

STEP III: EMERGENCY PLAN FOR CURRENT FISCAL YEAR

INTRODUCTION

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 condition 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 City officials, the City will exhaust its reserves and will 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. This will help to address the projected shortfall for 2010. In addition, the City has the option to restructure its debt from the 2005 General Obligation Series A bond issue since it included a five-year call provision.

However, the City will continue to experience substantial shortfalls, resulting in structural core deficits as high as \$1.8 million in 2011, and creating cumulative deficits as high as \$3 million by 2012. Simply stated, the City does not currently generate enough revenue to support its operational expenses and has been using cash reserves, sale of assets, and restructuring of debt to support this imbalance since about 2005. This practice has resulted in a depletion of cash reserves and a practice of routinely outspending the general fund revenue that is available.

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The 2010 budget was specifically designed to utilize about \$900,000 in cash reserves that were available from prior years, in order to support the identified expenses for the general operation and service delivery during the current fiscal year. It is important, therefore, to develop strategies for short-term remediation of the financial imbalance by devising action items around revenue enhancement, expenditure control, and more efficient delivery of City services.

It will be important for the City Council to review and discuss the following options and strategies to determine which course of action to take to avert the projected shortfalls for fiscal years 2011 through 2014.

REVENUE ENHANCEMENTS – SHORT-TERM STRATEGIES

As was reported in Step I and Step II of this report, the City generates less revenue than needed to support the expenditures for its general operation. This is due to a number of reasons:

- A real estate assessed value that has been trending flat or slightly decreasing since 2003. As a result, the collection of real estate tax has been a flat \$2.2 million per year since 2005 and is expected to remain at that level or decrease in future years.
- A tax base that is about 21% tax-exempt (government buildings, Port Authority, utilities, social services, healthcare, and churches). This is a projected loss of about \$867,000 annually which would otherwise be available to support City services. A recent review indicated that there are 225 tax-exempt organizations in the City of McKeesport.
- A residential base that has a high percentage of households (23%) below the poverty level. Households with low-to-moderate incomes don't generate significant increases in revenue from year to year.
- A declining retail trade and service segment that have negatively impacted the economic base.
- The under-utilization of fees for services and an inadequate system for collecting these fees.

The City's gap between the revenue generated and the cost of delivering municipal services cannot be filled by any one action or decision but must be addressed over time by adopting a posture of fiscal discipline and open dialogue with the public and the other communities and policy makers in the region.



Some short-term revenue enhancement recommendations are outlined below.

REAL ESTATE TAXES

Real estate taxes are calculated based on the assessed value of taxable real estate in the City, which is a county function, and the millage rate adopted by the City Council on an annual basis during the budget process. Allegheny County imposed a freeze on assessed values for the past several years, forcing local governments to utilize the base year of 2002 as the basis for the local assessed values. (This was challenged in a case brought against Allegheny County that resulted in a decision by the Supreme Court that may have an impact on the ability of the County to continue to utilize a base year for assessment purposes and for the City's assessed value in the future.) This method limits the ability of the City to recognize additional revenue based on the natural increases of market values of property in the City over time. Therefore, the only increases to the City's real estate tax base are as a result of new construction or development in the City that is added to the total assessed value. Although adjusting real estate tax millage is the easiest method for generating additional revenue for the City operations, it is also the most controversial and usually the action that is considered to be a last resort for local officials, because it affects property owners who may not have the ability to pay higher taxes. For this reason it becomes absolutely critical for the City to do the following before making a decision to increase real estate taxes:

- Monitor and analyze the delinquent collections by collectors in order to ensure that all possible avenues are being pursued for current and delinquent tax collections. Collectors should be required to meet with the Mayor and Council to discuss the methods and progress of collection efforts on at least a quarterly basis.
- Maintain accurate and complete records regarding assessed values, millage rates, the amount of revenue generated per mill, and the rates of collection. Use this information during the budget process to make informed decisions about the estimated projections for real estate tax collection. Since the City's real estate tax collection has remained at a flat \$2.2 million per year for the past five years, it can be assumed, absent an increase to the tax levy, the City will continue to collect approximately \$2.2 million annually from this source.
- Consider establishing a tax base expansion program that acts as an incentive to return abandoned and vacant properties to the tax rolls as taxable property. This strategy should include the effective use of tax forgiveness, tax abatement, LERTA, and the vacant property process to encourage home ownership and investment in the City neighborhoods and business district.

