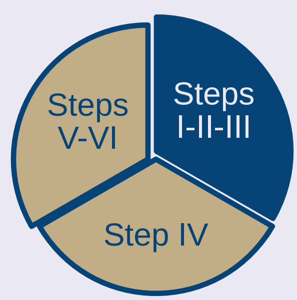

Submitted by: | Delta Development Group, Inc. | August 2010

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In March of 2008, the City of McKeesport (City) solicited proposals under the Commonwealth of Pennsylvania Early Intervention Program (EIP) for an analysis of its financial condition. The EIP guidelines as well as the Request for Proposals (RFP) developed by the City identified the following scope of services:

- Step I: Financial Condition Assessment
- Step II: Financial Trend Analysis
- Step III: Emergency Plan for Current Fiscal Year
- Step IV: Management Audit/Review
- Step V: Multiyear Plan Adoption
- Step VI: Five-Year Plan Implementation

As part of the EIP, the local government will be expected to have its elected officials and key staff trained in order to ensure the successful implementation of the recommendations contained in the Five-Year Financial Management Plan (the Plan).

DEFINING FINANCIAL CONDITION

"Financial condition," as defined by the Governor's Center for Local Government Services and the Government Finance Officers Association (GFOA), has many meanings and depends on the time frame in which it is viewed. The International City/County Management Association (ICMA) utilizes the following definitions and time frames when examining a local government's financial condition:

- **Cash Solvency**: A government's ability to generate cash flow over a 60-day period to pay its bills
- **Budgetary Solvency**: A government's ability to generate revenues over its normal fiscal year to meet its expenditures and avoid deficits
- **Long-Run Solvency**: A government's ability, in the long-term, to pay all costs of doing business, as well as meeting all costs such as pension costs and accumulated accrued employee leave benefits, as they occur
- **Service-Level Solvency**: A government's ability to provide services at a certain level and quality that are required for the health, safety, and welfare of the community

"Financial condition" is broadly defined as the ability to provide and finance services on a continuing basis.

BACKGROUND INFORMATION

The City of McKeesport, with a population of 22,130 (as of 2008) in an area of 5.15 square miles, is a densely populated, highly urban community in the Pittsburgh metropolitan area. The City has experienced population decline in every decade since 1940, at which time the population was at its all-time high of 55,355. The median age of its residents has increased to 40. About 20.9% of the City's population is over the age of 65. The poverty level is over twice that of Allegheny County, at 23%, and significantly higher than the communities at its borders. The per capita income, median family income, and median household income for McKeesport are lower than any of its neighboring communities as well as Allegheny County and the city of Pittsburgh. The poverty rate for individuals in the City is much higher than for any of its neighboring communities and the city of Pittsburgh. The poverty rate continues to be an area of concern for the City, because over 18% of the families who live in McKeesport are living below the poverty level and therefore require some supportive services. A review of the factors above provides insight into the difficulty, from an economic and revenue-generation perspective, of deriving additional revenue for local government operations from a population that is at such a low-income level.

Until the 1940s, McKeesport was one of the fastest-growing areas in the country and supported a population of 55,355. The major employer for most of McKeesport's modern history was the National Tube Works, a company owned by U.S. Steel and a manufacturer of iron pipes, which once employed over 10,000 people. From 2000 to 2007 the total number of paid employees in the McKeesport area actually increased, the number of total establishments decreased from 538 in 2000 to 485 in 2007, for a total loss of 53 business establishments. Because of the decline in the retail trade sectors and the reduction in the overall number of business establishments, individual City residents now provide a higher proportion of the City's tax revenue than ever before. This is especially a burden for the 61.3% of City residents who fall into the low- to moderate-income category.

STEP I – FINANCIAL CONDITION ASSESSMENT

BASE REVENUE INFORMATION

The City's general operating fund revenue for 2009 was approximately $18 million, when adjusted for nonrecurring grant revenue and proceeds from notes and bonds. The average increase over the past seven years for all general fund revenue for the City is about 3.19% per year. About 49% of the City's revenue base is supported by tax revenue, and of that, about 18% is directly related to real estate tax collection. A revenue base that is overly dependent on tax revenue can be dramatically impacted by changes in the overall macro-economy. About 20% of the City's budget is made up of department earnings or fees for services, and another 17% is derived from intergovernmental sources such as grants and governmental transfers.

Overall, there have been no significant increases in any revenue source category over the past eight years, and no significant increases are projected. The 3.19% annual increase in revenue over the past eight years was driven primarily by transfers, intergovernmental grant funds, one-time cash deposits from sale of assets, and the LST that was authorized by the Commonwealth in 2005. Without the increases from these sources, the City would have experienced very little if any increase in revenue over the past eight years.

BASE EXPENSE INFORMATION

The City's 2009 general operating budget is approximately $20.1 million and includes expenditures for public safety, general government, health and welfare, public works, debt service, pensions, and recreation. Overall expenses for the City have increased at a rate of about 4.1% per year over the past eight years. This is a problem for the City since the base operating revenue, at about $17 million in 2009, increased at only 3.19% per year over the same time period.

Public safety expenses make up 30% of the entire City annual budget, with the police department at 20% and the fire department at 10%. However, pension benefits and retiree benefits for these departments are paid under an insurance and benefits category that is not reflected in departmental budgets. This would put the public safety expenditures closer to 40 - 45%. Public works and sanitation make up another 17% of the budget. Debt service, at 15% of the overall budget, is much higher in McKeesport than in most municipalities. The standard established by the GFOA is no more than 10%. Anything higher than 10% is considered a debt burden that is not manageable within the resources available. In contrast, only 3% of the overall budget is targeted for community development and code enforcement, and only 3% to recreation, which includes expenses for the marina.

Overall, expenses have outpaced revenue at about 1% each year leaving a gap of approximately $1 million annually. The cumulative effect of the gap between operating revenue and operating expenditures results in continual development of fund balance deficits and shortfalls. The 4.1% annual increase in expenses over the past eight years was driven primarily by personnel costs, debt service, and pension and post-retirement benefits. Without a strategy for cost containment in these areas over the next several years, the City will continue to experience structural deficits in its operating budget.

STEP II – FINANCIAL TREND ANALYSIS

Based on our review, it is apparent that the City has been operating with a structural deficit for a number of years (when adjusting for proceeds from loans, sale of city assets, and one-time cash deposits from other funds). Specifically, the restructuring of debt, the sale of the sewer interceptor lines, the collection and conveyance system, and receivables to the MACM have provided much-needed funds for cash flow purposes during the past eight years. Unfortunately, these one-time fixes are not available for future revenue generation, and the City must examine its core operating revenue and expenses in an attempt to achieve a positive fund balance. It is obvious, based on this review, that if the City's annual revenues remain at about $18 million and the operating expenses are estimated to be over $20 million, there will inevitably be a gap that can no longer be filled with one-time cash infusions.

STEP III – EMERGENCY PLAN FOR CURRENT FISCAL YEAR – SHORT-TERM STRATEGIES

The purpose of Step III of the Early Intervention Program (EIP) Five-Year Financial Management Plan is to develop a plan that allows the City to pursue short-term strategies, based on the information derived from Step I (Financial Condition Assessment) and Step II (Financial Trend Analysis) during the next six- to 12-month time frame. The EIP guidelines state that the emergency plan should set forth a strategy regarding

1. whether the current fiscal year's budget should be reopened, amended, or modified;
2. whether operational and/or personnel reductions should occur;
3. whether short-term borrowing, including possible unfunded debt borrowing, is necessary; and
4. whether other types of administrative reorganization or short-term actions should be effectuated in order for the City to remain solvent in the current fiscal year.

Based on Delta's review of the City's existing financial conditions and trend analysis, it is the consultant team's opinion that there is no imminent financial crisis and therefore no immediate need to amend or modify the budget, undertake operational and/or personnel staff reductions, or engage in short-term borrowing or unfunded debt borrowing. However, Delta's detailed analysis of core operating revenue and core operating expenditures revealed that, without remedial intervention and in the absence of any action by the City officials, the City will exhaust all reserves and begin calendar year 2011 with at least a ($950,000) deficit. One of the strategies outlined by the City to address the shortfall is the execution of a Memorandum of Understanding with the MACM for “host fees” in the amount of $720,000 annually from MACM to the City. Furthermore, the City has the option of restructuring the GO Bond Series of 2005 which included a 5 year call provision.

REVENUE ENHANCEMENTS – SHORT-TERM STRATEGIES

Real Estate Tax Collection

The following items related to real estate tax collection should be implemented by the City:

- Maintain accurate and complete records regarding assessed values, millage rates, delinquent taxes, dollars per mill, and rates of collection.
- Utilize the above calculations to make conservative estimates of projected revenue collection.
- Set millage rates at a level that will provide the necessary revenue to cover all expenses.
- Do not avoid tax increases when necessary.
- Pursue an aggressive code enforcement program in the neighborhoods and business district.
- Continue to explore with the state agencies and the Allegheny County Department of Development the redevelopment of key areas, and continue to be vigilant in introducing housing improvement programs for declining areas.

- Continue aggressive activities as they relate to collection of delinquent taxes
- Tax base expansion programs should include aggressive use of Local Economic Revitalization Tax Assistance (LERTA), tax forgiveness, and a vacant property strategy.

Act 511 Taxes

Act 511 taxes are another key revenue source for the City. The City should also consider taking the following steps:

- Implement a comprehensive annual tenant registration application and fee program for all rental properties in the City.
- Provide updated information about taxpayers' addresses, contact information, sales of properties, and permit holders to the City tax collectors on a regular basis.