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- Maintain a current list of the tax-exempt properties in the City in order to work with them to pursue some equitable payment to the City for the many local government services provided. In our review, we found approximately 225 tax-exempt organizations in the City of McKeesport. According to the County's Web site, approximately \$75 million of property in the City is designated as tax-exempt. Officials should schedule meetings with larger tax-exempt entities (higher education, healthcare facilities, and social service agencies) to determine if it is possible to obtain financial support from them through the following:
 - "Payment in Lieu of Tax" (PILOT) Agreements – the tax-exempt entity agrees to pay a flat annual fee to the City for police, fire, snow removal, and other services
 - Establishment of a Community Foundation – the City sets up an independent foundation that is designed to benefit specific areas of service delivery in the City for which the foundation can accept donations, such as public safety, recreation, library, green projects, etc.

Ultimately, it is incumbent upon the City Council to set millage rates at a level that will provide the necessary revenue to cover all expenses without the use of cash reserves, loan proceeds, or the sale of public assets.

Capturing even 15% of the potential tax-exempt revenue would result in over \$100,000 annually for the City.

- Pursue an aggressive code enforcement program. Code enforcement helps to preserve the value of older housing stock and increase the value and availability of commercial real estate. This will eventually be reflected in the assessed value and the real estate tax collection.
- Utilize American Recovery and Reinvestment Act (ARRA) stimulus funds when possible to undertake additional improvements in the neighborhoods related to the improvement of housing stock, demolition of blighted property, and acquisition of suitable lots for development. New announcements are made weekly for communities with demographic profiles similar to the City of McKeesport. Any improvements to the market value of housing in the neighborhoods increase the assessed value and tax base for the City.

Ultimately, it is incumbent upon the City Council to set millage rates at a level that will provide the necessary revenue to cover all expenses without the use of cash reserves, loan proceeds, or the sale of public assets. Officials should not avoid tax increases when necessary because this puts the City at risk for long-term financial instability.

The City's current real estate tax levy rate at 4.26 mills on buildings and 16.5 mills on land, when blended, is comparable to many of the communities in Allegheny County. The fact that there is a two-tiered tax approach in McKeesport contributes to the belief that the tax burden in McKeesport is higher than in other communities. This perception is a huge disincentive to potential urban developers and investors, but it is simply not true.

The reality is that the tax burden in dollars for property owners in McKeesport is actually about the same or lower than other Allegheny County communities with similar populations and budgets. The annual median tax bill (local, county, and school district) for taxpayers in McKeesport, based on the Allegheny County real estate Web site, is about \$889, which is lower than most communities in Allegheny County. This is due to the fact that the assessed values in McKeesport are lower overall (median value is \$24,800) than other

communities. It is important for the City to report and advertise this information and make it readily available to potential residents, developers, and investors. See Table 4 in Step I of this report for a full review of this information by community.



ACT 511 TAX REVENUE

The rates for earned income tax (EIT), deed transfer tax, business taxes, and local services tax (LST) are established at specific levels in the authorizing statutory language of Act 511, the Local Tax Enabling Act. However, because McKeesport operates under a home rule charter, the City has the ability to levy a higher rate for EIT. In fact, the City currently levies 1% on non-residents and 1.2% on residents. The City has elected to collect Act 511 taxes in its City Treasurer's Office for the City and for the School District. Of the Act 511 taxes collected for the City, the EIT, at approximately \$2 million per year, makes up the largest percentage of the overall collection. In Delta's review of similar communities in southwest Pennsylvania, McKeesport was about the same or slightly higher in EIT collection. This may be partly due to the fact that McKeesport imposes a non-resident EIT for employees who are not paying the EIT where they live, and the City EIT rate at 1.2% is slightly higher than other communities.