Other Revenue Sources

The following changes should be considered by the Council and management:

- Adjust fees for services based on comparisons of fees charged by other communities.
- Ensure that the fee charged for every service or item covers the cost of providing that service or item.
- Analyze MSF on an annual basis to determine whether the fee charged to the property owner covers the cost of all personnel compensation and benefits, operating supplies and materials, long-term capital expenditures, and uncollectable accounts.
- Undertake aggressive investment of excess funds.
- Fines and forfeits are consistently about $145,000 per year. The police management should review and analyze these fines and make recommendations about how to enhance and increase this revenue source through better parking enforcement strategies.
- Vigilantly continue to pursue every possible grant opportunity to supplement City services, especially in the areas of police, fire, recreational facilities, alternative energy initiatives, City programs, and public works.

COST CONTAINMENT – SHORT-TERM STRATEGIES

Public Safety

Public safety is overwhelmingly the most expensive function of the City's local government operation. It is absolutely critical for the City to contain the costs associated with the police and fire departments.

- The City should carefully examine all aspects of the police operation in order to achieve expenditure reductions, especially in the areas of overtime and health benefits.
- The City should market its police and fire services wherever possible in order to support the expenses of the departments and to utilize excess capacity.

- It is important for the decision makers to analyze every hiring decision, including the filling of vacancies.
- The police chief and fire chief should be required to explore and execute mutual aid agreements for the police and fire departments, so that extraordinary emergencies can be addressed on a regional basis through a cooperative approach.

Other Departments

In other departments, planned cuts to personnel have already been made in the code enforcement, community development, administration, and recreation departments. It is recommended that the City Council and management consider the following additional actions:

- Analyze every hiring decision, including the filling of vacancies.
- Cross-train all DPW streets, parks, and recycling employees so they can be transferred to the area that is most in need of attention and where resources should be most heavily deployed.
- Determine what expenses can be attributed and charged to funds other than the general operating fund.
- Establish a moderate level of borrowing based on a fully developed capital plan for improvements to streets, sewers, and facilities so that capital project expenses are well planned and properly funded.
- Utilize part-time summer employees for low-level laborer activities that can supplement the regular workforce.
- Continue to utilize cooperative purchasing and state contracts for supplies and purchases in order to contain costs.

RECOMMENDATIONS — PERSONNEL AND BENEFITS

In order to contain costs and provide maximum management capacity when working with **uniform employees**, the City should pursue the following goals:

- The City reserves the right to explore the consolidation of police and/or fire services with neighboring communities in order to better manage and more efficiently provide police and fire services for its residents.
- The City proposes a one-year probationary period for new police and fire employees, as provided in the City Code.
- The City reserves the right to utilize health insurance plans that are offered for municipal employee programs that provide a cost savings to the City including a cafeteria-style benefit plan.
- Until a cafeteria style benefit plan is negotiated, the City should propose that all employees pay 20% of the premium cost of health benefits.
- The City should propose to eliminate the ability of retirees and part-time employees to participate in the City's health insurance programs.
- Employees hired after December 31, 2010, should have unlimited accumulation of sick days for purposes of serious illness but no buyback at retirement.

- Employees hired after December 31, 2010, should be entitled only to the minimum pension benefits that are provided in Act 600.

In order to contain costs and provide maximum management capacity when working with **non-uniform employees**, the City should pursue the following goals:

- The City should propose a one-year probationary period for all new hires.
- The overtime rate should not be paid for hours in excess of eight hours in a workday.
- The City reserves the right to utilize health insurance plans that are offered for municipal employee programs that provide a cost savings to the City including a cafeteria-style benefit plan.
- Until a cafeteria style benefit plan is negotiated, the City should propose that all employees pay 20% of the premium cost of health benefits.
- The City should propose to eliminate the ability of retirees and part-time employees to participate in the City's health insurance programs.

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INTRODUCTION

In March of 2008, the City of McKeesport (City) solicited proposals under the Commonwealth of Pennsylvania Early Intervention Program (EIP) for an analysis of its financial condition. Delta Development Group, Inc. (Delta) has been retained by the City to assist it in undertaking the study, which is funded in part by the Department of Community & Economic Development (DCED), Governor's Center for Local Government Services. The study and the Five-Year Financial Management Plan (the Plan) will support the City's vision to provide a higher quality of life for its current and future residents and will help to identify and support sustainable strategies for its municipal operations. The Plan will address the existing financial conditions in the City, project financial profiles and trends for the next five years, and undertake a management audit for operational capacity in all of the City's departments. Delta will utilize benchmarking, national standards, and best practices in its operational review.

The EIP guidelines as well as the Request for Proposals (RFP) developed by the City identified the following scope of services.

STEP I: FINANCIAL CONDITION ASSESSMENT

This assessment is to be performed as a means to establish a realistic baseline of the City's historic and current financial condition.

STEP II: FINANCIAL TREND ANALYSIS

Performed over a multiyear period, this analysis will project future revenues, expenditures, and economic and demographic trends so that the City can understand its future financial position and take immediate steps to counteract any negative trends.

STEP III: EMERGENCY PLAN FOR CURRENT FISCAL YEAR

The Plan should allow the City to pursue both short- and long-term strategies on parallel tracks. The Emergency Plan should address financial management actions to be taken during a 6- to 12-month time frame. The Emergency Plan should set forth a strategy regarding (1) whether the current fiscal year's budget should be reopened, amended, or modified; (2) whether operational and/or personnel reductions should occur; (3) whether short-term borrowing, including possible unfunded debt borrowing, is necessary; and (4) whether other types of administrative reorganization or short-term actions should be effectuated in order for the City to remain solvent in the current fiscal year.

STEP IV: MANAGEMENT AUDIT/REVIEW

As part of the EIP and with assistance from Delta, the City is required to perform a management audit of all major departments and operations. The audit is to include narrative summaries of each department comprised of budget and personnel information as well as other relevant data. This data is to be supported by interviews with each department's director, bureau manager, and staff in order to facilitate the most comprehensive view of the City's most critical operational needs.

STEP V: MULTIYEAR PLAN ADOPTION

The Plan, at its foundation, will identify the City's top three financial management priorities. Additional prioritization should be conducted at the departmental level, and interdepartmental objectives that are citywide or countywide in nature should be detailed in the Plan. Each objective is to contain a detailed action plan that describes (1) what is to be achieved, (2) the budgetary impact, (3) the timing and deadlines for each action step, and (4) which employee or agency has the primary responsibility for the objective.

STEP VI: PLAN IMPLEMENTATION

The process surrounding the creation of a multi-year plan is an ongoing process, and an initially adopted plan must be evaluated, adjusted, and adopted anew each year. A master implementation schedule should be adopted that specifies key deadlines for each objective set forth in the Plan. This schedule will serve as a report card for determining whether or not individual departments or employees are achieving their objectives, thus providing a means by which the City can measure its overall progress in implementing the Plan.

Steps I, II, and III will be addressed in the following pages of this report. Steps IV, V, and VI will be completed as separate reports that will be delivered and reviewed with the City in separate sessions.

MUNICIPAL FISCAL MANAGEMENT

Responsible fiscal management is becoming a continually more difficult task for elected and appointed officials in local government in the Commonwealth. The difficulty stems, in part, from the general complexity of government, which involves a wide range of revenue sources, including grant programs from the state and federal governments. However, the major fiscal problems for municipalities are a result of the "cost/revenue squeeze." Officials are finding it more and more difficult to generate revenue sufficient to support the costs of providing municipal services. In communities where employment, income, and the real estate tax base are expanding at a rate that generates enough revenue to meet the escalating costs of personnel, benefits, and materials, it is a simple matter to match revenue with expenditures. Unfortunately, for many communities such as the City of McKeesport, the cost of meeting the demand for services is outpacing the ability to generate revenue. Under such circumstances, fiscal strategies must revolve around maximizing revenue generation and developing the highest efficiencies possible for the delivery of services.

DEFINING "FINANCIAL CONDITION"

"Financial condition," as defined by the Governor's Center for Local Government Services and the Government Finance Officers Association (GFOA), has many meanings and depends on the time frame in which it is viewed. The International City/County Management Association (ICMA) utilizes the following definitions and time frames when examining a local government's financial condition:

- **Cash Solvency**: A government's ability to generate cash flow over a 60-day period to pay its bills
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- **Service-Level Solvency**: A government's ability to provide services at a certain level and quality that are required for the health, safety, and welfare of the community

"Financial condition" is broadly defined as the ability to provide and finance services on a continuing basis. A local government that is financially sound can do the following:

- Maintain its level of basic services and address the needs of its capital facilities and infrastructure in a way that keeps the facilities in a useable and functional condition
- Withstand short-term local, regional, or even national economic disruption
- Meet the demands of growth and decline

Evaluating the City's financial condition is more than reviewing past financial statements, budgets, and audits. It is a complex process that involves looking at a number of factors. There are many variables in any financial evaluation, and many of the factors are interrelated and dependent on external conditions.

This report presents the findings of Steps I and II of the EIP process. The comprehensive evaluation of the City's financial condition in this section of the plan is intended to provide the best information available so management and officials can make informed decisions about the allocation of resources available for the City's operation.

The Commonwealth's EIP was established to assist Pennsylvania's local governments in addressing financial management and fiscal difficulties in a timely and planned manner in order to avert an adverse impact on the health, safety, and welfare of their residents. It was designed, in part, based on the experiences of the city of Philadelphia, operating under the Pennsylvania Intergovernmental Cooperation Act and on recommended financial management practices of the GFOA. The purpose of the program is to establish short-term and long-term financial and managerial objectives that strengthen the fiscal capacity of local governments.

In conducting this evaluation, Delta has utilized a number of the ICMA-identified indicators, including the Standards for Effective Local Government. Delta also used its own customized indicators to evaluate financial condition. In addition to analyzing typical financial data, Delta also reviewed economic and demographic data and organizational factors to better comprehend and trend what is occurring within the City.

For purposes of this effort, Delta has decided to identify 2008 as the base year and has utilized six years of data prior to that date in order to establish trends. It is assumed that actual revenue and expenditures from 2008 will provide the proper base for identifying trends and making projections.

This preliminary report represents the analysis of Steps I and II, and is broken down into the following sections:

- Background Information
- Step I: Financial Condition Assessment – Revenue and Expenditures
- Step II: Financial Trend Analysis – Revenue and Expenditures
- Observations and Findings
- Preliminary Recommendations

BACKGROUND INFORMATION

The City of McKeesport, with a population of 22,130 (as of 2008) in an area of 5.15 square miles, is a densely populated, highly urban community in the Pittsburgh metropolitan area. McKeesport was founded in 1795 by John McKee, incorporated as a borough in 1842, and then as a city in 1891. Located at the confluence of the Monongahela and Youghiogheny Rivers and part of the Pittsburgh Metro Area, McKeesport is the second-largest city (following Pittsburgh) in Allegheny County. It shares common borders with White Oak Borough, Versailles Borough, North Versailles Township, Liberty Borough, Port Vue Borough, Dravosburg Borough, West Mifflin Borough, and the City of Duquesne. The City of McKeesport is one of the few cities in the United States that has a direct connection to the Atlantic and Pacific Oceans (from the Monongahela to the Ohio, to the Mississippi, to the Gulf of Mexico, to the Atlantic Ocean, and to the Pacific Ocean through the Panama Canal).

The City has experienced population decline in every decade since 1940, at which time the population was at its all-time high of 55,355. The median age of its residents is 40 years of age. About 20.9% of the City's population is over the age of 65. The poverty level is over twice that of Allegheny County, at 23%, and significantly higher than the communities at its borders. Housing values are very low, making the City housing stock attractive and affordable. However, the affordable, lower values keep the City's assessed values lower than other Allegheny County communities, limiting the City's ability to generate additional real estate tax revenue.

The governing body of the City consists of seven Council members, all of whom are elected at large. Under the City's Home Rule Charter which was adopted in 1973, the Mayor, who is elected independently of the Council, oversees all of the City's departments and is responsible for the day-to-day operation of the City. The Mayor, with the advice and consent of the City Council, appoints the City Administrator, who carries out duties as directed and established by the Mayor. The City Controller is also elected independently of the governing body and oversees the expenditures of the City. The City provides the following major departmental functions:

- Public safety, including police and fire services
- Public works, including streets, traffic signals, and public buildings
- Garbage and recycling activities
- Operation of parks and recreational facilities
- Code enforcement, planning, zoning, and community development
- Marina facilities

2000 CENSUS BASE DATA

According to the 2000 census, the City is one of the most densely populated communities in Allegheny County, with 4,807 people per square mile. Approximately 24.5% of the 24,040 people living in the City in 2000 were African-American, and 72.4% were white. About 2.1% were of two or more races, 0.1% were Asian, and less than 0.1% were Native American and Pacific Islander. Hispanic, Latino, or "all other origins" made up about 0.6% of the population.

- There are 11,124 housing units in the City, at an average density of 2,224 per square mile.
- There are around 9,655 households. The average household size in the City is 2.35, and the average family size is 3.01.
- Males account for approximately 45.9% of the total population in the City and females account for 54.1% of the total population.
- Almost 34% of all households are made up of individuals, and 33.2% have someone living alone who is 65 years of age or older.
- The median age of the population is 40 years. This is older than the median in Allegheny County, which is 39.6 years, and older than in the city of Pittsburgh, which is 35.5 years. About a quarter of the City's population is under the age of 18. About 20.9% of the residents in the City are over the age of 65. This is higher than the County median of 17.8%.
- The median family income is $31,577, which is substantially lower than Allegheny County's median family income of $49,815.
- About 23% of the City's residents are below the poverty level. According to the Allegheny County Department of Development census data, 61.3% of the City's residents are in the low- to moderate-income category. This makes the City eligible for community-wide projects through the Community Development Block Grant (CDBG) program. The City is an entitlement community and a direct recipient of CDBG funds.
- The median value of an owner-occupied single-family home in the City is approximately $37,800.
- About 40% of the housing units in the City are renter-occupied housing units.

Table 1 below demonstrates comparative income and educational attainment characteristics for McKeesport, Allegheny County, the City of Pittsburgh, and six of McKeesport's neighboring communities.

TABLE 1 – INCOME AND EDUCATIONAL CHARACTERISTICS

CITY OF MCKEESPORT COMPARATIVE INCOME AND EDUCATIONAL CHARACTERISTICS 2000 CENSUS									
	ALLEGHENY COUNTY	CITY OF PITTSBURGH	CITY OF MCKEESPORT	LIBERTY BOROUGH	NORTH VERSAILLES TOWNSHIP	PORT VUE BOROUGH	VERSAILLES BOROUGH	WEST MIFFLIN BOROUGH	WHITE OAK BOROUGH
Per Capita Income	$22,491	$18,816	$13,242	$19,491	$16,991	$16,065	$15,889	$18,140	$20,775
Median Family Income	$49,815	$38,795	$31,577	$42,857	$38,145	$37,318	$36,184	$46,192	$47,019
Median Household Income	$38,329	$28,588	$23,715	$35,264	$30,617	$31,509	$24,552	$36,130	$38,046
Median Value Single-Family Home	$84,200	$59,700	$37,800	$59,200	$62,400	$51,300	$54,400	$70,200	$77,100
Persons Below Poverty Level	11.2%	20.4%	23.0%	7.6%	9.8%	10.5%	16.6%	10.2%	5.3%
Families Below Poverty Level	7.9%	15.0%	18.1%	5.6%	8.5%	7.7%	10.2%	8.8%	4.0%
High School Graduates	86.3%	81.3%	77.6%	86.2%	84.3%	83.7%	75.3%	84.9%	89.0%
College Graduates	28.3%	26.2%	10.5%	11.3%	11.2%	6.8%	8.5%	14.7%	26.0%

Source: Tables DP-2 and DP-3, Profiles of Selected Social and Economic characteristics, 2000, PA State Data Center

The per capita income, median family income, and median household income for McKeesport are lower than any of its neighboring communities as well as Allegheny County and the City of Pittsburgh. The poverty rate for individuals in the City is much higher than for any of its neighboring communities and the City of Pittsburgh. The poverty rate continues to be an area of concern for McKeesport, because over 18% of the families who live in McKeesport are living below the poverty level and therefore require some supportive services. A review of the factors above provides insight into the difficulty, from an economic and revenue-generation perspective, of deriving additional revenue for local government operations from a population that is at such a low-income level. There is a diminishing return as taxes are increased and more and more low-income households are unable to pay the rising tax levies.

In terms of educational attainment (which has a direct correlation to income) the City compares favorably only to the Borough of Versailles. The rest of the neighboring communities as well as the City of Pittsburgh all have higher percentages of persons who have graduated from high school as well as college.

One of the more significant problems for the City is the high percentage of vacant housing units and the large number of renter-occupied housing units. Because 40% of the housing in the City is renter-occupied, a significant segment of the population in the City is somewhat transient in nature. The people who reside in these units generally have less long-term commitment to the community and to the quality of life in the neighborhoods. This factor presents a significant challenge for the code enforcement operation in the City's offices. The high percentage of rental housing units also presents a challenge for the City in collecting tax revenue especially earned income tax because of the transient nature of the populace. A high percentage of rental units typically leads to higher demand for public services, a decrease in property values, and lower desirability of the neighborhoods.

BUSINESS AND INDUSTRY DATA

Until the 1940s, McKeesport was one of the fastest-growing areas in the country and supported a population of 55,355. The major employer for most of McKeesport's modern history was the National Tube Works, a company owned by U.S. Steel and a manufacturer of iron pipes, which once employed over 10,000 people. McKeesport was also the site of the first G.C. Murphy 5 and 10 cents store.

The decline in economic conditions in the City can be attributed to the general economic downturn that was experienced in the region when the steelmaking industry moved out and the National Tube Works closed in the 1980s. Today, the City struggles to maintain the former vibrancy of its business district and faces many challenges related to the decline of retail activity and the problems of aging building stock and infrastructure. This is due in part to the change in demographics – infrastructure in the business district once supported over 50,000 residents for shopping, dining, and professional services and now supports only slightly more than 20,000.

However, industry data from the census bureau indicates that while many segments related to retail trade, construction, and personal services have experienced significant decline, other industry segments such as manufacturing, health services, and food services have experienced moderate gain. Table 2 below presents a complete review of the major sectors reported to the U.S. Census Bureau for fiscal years 2000 through 2007, the most current year for which data is available. The ability to capitalize on emerging strengths, to "rightsize" and re-focus the business activity, and to solve infrastructure problems will be key in re-energizing the economic climate for the McKeesport economic base. The following conclusions may be drawn from the data obtained from the Census Bureau and displayed in **Table 2**.