In order to maximize the ability to collect all taxes due to the City, the following recommendations are made:

- Use the rental registration program as a way to keep the list for earned income tax current and complete. The list of tenants in rental units should be forwarded to the collector at least on an annual basis in order to cross-reference the residents who live in the City. The City also needs to have a mechanism to ensure that rental inspections are followed up on and the associated fees are collected. It is estimated that the City is currently losing \$15,000 - \$20,000 per year in uncollected rental inspection fees. A commercial occupancy inspection could generate an additional \$10,000 - \$20,000, depending upon the frequency of inspections. The City collects less than \$10,000 per year in inspection fees.

- Use the list of sanitary sewer billing accounts from MACM to cross-reference, on an annual basis, the residents who live in the City. Use a consistent and uniform format for collecting this information so that it can be easily reviewed and analyzed.
- Monitor and track the deposits of tax revenue on a quarterly basis, in order to ensure that there are logical, consistent deposits. Any deviations from historical revenue collection should be analyzed and explained by the Treasurer's Office. Annual audits of collections should be included as part of the City's independent audit process.
- Ensure the credibility and accuracy of EIT collection records. Act 32 of 2008 provides a unique opportunity for the City to relinquish its responsibility for the collection of EIT, thus reducing its operating expenses in the Treasurer's Office. Effective January 1, 2012, the collection of EIT will be done as part of the Southeast Allegheny County Tax Collection District under the direction of a Tax Collection Committee (TCC). As part of this transition, it will be important for the City to provide the TCC the best data possible so that the transition to the new EIT collection system will be seamless and there will be no disruption of collection for this important revenue source for the City. The maintenance of excellent records and reporting will be key in the TCC's ability to collect all of the taxes that are due to the City in a timely and complete manner.
- Include an inventory of businesses in the City's financial management system that interfaces with real estate tax collection, GIS, and property management operations. A complete list of businesses, occupancies, and rentals in the City that is accessible to all departments can enhance the collection of EIT, business taxes, and LST for the City. It is also an aid to the public safety personnel for carrying out their duties in an organized, effective, and professional manner.
- Conduct regular audits of business tax revenue randomly (about six per year) to assure greater compliance with the business tax law. This should evolve naturally from the requirement to submit a copy of the company's Schedule C in order to review the actual taxes and reconcile them to the gross receipts.

Although most Act 511 tax levies cannot be adjusted or increased, the collection process should be continually monitored and improved for maximum efficiency.

FEES, LICENSES, PERMITS, AND CHARGES

Fees for services that are collected in the City of McKeesport, when the municipal service fee (MSF) is excluded, only make up about 2.3% of the overall general fund revenue budget. This is the lowest percentage of overall revenue for departmental earnings for any of the 12 comparison communities (see Appendix C for a full report). The City has become more and more dependent on tax revenue and less dependent on fees and charges over the past seven years.

The following are some observations based on a review of the departmental earnings:

- The total departmental earnings have been steadily declining over the past five years, while the City's overall expenses have increased by 4.1% per year. In other words, the costs for providing services have increased; yet, the fees charged for providing those services have not. Table 24 below demonstrates the collection of departmental fees (excluding MSF and reimbursements for police services) from 2002 through 2008.