- The largest industry sector by far in the City is healthcare and social assistance, with "other services" and retail trade being the next-closest sectors. This sector demonstrated a slight increase of 3 establishments between 2000 and 2007.
- Although retail trade is one of the largest sectors, it has decreased dramatically over the past seven years, from a high of 96 establishments in 2000 to only 70 in 2007.
- The construction sector, while still a significant sector in McKeesport, experienced a loss of 11 establishments from 2000 to 2007.
- The only sectors that increased in the number of establishments were manufacturing, with 6 additional establishments; healthcare and social assistance, with 3 additional establishments; and accommodation and food services, with 4 additional establishments.
- Although the total number of paid employees in the study area actually increased from 2000 to 2007, the number of total establishments decreased from 538 in 2000 to 485 in 2007, for a total loss of 53 business establishments.

TABLE 2 – CITY OF MCKEESPORT INDUSTRY CODE SUMMARY BY SECTOR AND ZIP CODE 15132

	2000	2001	2002	2003	2004	2005	2006	2007	CHANGE
Construction	40	31	35	36	36	36	30	29	-11
Manufacturing	16	15	18	18	18	18	20	22	6
Wholesale Trade	33	32	30	26	28	24	25	25	-8
Retail Trade	96	96	85	82	81	86	81	70	-26
Transportation and Warehouse	7	9	7	10	8	10	9	7	0
Information	5	5	4	3	3	3	4	4	-1
Finance/ Insurance	30	29	31	30	26	28	30	26	-4
Real Estate, Rental, and Lease	15	14	16	16	17	17	12	14	-1
Professional, Scientific and Technical	33	30	31	31	29	29	31	30	-3
Mgmt of Companies	2	2	3	3	3	3	2	2	0
Admin Support and Waste Management	19	19	15	16	17	16	15	13	-6
Health Care and Social Assistance	107	103	105	105	115	108	112	110	3
Arts, Entertainment and Recreation	6	4	6	4	3	3	3	3	-3
Accommodation and Food Svcs	40	42	46	43	47	47	44	44	4
Other Services	83	77	77	76	81	83	84	82	-1
Unclassified	4	3	1	-	-	-	-	2	-2
TOTAL Establishments	**538**	**513**	**513**	**500**	**513**	**512**	**503**	**485**	**-53**
Annual Payroll (in $1,000)	$177,216	$181,562	$180,554	$180,838	$194,270	$205,354	$216,214	$246,255	
Number of Employees	6,972	7,065	6,809	6,681	6,892	6,969	7,025	7,277	

Source: U.S. Census Bureau — Industry Code Summary – 15132 Department of Commerce

In addition to the review and analysis of the U.S. Department of Labor census data, a review was conducted utilizing Environmental Systems Research Institute (ESRI) in order to identify the largest employers in the City of McKeesport along with the estimated sales volumes for each. The top 20 employers, with their sales volumes and number of employees, are reported in **Table 3** below.

TABLE 3 – TOP 20 MCKEESPORT EMPLOYERS

Company Name	Sales Volume	Number of Employees
Echo Star Communications	$147,000.00	700
Kane Regional Nursing Ctr	-	450
Mon Yough Community Svc Inc.	$25,515.00	315
McKeesport Area High School	-	212
Mon Yough Community Mental	-	200
Pennsylvania Coach Lines	$7,800.00	150
Riverside Care Ctr	$8,750.00	125
Tom Clark Chevrolet Inc.	$46,100.00	112
Cornell Intermediate School	-	100
Peer Group	$4,900.00	100
Auberle	-	100
Founders Hall	-	95
Centennial Elementary School	-	75
George Washington School	-	75
Giant Eagle	$18,525.00	75
McDonald's	$2,880.00	72
Habilitative Group	-	65
Community Life	-	63
Intensive Case Management	$4,455.00	55
Mon Yough Comm Svc	$8,900.00	50
Eat'n Park Restaurant	$2,000.00	50

Unfortunately, at the time of this report, it had been announced that Echo Star, the local distributor and call center for Dish Network, was closing its operations in McKeesport. The closing of this important business establishment and largest McKeesport employer in March of 2010 resulted in the displacement of over 700 employees.

Most of the top 20 employers listed are in the health-care, social services, or educational sectors of the economic base. Other major employers include the car dealership and the Pennsylvania Coach Lines. The healthcare and professional service operations are an extremely important factor in the City, with about 110 establishments reported in 2007. This sector is largely dependent on University of Pittsburgh Medical Center (UPMC) McKeesport, which employs hundreds of employees from the Mon-Valley communities, and its support employers in the region.

SUMMARY OF OBSERVATIONS AND FINDINGS

The City has experienced population decline in every decade since 1940, and the median age of its residents has increased. About 20.9% of the City's population is over the age of 65. The poverty level is over twice as high as that of Allegheny County and higher than all of the surrounding communities, including the city of Pittsburgh. Housing values are very low, making the City's housing stock attractive and affordable. However, the affordable, lower values keep the City's assessed values lower than other Allegheny County communities, limiting the City's ability to generate additional real estate tax revenue.

Because of the decline in the retail trade sectors and the reduction in the overall number of business establishments, individual City residents now provide a higher proportion of the City's tax revenue than ever before. This is especially a burden for the 61.3% of City residents who fall into the low- to moderate-income category.

But the actual tax burden for residents in McKeesport is lower than in other Allegheny County communities of similar size and demographics, as shown in **Table 4** below. This table shows the calculation for median assessed value for McKeesport and seven communities with similar populations and budgets, and their respective total real estate tax bills for local, school, and county taxes. As shown below, McKeesport residents, at $888.83 annually, pay far less in total taxes than any other comparable community in Allegheny County.

TABLE 4 – 2009 MUNICIPAL TAX BURDEN – COMPARABLE COMMUNITIES

Municipality	Population	Median Assessed Value	Median Tax Bill
McKeesport City	22,130	$24,800	$888.83
Baldwin Borough	19,999	$48,000	$1,411.68
Moon Township	22,290	$121,400	$3,348.21
Monroeville	28,250	$88,500	$2,327.55
Scott Township	17,280	$93,700	$2,718.24
Upper St. Clair Twp	20,053	$175,400	$5,518.08
West Mifflin Borough	22,264	$64,400	$2,064.15
Wilkinsburg Borough	19,196	$37,500	$2,013.38

McKeesport residents are paying less than in many comparable communities because of the City's lower assessed values. On average, as shown in **Table 4**, the City's residents have a lower tax bill than communities of similar size with similar budgets that also provide full services to their residents. In fact, McKeesport residents pay only 16% of the total taxes that the Upper St. Clair Township residents pay annually. Of course, the median per capita income in Upper St. Clair Township, at $42,413, is more than three times higher than the median per capita income in McKeesport, which is $13,242. But even adjusted for median income, the median tax burden is significantly less for residents in McKeesport.

A second review was conducted for communities that share borders with the City of McKeesport in order to also compare the respective tax burdens of residents in adjacent communities to the tax burden incurred by residents in the City of McKeesport. The results are shown in **Table 5** below.

TABLE 5 – 2009 MUNICIPAL TAX BURDEN – ADJACENT COMMUNITIES

Municipality	Population	Median Assessed Value	Median Tax Bill
McKeesport City	22,130	$24,800	$888.83
Dravosburg Borough	2,015	$48,500	$1,295.68
Duquesne City	7,332	$16,900	$733.59
Liberty Borough	2,670	$58,400	$1,576.80
North Versailles Twp.	11,125	$56,000	$2,168.88
Port Vue Borough	4,228	$46,200	$1,289.44
Versailles Borough	1,724	$40,500	$1,109.70
West Mifflin Borough	22,264	$64,400	$2,064.15
White Oak Borough	8,437	$72,500	$1,853.10

Again, with the exception of the City of Duquesne, McKeesport residents have a far lower actual tax burden than residents in adjacent communities. In fact, residents in North Versailles Township pay nearly three times the amount of real estate taxes paid by McKeesport residents. In this case, the North Versailles median per capita income, at $16,991, is only slightly higher than the McKeesport median per capita income of $13,242; and therefore, the North Versailles real estate tax burden, even when adjusted for median income, is significantly higher than the tax burden for the residents of McKeesport.

It is important to consider enhancements to the City's revenue streams, to implement better collection methods, and to maximize efficiency for the City's operations and services. The City must continually engage in critical analysis in order to "right size" the local government operation for quality service delivery that provides maximum benefit to the community.

The following sections of this report will identify the existing City revenue streams, the cost of providing major services, and projections for the City's financial position based on logical assumptions and trending from historical analysis. In Step III of this report, short-term interim strategies will be identified and recommended with a specific action plan, funding approach, and assignments for responsible persons, groups, committees, or agencies.

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STEP I: FINANCIAL CONDITION ASSESSMENT

According to the *Fiscal Management Handbook* published by the DCED Governor's Center for Local Government Services, "fiscal or financial management is the process of obtaining funds to support the necessary services provided by your municipality and using those funds in an effective and efficient manner." Sound financial management, therefore, requires that local elected and appointed officials understand the financial components of the municipality's financial system and that they make prudent decisions about the allocation of precious and often limited community resources. In order to present a comprehensive review of existing financial conditions in the City, this report will focus on the ability of the City to generate revenue, the efforts utilized to provide service delivery through expenditure control, and the City's budgetary policies and reporting system for decision making.

BASE REVENUE INFORMATION

The City's general operating fund revenue for 2009 was approximately $18 million, when adjusted for nonrecurring grant revenue and proceeds from notes and bonds. The average increase over the past seven years for all general fund revenue for the City is about 3.19% per year. An eight-year review of the City's total general fund revenue collection is shown in **Table 6** below.

TABLE 6 – GENERAL FUND REVENUE 2002-2009

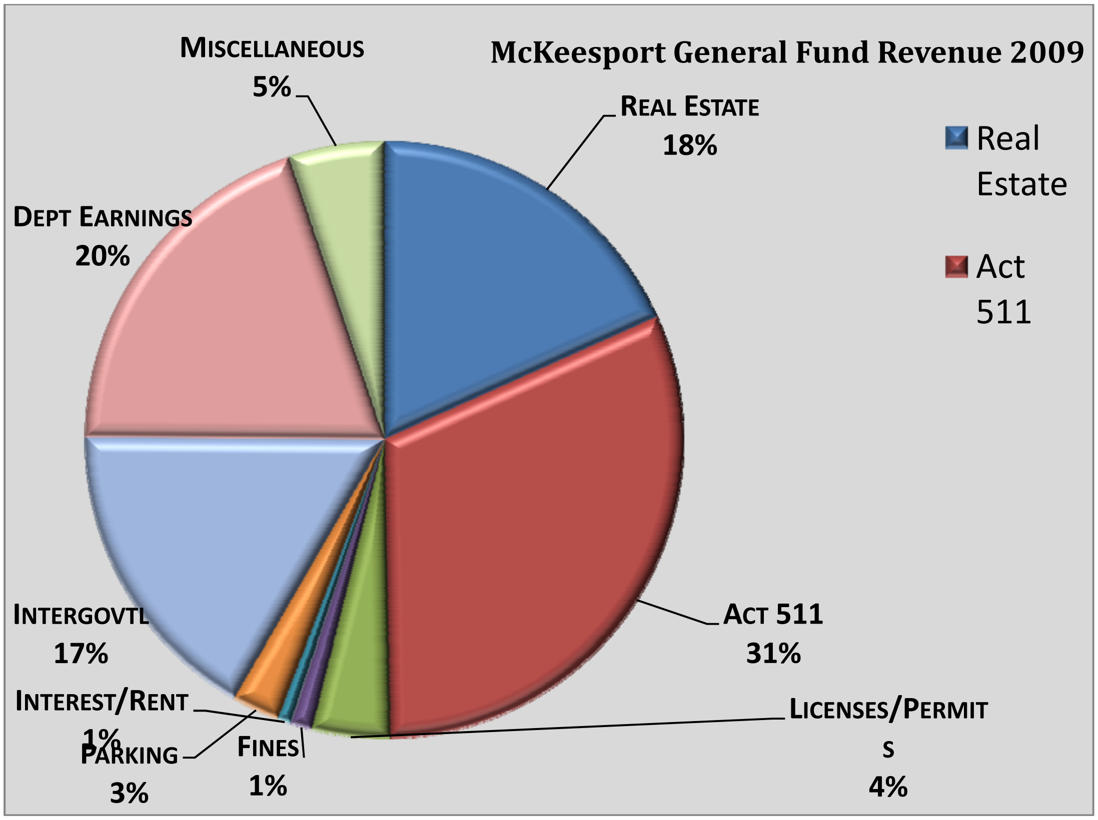
Year	Revenue	Inc/Dec
2002	15,236,422	N/A
2003	16,344,455	7.27%
2004	15,483,897	-5.27%
2005	18,440,416	19.09%
2006	20,400,702	10.63%
2007	18,702,820	-8.32%
2008	17,361,393	-7.17%
2009	18,075,183	4.11%

OBSERVATIONS

About 49% of the City's revenue base is supported by tax revenue, and of that, about 18% is directly related to real estate tax collection. A revenue base that is overly dependent on tax revenue can be dramatically impacted by changes in the overall macro-economy. When housing values plummet or unemployment rises, there is a dramatic and immediate impact on real estate tax revenue, business gross receipts, and the collection of earned income taxes, which are the three largest sources of revenue for the City. Furthermore, the tax revenue sources are subject to restrictions and limitations that are beyond the control of the local decision makers.

Relative to other major sources of revenue, about 20% of the City's budget is made up of department earnings or fees for services, and another 17% is derived from intergovernmental sources such as grants and governmental transfers.

FIGURE 1 – REVENUE SOURCE CATEGORIES



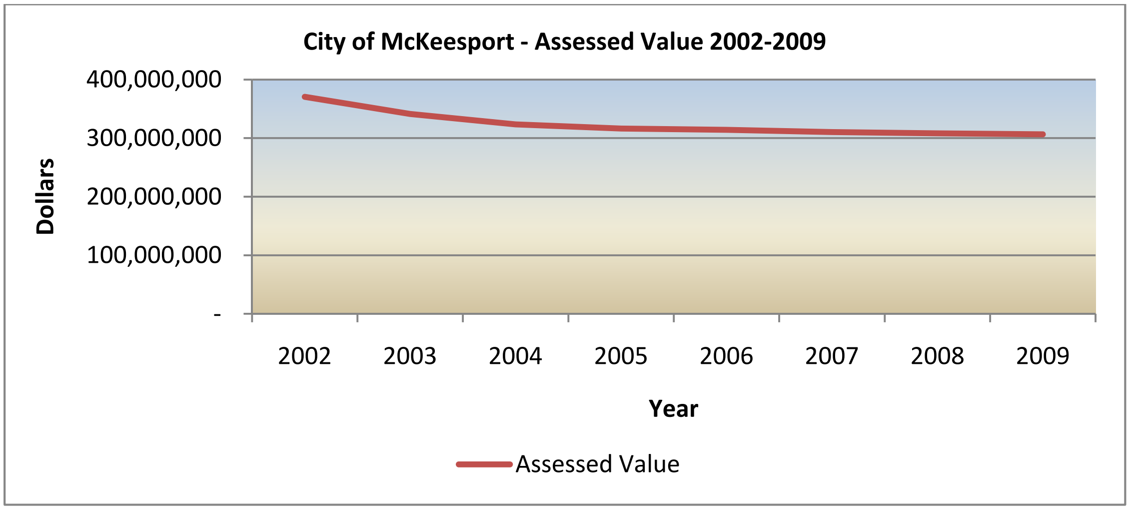
REAL ESTATE TAX COLLECTION

As indicated, there is a heavy reliance on tax revenue, making the operating budget extremely sensitive to external economic influences. Since the real estate tax base makes up about 18% of the City's overall revenue base, it is important to take a closer look at the history of real estate tax collection. Real estate tax collection for the City is entirely dependent upon the assessed value that is assigned by Allegheny County. **Table 7** outlines the historical trending for the City's assessed value of real estate as calculated by Allegheny County from 2000 through 2009.

TABLE 7 – HISTORY OF ASSESSED VALUE

Total Assessed Value for City of McKeesport								
Data Item	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Assessed Value	$370,474,011	$341,424,061	$323,406,380	$316,321,236	$314,196,936	$310,334,406	$308,270,805	$306,491,440
Increase/Decrease	NA	-7.84%	-5.28%	-2.19%	-0.67%	-1.23%	-.066%	-0.58%

FIGURE 2 – ASSESSED VALUE – REAL ESTATE



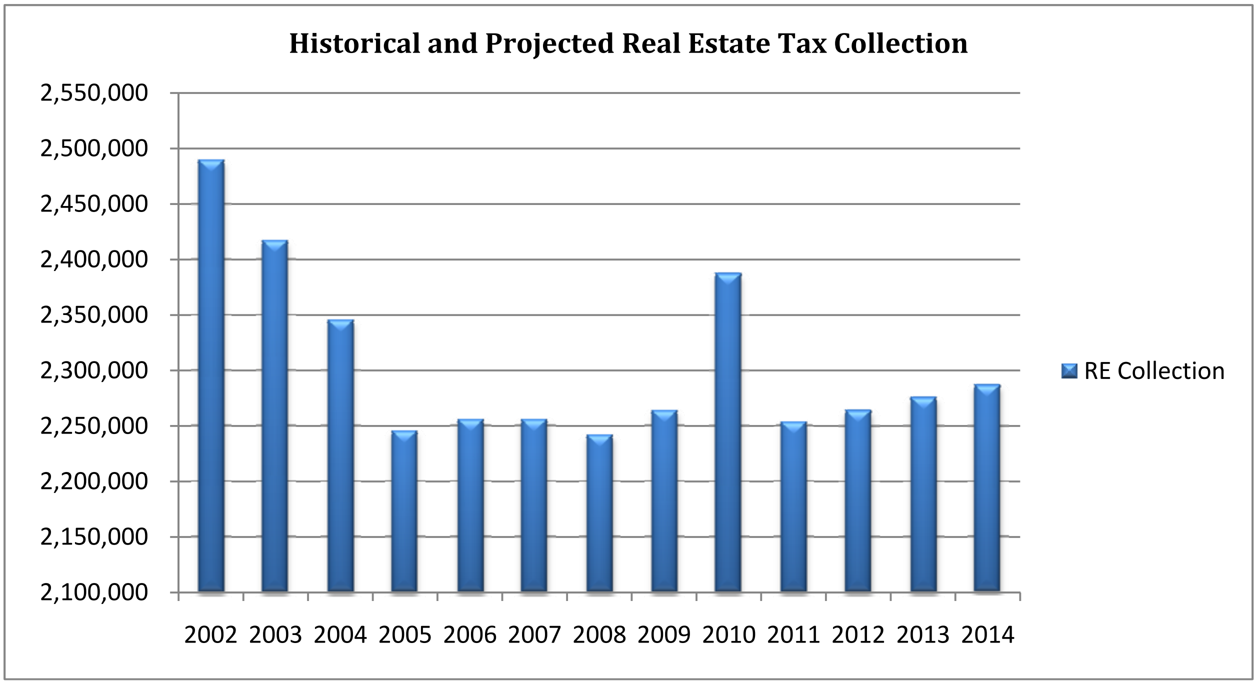
The assessed value for the City as shown in **Table 7** has decreased every year since 2002, from a high of over $370 million to a 2009 value of $306 million. The erosion of the assessed value has slowed significantly since 2006 but continues to show no real economic growth in real estate values. This gradual reduction in the City's assessed value is directly correlated to the City's actual collection of real estate taxes over the past several years, as shown in **Table 8** below:

TABLE 8 – HISTORY OF REAL ESTATE TAX COLLECTION

Year	Collection	Inc/Dec
2002	$2,489,818	
2003	$2,416,976	-2.93%
2004	$2,345,489	-2.96%
2005	$2,245,215	-4.28%
2006	$2,255,265	0.45%
2007	$2,297,742	0.00%
2008	$2,241,794	-0.60%
2009	$2,263,497	0.97%

Since 2005, the City has consistently received about $2.2 million annually in total real estate tax collections. Yet, the City has routinely budgeted $2.5 million, resulting in the taxes being overestimated and "under collected" by approximately $300,000 per year. This practice contributes to the overall gap between what is expected to be collected and what is actually collected. It also contributes to the growing fund balance deficit that has been documented by the audited financial statements for the past several years. A complete review of the real estate tax collection, including the historical collection of prior year delinquent taxes, is shown in **Figure 3** below and detailed in Table 9. It is apparent from the information available that the budgeted amount for 2010 is not consistent with actual and projected revenue based on documented collection rates.

FIGURE 3 – HISTORICAL AND PROJECTED REAL ESTATE TAX COLLECTION



The City derives about 18% of its general operating revenue from real estate taxes. The City experienced significant increases from this source in 2001 when Allegheny County enacted updated assessed values. As a result of this revaluation of property by Allegheny County, the total assessed value for the City went from $64 million to $370 million, and the City was able to reduce its general purpose tax millage from 41 mills to 23 mills. Unfortunately, the City returned a large portion of this revenue to taxpayers in the form of refunds for successful tax appeals in Allegheny County over the next several years. As of this date, Allegheny County has frozen property assessments at 2002 values, utilizing 2002 as the County's base year. The validity of using a base year for the calculation of property assessments was challenged in Commonwealth Court and was heard and finally decided by the Pennsylvania Supreme Court on April 30, 2009. The base-year method for calculating assessment value was found to be unconstitutional. It is unclear at this time what the ultimate impact will be for the City of McKeesport relative to property assessment values and their impact on the tax base.

Table 9 –McKeesport Real Estate Tax Collection Detail

Revenue Category	ACTUAL	ACTUAL	ACTUAL	Estimated	ACTUAL	ACTUAL	ACTUAL	BUDGET	PROJECTED	BUDGET
	2002	2003	2004	2005	2006	2007	2008	2009	2009	2010
REAL ESTATE TAXES										
Real Estate Taxes - Current	2,100,661	2,068,846	2,108,276	N/A	2,059,869	2,088,630	2,052,193	2,248,700	2,103,497	2,248,700
Discount	(34,205)	(33,146)	(16,630)	N/A	(14,482)	(16,314)	(16,230)	17,500	(17,500)	(17,500)
Penalty	8,380	14,617	16,152	N/A	19,645	17,553	16,514	10,000	16,500	12,500
USX Tax Payment	66,567	66,249							-	
Act 77 Refunds		(44,269)	(55,830)	N/A	(51,389)	(48,241)	(46,020)	55,000	(55,000)	(55,000)
Prior Taxes	76,278	63,167	80,513	N/A	84,025	48,778	113,733	75,000	65,000	75,000
Delinquency Program	266,076	81,457	213,001	N/A	157,268	206,273	120,216	150,000	150,000	122,620
Real Estate Party Pay	6,062	56	7	N/A	329	1,062	1,389	-	1,000	1,000
SUBTOTAL	**2,489,818**	**2,416,976**	**2,345,489**	***2,245,215**	**2,255,265**	**2,297,742**	**2,241,794**	**2,556,200**	**2,263,497**	**2,387,320**

*Fiscal Year 2005 Detail Information Not Available.

ACT 511 TAXES

Act 511 (Local Tax Enabling Act) tax levies are, by far, the City's largest source of recurring revenue for support of the general operations of the City government. The City collected approximately $3.9 million of Act 511 taxes in 2009. The City levies the following taxes under Act 511:

- **Earned Income Tax (EIT) –** The EIT is collected in the City Administrator's office and brings in about $2 million annually for the City. A review of this revenue indicates that although it is a fairly consistent and stable revenue source, it does not exhibit a strong upward trend. The City collected about $2,071,000 in 2002, and is projecting about $2.1 million in 2010. This translates to about a .1% increase per year. This is well below the Consumer Price Index (CPI) average of 2.75% over the same time period. The EIT collection had actually dropped below $1.8 million beginning in 2004 but recovered over the next several years and stabilized at about $2 million.
- **Local Services Tax (LST)** - In 2005, the Pennsylvania General Assembly authorized the LST, replacing the Occupational Privilege Tax, in the amount of $52 for each person who works within the borders of a municipality. The City promptly took action to implement this new source of revenue and currently derives about $330,000 annually from this source. However, since it was authorized by Council at the maximum, there will be no ability to capture additional new revenue beyond the $330,000 already collected, unless there are new business establishments in the City that recruit additional employees.
- **Mercantile and Business Privilege Tax** – This is a mercantile retail, mercantile wholesale, and gross receipts tax that is collected in the City Administrator's office. This tax has exhibited a stable and consistent trend averaging about $400,000 annually. As the City has moved from a retail trade-based economy to a healthcare, professional, information, and technical tax base, the business taxes may become a more important source for stabilizing the overall revenue stream

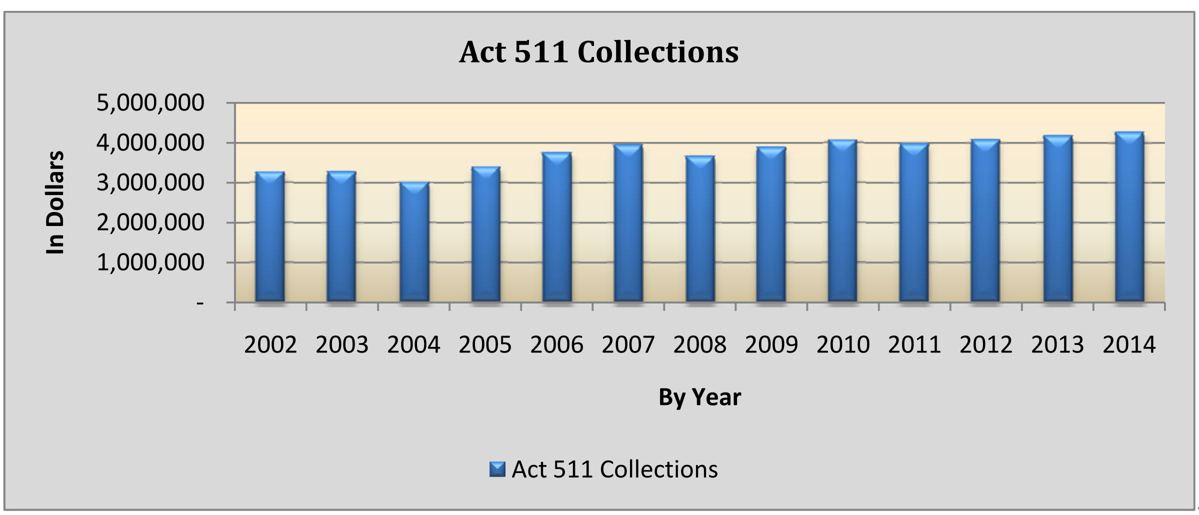


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TABLE 10 – MCKEESPORT ACT 511 TAX COLLECTION DETAIL

Revenue Category	ACTUAL	ACTUAL	ACTUAL	ESTIMATED	ACTUAL	ACTUAL	ACTUAL	BUDGET	PROJECTED	BUDGET
	2002	2003	2004	2005	2006	2007	2008	2009	2009	2010
ACT 511 TAXES										
Real Estate Transfer Tax	195,705	245,737	254,348	N/A-	284,797	279,398	211,298	250,000	215,524	219,835
Earned Income Tax	2,010,587	1,871,084	1,786,312	N/A-	1,783,902	1,843,316	1,902,790	2,107,303	2,093,069	2,145,396
Prior Earned Income Tax	365,641	408,459	296,405	N/A-	533,686	400,035	366,393	450,000	373,721	381,195
Mercantile Tax	70,595	71,700	63,783	N/A	86,729	80,633	84,273	100,000	84,000	100,000
Mercantile Tax Prior	15,281	17,063	9,413	N/A	16,012	25,654	22,119	25,000	22,561	25,000
Occupational Privilege Tax	49,570	49,316	51,917	N/A	463,545	456,597	300,297	450,000	330,327	337,500
Occupational Refunds	-	-	-	N/A	(1,752)	(9,592)	(6,428)	10,000	(1,607)	(2,500)
Business Privilege Tax	339,397	368,708	328,185	N/A	371,098	374,095	312,077	391,400	317,312	391,400
Business Priv. Tax Prior	82,225	106,985	65,316	N/A	90,627	147,955	71,107	100,000	71,000	75,000
License Fee Tax	26,320	26,605	26,481	N/A	22,788	26,117	24,866	25,000	25,000	25,000
Parking Tax	111,023	109,634	121,325	N/A	107,531	318,399	367,939	360,000	360,000	360,000
SUBTOTAL	**3,266,346**	**3,275,291**	**3,003,484**	***3,381,224**	**3,758,964**	**3,942,606**	**3,656,730**	**4,268,703**	**3,890,907**	**4,057,825**