TABLE 24 – HISTORIC DEPARTMENTAL EARNINGS

Departmental Earnings 2002 - 2008		
Year	Fees	Increase/Decrease In Dollars
2002	172,569	N/A
2003	219,491	46,922
2004	221,550	2,059
2005	194,285	-27,265
2006	177,374	-16,911
2007	170,473	-6,901
2008	199,078	28,605

- The City collected \$20,000 less in mechanical device fees in 2009 than it did in 2002. The City should have a specific and routine collection of these fees with personnel assigned and held accountable for this duty on a regular basis.
- Parking revenue has decreased by \$30,000 from 2002. This is partly due to less business activity in the downtown business district.
- The MSF revenue decreased from \$2 million in 2007 to \$1.7 million in 2008, while the delinquent MSF collection decreased from \$132,413 in 2006 to about \$70,000 per year for 2007 and 2008. Part of this reduction was due to a senior discount that was provided to persons over 65 as recognition that their utilization of the solid waste and recycling services that the City provides is less than for a family. During the same time frame, the expense for providing this service increased by 38% due to escalating landfill and transportation costs coupled with the rising cost of compensation, benefits, and pensions for the City's personnel.

Cumulatively, these items have resulted in revenue decreases over the past seven years of about \$332,000 in the departmental earnings category, or slightly more than 1.5 mill of real estate tax.

It is in the City's best interest to increase the fee-based revenue from permits, licenses, and charges for departmental services in order to become less reliant on tax revenue. Based on Delta's review of the City's current fee structure and services, the following recommendations are made:

- The City should complete a comprehensive analysis of the MSF on a regular basis. The fee should be developed by including all of the costs associated with this service and should include but not be limited to the following:

Contract for Residential Pick-up
Dumpster Charges
DPW Recycling – Wages
DPW Recycling – Benefits
DPW Recycling – Equipment
Code Enforcement – Wages
Code Enforcement – Benefits
Administration – Wages
Administration – Benefits
Leaf Collection – Wages
Leaf Collection – Equipment
Printing/Postage
Pension and Post-Retirement Benefits
Uncollectable MSF Fees

The total cost for providing the service should be divided by the number of units included in the service delivery area. This fee should be analyzed and adjusted during each and every annual budget development process.

- The City needs to have a mechanism to ensure that rental inspections are followed up on and the associated fees are collected. It is estimated that the City is currently losing \$15,000 - \$20,000 per year in uncollected rental inspection fees. A commercial occupancy inspection could generate an additional \$10,000 - \$20,000, depending upon the frequency of inspections and whether or not the rental inspection program is eliminated.
- The City should consider an increase to occupancy permits to \$150 for residential and \$300 for commercial inspections. The current fee does not cover the cost of the employee's inspection time.
- The City should consider assessing a flat fee per parking space for its commercial parking tax fee to replace the current system, which assesses a levy based on gross receipts received from parking lease payments. The flat fee per parking space is easy to administer and to audit because it is just a matter of counting spaces on private lots and billing the establishment based on the number of spaces.

- Revisit and readjust fees for the following:
 - Tenant registration
 - Fire permits
 - Emergency false alarm fines
 - Parking meter rates
 - Lien letters
 - Tax certification letters
 - Street opening fees
 - Demolition fees
 - Refuse hauling
 - Peddling and soliciting

GRANT FUNDING

The City has been very successful in obtaining grant funds at the federal and state levels. These funds have helped support the general operation of the City and should continue to be aggressively pursued through the annual appropriations process and through special programs. A review of the DCED investment tracker indicates that the City received the following, among other funds:

- \$250,000 for the Christy Park Elm Street project under the New Communities grant
- \$500,000 for the construction of the Marshall Drive extension through the Urban Development program
- \$155,000 in Emergency Shelter grants
- \$90,500 for traffic signals and school zone device
- \$44,100 for police department equipment
- \$15,000 for the ambulance rescue service

In 2008, the City was also awarded \$7,244,754 through the U.S. Department of Transportation to undertake the removal of the trolley tracks and reconstruction of the Fifth Avenue extension.