*Fiscal Year 2005 Detail Information Not Available

OTHER MAJOR REVENUE SOURCES

- **Regional Asset District (RAD) Tax** – This is a significant source of revenue for the City. It is derived from a 1% sales tax levied in Allegheny County that is collected by the Pennsylvania Department of Revenue and distributed to the municipalities on a formula basis. It has demonstrated a very strong and steadily increasing trend from 2002 through the present, with the exception of 2008, during the economic downturn. The City collected $865,000 in 2002 and will collect at least $1 million in 2010, which is approximately a 3% increase per year. The City also receives approximately $655,000 annually for the support and upkeep of Renzie Park, which is designated as a "regional asset" by Allegheny County. Again, the condition of the overall macro economy has a substantial impact on the collection of sales tax, and there could be a stabilization or reduction in this distribution in the future if the economy does not sufficiently recover.
- The **Cable TV Franchise Fee** is another strong and consistent source of revenue for the City. Although this revenue has increased from about $235,000 in 2002 to an estimated $350,000 in 2010, there is still significant uncertainty about the ability of the City to continue to collect these amounts moving forward. With various options and technologies and the changing landscape throughout the cable industry, there may be Federal Communications Commission (FCC) rules that interfere with local franchising and the ability to assess these fees in the future.
- **Fines and Forfeits** – The revenue derived from fines and forfeits has been disappointing for the last several years. From 2002 through the present, the total fines ranged from $140,000 to $145,000. This is significantly less than communities of similar size and similar budgets. This is an area that should be controlled through better management of the parking enforcement operation.
- **Parking Fees** – The City collects over $300,000 in parking fees and another $100,000 in a parking tax that is levied on privately owned commercial parking spaces. This is a major and relatively stable source of revenue for the City. It is an area that may provide an opportunity for increasing rates or fees.
- **Municipal Service Fee** – The City collects approximately $2 million in Municipal Service Fees (MSF) to pay for the garbage and recycling services that are about 6% of the general operating budget. The City expends about $1.2 million for the garbage service contract. In addition, this expense category includes the salaries, wages, and benefits for the employees who work in the recycling operation and the capital replacement costs. It does not include the administrative costs for generating bills and collecting the current MSF payments in the finance department, nor does it include an uncollectable fee for those accounts that are not paid during the current periods. In 2008, the City implemented a "senior citizen" discount that has resulted in a decrease in revenue of approximately $200,000 in this category.
- **Department Charges and Fees** – This category includes charges for planning, zoning, community development, building permits, school district reimbursements, recreation fees, and other miscellaneous fees for services. The total revenue from these fees has continued at a flat $500,000 for most years. This source makes up only about 2% of the City's revenue.

- **Transfers from Other Funds** – The City has used a number of recurring and/or one-time transfers over the past several years in order to support the general operating budget. These transfers include the following:
  - The City annually transfers approximately $500,000 from the Liquid Fuels (State Highway Aid) fund to support eligible activities. This is a standard practice for many municipalities in the Commonwealth.
  - The City receives approximately $400,000 annually from the Municipal Authority of the City of McKeesport (MACM) to offset the debt service for a PENNVEST loan that was used for sewer infrastructure improvements.
  - The City routinely receives $350,000 from the community development department that is used for debt service guaranteed by the City's annual CDBG allocation under a Section 108 Loan.
  - In 2005, 2006, and 2007 there were transfers from between $550,000 and $750,000 from the 2005 bond fund surplus.
  - In 2006, the City transferred title of its sewer interceptor system from MACM in a negotiated sale for $2.4 million.
  - In 2008, the City negotiated a sale of its entire collection and conveyance system to MACM a $3 million down payment and annual payments of $1.9 million per year for 20 years.
  - In 2009, the City transferred the sewer delinquent receivables to MACM for approximately $300,000.
  - In 2010, the City signed a Memorandum of Understanding with the MACM for the transfer of a "host fee" to the City on an annual basis in the amount of $720,000.
  - The City shows the Pension State Aid as miscellaneous revenue. This transfer, in fact, is not revenue but a "pass through" to the pension funds. The City receives approximately $700,000 from the Commonwealth for this purpose but must use it to partially offset a $1.4 million annual pension obligation to the combined funds.

With the exception of the planned MACM transfers to the City and the "host fee" agreement, there have been no significant increases in any revenue source category over the past eight years, and no significant increases are projected. The 3.19% annual increase in revenue over the past eight years was driven primarily by transfers, intergovernmental grant funds, one-time cash deposits from sale of assets, and the LST that was authorized by the Commonwealth in 2005. Without the increases from these sources, the City would have experienced very little if any increase in revenue over the past eight years.

BASE EXPENSE INFORMATION

The City's 2009 general operating budget was approximately $20.1 million and included expenditures for public safety, general government, health and welfare, public works, debt service, pensions, and recreation. Overall expenses for the City have increased at a rate of about 4.1% per year over the past eight years. This is a problem for the City since the base operating revenue, at about $18 million in 2009, increased at only 3.19% per year over the same time period. The discrepancy between the revenue that is currently being generated and the actual operating expenses that are being incurred by the City results in a structural deficit that is fast approaching $2 million annually. In fact, without the cash flow generated by the sale of the sewer interceptors (2006), collection and conveyance system (ongoing), and receivables (2009) to the Authority, the City would be running huge structural deficits in its operating fund. A review of the City's expenses is summarized in **Error! Reference source not found.** below.

TABLE 11 – GENERAL FUND EXPENSE HISTORY

General Fund		
Year	**Expenditure**	**Inc/Dec**
2002	15,753,375	N/A
2003	16,112,033	2.28%
2004	15,498,240	-3.81%
2005	18,130,997	16.99%
2006	17,735,579	-2.18%
2007	20,033,365	12.96%
2008	22,030,293	9.97%
2009	20,183,232	-8.38%

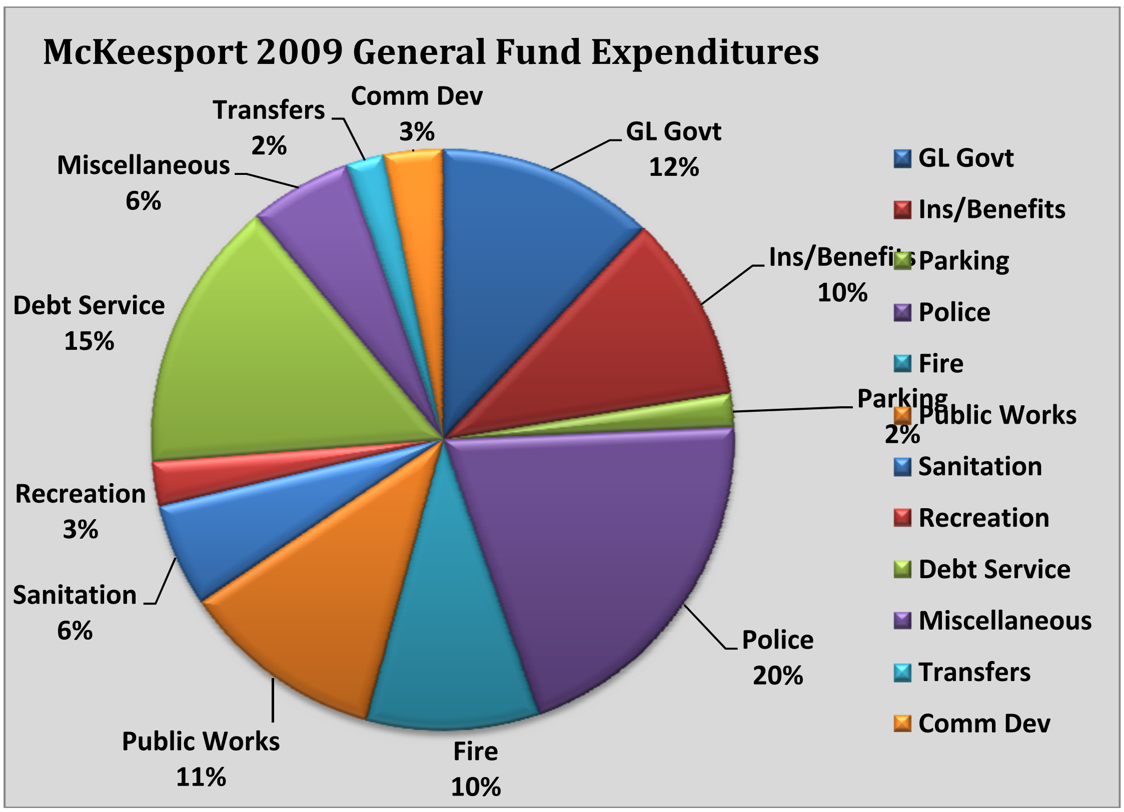
OBSERVATIONS

The City has struggled with containing its general fund expenses over the past eight years. Escalating personnel costs, debt service, and energy costs have pushed the City's annual rate of increase to about 4.1% during a period when the CPI only reflects an increase of 2.75%. The City's budget, like most municipal budgets, is about 75% personnel and related costs and about 15% debt service, leaving very little room for discretionary spending. For this reason, the only way to reduce costs at any meaningful level is to reduce staff. The general fund operating revenue has averaged a 3.19% annual increase over the same time period, but this has been largely due to sales of assets to the Authority, refunding of general obligation bonds, intergovernmental grant proceeds, and the ability to levy a higher LST in 2005. Without these revenue-generating mechanisms, there would not have been enough revenue generated to support the general operating expenditures.

The primary expenditure categories for the City are illustrated in Figure 4 below. Public safety expenses make up 30% of the entire City annual budget, with the police department at 20% and the fire department at 10%. However, pension benefits and retiree benefits for these departments are paid under an insurance and benefits category that is not reflected in departmental budgets. This would put the public safety expenditures closer to 40 - 45%. Public works and sanitation make up another 17% of the budget. Debt service, at 15% of the overall budget, is much higher in McKeesport than in most municipalities. The standard established by the GFOA is no more than 10%. Anything higher than 10% is considered a debt burden that is not manageable within the resources available. It should be noted that a portion of the City's annual debt service is debt that is related to pension obligations and the long term liabilities associated with the City's pension funds. By depositing the proceeds from pension bonds into the combined pension funds, the City has been able to stabilize its annual minimum municipal obligation to the funds.

In contrast, only 3% of the overall budget is targeted for community development and code enforcement, and only 3% to recreation, which includes expenses for the marina. This speaks to the inability of the City to allocate resources to neighborhood improvement and housing stock preservation strategies that go directly to quality-of-life issues, because of the high cost of public safety, insurance, benefits, and debt service.

FIGURE 4 – TOTAL EXPENDITURES FOR 2009



POLICE DEPARTMENT

Expenses for the police department, at 20% of the general operating budget, and $4.2 million in 2009, are much higher than other urban communities with similar populations and similar demographics and higher than most communities in the Commonwealth. The police department is, by far, the largest City expenditure, and it has experienced a distinct upward trend due to increases in staffing levels since 2006. A summarized review of the McKeesport police department expenditures is outlined in **Table 12** below:

TABLE 12 – POLICE DEPARTMENT EXPENSE HISTORY

Year	Expenses	Inc/Dec
2002	3,282,662.58	
2003	3,331,184.13	1.46%
2004	3,071,077.58	-8.47%
2005	3,450,460.77	11.00%
2006	3,296,254.30	-4.68%
2007	3,758,831.19	12.31%
2008	4,223,964.49	11.01%
2009	4,189,151.97	-0.83%

Based on a review of the past eight years' experience and current collective bargaining agreements, increases in the police department are projected to be at least 4.5% per year over the next five years.

There is a direct correlation between the number of officers employed by the City and the escalating costs of police service. Although the City currently has 53 full-time officers and 10 part-time officers, a grant application has been submitted for federal COPS funding to support nine additional full-time officers. Most of these officers will be part-time personnel who will be promoted to full-time officers. The grant is for a three year period, after which time, the City will be required to continue and fund the full complement of officers for a period of at least three years.

FIRE DEPARTMENT

TABLE 13 – FIRE DEPARTMENT EXPENDITURES

Year	Collections	Inc/Dec
2002	1,521,685	
2003	1,635,577	7.48%
2004	1,483,410	-9.30%
2005	1,669,065	12.52%
2006	1,562,364	-6.39%
2007	1,839,884	17.76%
2008	1,855,360	0.84%
2009	1,974,726	6.43%

Expenses for the fire department, at 10% of the general operating budget, and $1.97 million in 2009, are similar to other urban communities with similar populations and similar demographics that support a paid professional fire department. There is language in the firefighters' collective bargaining agreement that limits the City's ability to reduce staff based on minimum staffing levels based on equipment.

- Based on a review of the past eight years experience and current collective bargaining agreements, increases in the fire department are projected to continue to be at least 3% per year over the next five years.
- The trend for expenditures in the fire department is one of steady increases over time. More than any other City operation, the trend for the fire department is predictable

based on the historic information reviewed and will level off at approximately $2 million over the next several years.

PUBLIC WORKS

The public works department (DPW) makes up 11% of the overall budget and had expenses of approximately $3.5 million in 2009. For purposes of this report, "public works" includes administration, sanitation, streets, garage and, until 2008, the sewer operation. The expenses for DPW actually decreased substantially from 2003 through 2006. But beginning in 2007, the expenses increased by 18% and then by another 15% in 2008. The expenses in 2009 decreased by approximately $100,000 because MACM took over the sewer maintenance activities and personnel at this time. Future expenses are projected to increase by approximately 2.6% per year based on historical trending.

- The DPW has responsibility for street maintenance, snow removal, parks maintenance, traffic signal repair, recycling operations, and the upkeep of public buildings in the municipality.

RECREATION

Recreation makes up only 3% of the overall budget. This is typical of cities of the size of McKeesport as shown in the comparison communities identified in Appendix C of this report. It is an indicator that there is very little recreational programming planned and undertaken by the City.

Table 14 – PUBLIC WORKS DEPARTMENT

Year	Expenses	Inc/Dec
2002	3,104,943	
2003	2,788,102	-10.20%
2004	2,438,295	-12.55%
2005	2,990,635	22.65%
2006	2,774,218	-7.24%
2007	3,285,747	18.44%
2008	3,792,545	15.42%
2009	3,514,778	-7.32%

COMMUNITY DEVELOPMENT

The community development department makes up 3% of the overall budget and had expenses of approximately $630,000 in 2009. This amount has remained relatively stable over the past eight years. The department oversees neighborhood housing rehabilitation through the community development block funds. It also houses the building inspection, grant management, and code enforcement activities. Two existing positions were not funded in the 2010 budget (the neighborhood compliance officer and the housing rehabilitation officer). However, the assistant director position for the Weed and Seed program was reinstated.

OTHER EXPENSE CATEGORIES

- The cost of health insurance has doubled in most departments over the past eight years. The current health insurance plans are richer than most plans and employees do not participate in the cost of health care at this time. Strategies to contain this cost will be an important issue for the City moving forward.
- Meanwhile, the building and plants category, planning and codes department, and recreation department have experienced significant decreases in expenditures.

- Legal expenses are a significant expense for the City at about $150,000 to $170,000 per year. Legal expenses were much lower in 2003 and 2004 but have escalated by about 4.5% per year since that time.

TABLE 15 – LEGAL EXPENSES

Year	Expenses	Inc/Dec
2002	171,752	
2003	120,582	-29.79%
2004	124,589	3.32%
2005	183,793	47.52%
2006	152,315	-17.13%
2007	142,473	-6.46%
2008	153,825	7.97%
2009	170,862	11.08%

- Insurance coverage is a major expense for the City. This coverage includes property, automobile, liability, professional liability for the law enforcement and fire departments, workers compensation, and employment practices insurance. Although the City was able to realize a reduction in 2004, there have been steady increases in this category over the past five years. In 2007, the insurance costs increased by almost $200,000 a have remained at about the same level since then. For purposes of this study, it is estimated that the City will have about a 6% annual increase in insurance coverage costs.

TABLE 16 – INSURANCE EXPENSE

Year	Expenses	Inc/Dec
2002	502,520	
2003	603,303	20.06%
2004	457,824	-24.11%
2005	647,048	41.33%
2006	678,467	4.86%
2007	859,577	26.69%
2008	803,043	-6.58%
2009	824,147	2.63%

- At 15% of the general fund budget, debt service expense is higher than any other comparable community and higher than the recommended level for sound fiscal practices which is generally considered to be about 10% of annual revenues. Until 2005, the debt service was within acceptable levels for local governments at about 9% of the operating budget. In 2005, the City issued $13,275,000 to refund a 1997 general obligation bond series for the purpose of financing various capital improvements. In 2005, the City also issued $21,585,000 in general obligation bonds to refund a 1997 pension bond series in order to address an unfunded actuarial debt for its pension funds. This resulted in an economic loss of $2.2 million.

- The combination of these transactions added approximately $1.5 million to the City's annual debt service payments. In 2008, the City consummated an interest rate swap agreement for its 2005 Series B bonds with a qualified Swap Counterparty that was to have remained in effect until 2035. The City was scheduled to pay a rate based on a short-term duration and receive a rate based on a long-term duration. This agreement was terminated in 2009 for a cash out of $99,000. The results of the various debt transactions will have a significant impact on the City's cash flow for a number of years, ultimately limiting the amount of funds that will be available for routine operating expenses and operations.

- Pension expense is also a relatively large general fund expenditure for the City that will have long-term lasting effects on the City's ability to support routine operations in its departments. By issuing pension bonds in 1997 and undertaking a refunding in 2005, the City was able to deposit funds in the combined pension funds that addressed significant unfunded liability. This increased the City's debt service but decreased its annual minimum municipal obligation (MMO) by 44% in 2005. A review of the City's MMO to the pension funds is summarized in Table 18. The MMO to the pension funds will likely rise over the next several years due to increasing liabilities caused by employee benefits and poor investment performance. In fact, according to the City's most recent audited financial statements, the pension funds lost a combined asset market value in excess of $7 million in 2008. The City has taken steps to review pension investment performance and to assign its investments to a new manager based on a review of all available pension managers.

TABLE 17 – DEBT SERVICE EXPENSE

Year	Expenses	Inc/Dec
2002	2,039,085	
2003	2,223,658	9.05%
2004	1,754,668	-21.09%
2005	1,635,736	-6.78%
2006	3,742,740	128.81%
2007	3,289,274	-12.12%
2008	4,018,496	22.17%
2009	3,116,178	-22.45%

TABLE 18 – PENSION EXPENSE

Year	Expenses	Inc/Dec
2002	196,272	
2003	299,020	52.35%
2004	945,682	216.26%
2005	526,993	-44.27%
2006	488,224	-7.36%
2007	881,255	80.50%
2008	911,277	3.41%
2009	1,316,000	44.41%

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