For fiscal years 2010 and 2011 there is an unprecedented opportunity to obtain ARRA (stimulus) funds through the federal competitive grant process. There are currently open application opportunities for police operations, fire department buildings, renewable energy projects, and water and infrastructure projects. The City should develop a comprehensive funding strategy for identified projects and programs, and department directors should be required to identify and pursue these opportunities. Some of the grant opportunities that should be considered are as follows:

- The City has already been a recipient of the Edward Byrne Memorial Justice Assistance Grant Program in 2007, 2008, and 2009. Continue to pursue all available public safety resources at the state and federal level, including the annual COPS federal appropriation process.
- There are numerous grant opportunities that the City/fire department should pursue. The Assistance to Firefighters Grants (AFG) are designed to meet the firefighting and emergency response needs of fire departments, including wellness/fitness programs, self-contained breathing apparatus, protective clothing, and small equipment. Since 2001, AFG has helped firefighters and other first responders to obtain critically needed equipment and other resources needed to protect the public and emergency personnel from fire and related hazards. The City/fire department has applied for and received some grant funding from this program in the past. The City/fire department should apply for grant funding annually and budget for the 10% matching funds required by the grant program. Upgrading the department's tools and small equipment, including hoses, nozzles, saws, meters, etc., should be a priority. Annual physicals and fitness equipment are also eligible for funding.
- Fire Prevention and Safety Grants (FP&S) support projects that enhance the safety of the public and firefighters from fire and related hazards. The primary goal of the FP&S is to target high-risk populations and reduce injury and prevent death. Eligible programs include some detectors, escape planning, model homes, safety trailers, curriculum delivery tools, alarm system installation, lock-box installation, CO detectors, address markers, code enforcement awareness, juvenile fire setters programs, and fire and arson investigation.
- Pennsylvania Department of Community & Economic Development Community Revitalization Assistance Grants continue to be available through local state legislators. These grants, typically ranging from \$10,000-\$20,000, have assisted numerous local governments in purchasing computers, equipment, and vehicles.
- Additional grant funding opportunities for fire departments, with open deadlines, are available through Farmer's Insurance, the Firefighter's Charitable Foundation, the Firehouse Subs Public Safety Foundation, the Allstate Foundation, FM Global, and State Farm Insurance.

COST CONTAINMENT – SHORT-TERM STRATEGIES

As reported in Step I and Step II of this report, the City's expenses have increased approximately 3.2% per year over the past eight years. This is slightly higher than the CPI, which has averaged about 2.75% per year and which actually experienced a .9% decline in 2009. Containing expenditures has been a challenge considering that both fuel costs and healthcare costs have escalated at double-digit annual increases over the past five years. As a result, the police department expenses, which were about \$4.1 million in 2009, have increased at a rate of about 4.5% per year; the fire department expenses, which were about \$2 million in 2009, have increased at a rate of about 3% per year; and the public works department expenses, which were about \$3.5 million in 2009, have increased at a rate of 2.7% per year. Public safety expenses make up about 30% of the overall general

operating expenses in the City. The next-higher category of expenditures is debt service at 15% and then public works at 11% of the overall budget. Cost containment must therefore begin in the area of public safety in order to have any impact on the overall financial position of the City.

MANAGEMENT AND FINANCE

In any local government operation, management must establish the vision and show the leadership for effecting positive change. In McKeesport, there has been considerable stability and consistency in management over the past five years, which contributes to a degree of certainty in the way work is carried out in the City organization. This stability in management has provided routine and reliability in the way that the City does business. However, the lack of natural turnover and transition in positions has supported the City's tendency to rely on tried-and-true processes and programs for basic functions in the City operations. There is a general lack of progress and an overall reliance on outdated techniques and technologies to carry out routine management and finance functions. Tradition and practice, rather than best practices and modern standards, guide the everyday work routines of most of the City employees.

For these reasons, the following recommendations are made:

- The City should establish and require the highest professional standards, as determined by the respective professional organizations, for the positions of City Administrator, Finance Director, Police Chief, Fire Chief, and all other department directors. These standards should be rigidly enforced, and as long as the persons in these positions perform to the standards that have been established by the Mayor and Council, no changes should be made in the management personnel who occupy these positions. This practice will assure the stability, consistency, and institutional knowledge that is necessary for a complex organization to succeed.
- There should be transparency and open discussion with the community on a regular basis regarding the activities, problems, and challenges that face the City organization, so that any increases to fees, permits, and taxes are not surprising or unexpected by the public during the budget adoption process. The implementation of new strategies will take cooperation from residents, business owners, nonprofits, and other governmental entities in order to develop and pursue short- and long-term goals.
- Management should engage in regular discussions with employees and bargaining units about the fiscal constraints the City faces and solicit ideas and proposals for containing costs and enhancing revenue.
- The City should have better financial reporting and better information for decision-making purposes. The City should require the Department Directors to take a more active role in developing and administering their respective budgets. The directors should be given regular budget reports and access to the MUNIS system so they can monitor their budgets in "real time." They should be held accountable for budget overruns and should be required to justify expenditures that are not routine or

ordinary. Any items requested for the new budget year should have complete analysis of cost (initial and maintenance), support data, and justification for the purchase.

- The Treasurer's Office and finance operation should set up a routine procedure that will require a complete analysis of cost prior to any new hire in any department. The City's personnel costs make up about 80% of the overall budget, and it is therefore critical to evaluate every position prior to the Council's approval of a new hire. The analysis should include not only starting costs but projected benefit and pension costs over the entire employment period, with adjustments for estimated inflation rates. This analysis should be presented to the Manager and Council prior to a hiring decision.
- A formal purchasing and procurement system should be installed and integrated with the MUNIS financial system. Written procedures should be developed and implemented organization-wide. These procedures should be strictly enforced through the finance operation. The Manager and Department Directors should have some discretion up to certain spending thresholds. Recommended thresholds for spending without a formal purchase order but included in budget parameters are: department directors – \$500; Controller – \$2,000; and City Manager – \$5,000.
- Monthly financial reporting should include:
 - A budget to actual report for each fund
 - A balance sheet report of assets and liabilities for each fund
 - A cash flow analysis that identifies what the actual availability of cash is estimated to be by month and at year-end



POLICE DEPARTMENT

Based on an initial review of the police department budget and operations, the following cost-containment recommendations are made for the short term.



- The police department typically incurs approximately \$250,000 per year for court-related overtime, which is about 7% of the overall police budget. The Chief should work with the magistrate and the county courts to determine whether savings can be achieved through scheduling officers for court time during regular hours as opposed to overtime hours. The Chief should provide a report and plan for working to reduce this expense.
- Typically, police departments the size of the City's would be expected to have either an Assistant Chief or a Deputy Chief, but not both. It is recommended that when the Deputy Chief retires, the position be eliminated or left vacant.
- Beneath the Assistant Chief, it is recommended that there should be a Patrol Division Captain, who would oversee all the department personnel who perform patrol activities and traffic-related activities. This group would include all the uniform personnel, the D.A.R.E./Traffic Lieutenant, the TAG Enforcement officer, and the school crossing guards.
- The Captain of the Detectives should be in charge of all investigative personnel. This group would include all the non-uniformed officers, i.e., the Detective Lieutenant, the general-assignment Detectives, the Computer Crimes Officer, the Juvenile Lieutenant and Juvenile Detective, the Narcotics Sergeant, the Narcotics Detectives, and the Intelligence Sergeant.
- Currently the Juvenile Lieutenant supervises only one Juvenile Detective. Instead of having a Juvenile Lieutenant, there could be two Juvenile Detectives beneath the Detective Lieutenant. This would create a more reasonable span of control for the Detective Lieutenant, who now supervises three Detectives and the Computer Crimes Officer.
- There is a Sergeant currently in the position of Intelligence Officer (a position usually filled by a Lieutenant). He also functions as the Evidence Room Officer. By continuing to have a Sergeant fill this position, the Department eliminates a higher rank and saves money in salary and benefits.
- Parking enforcement should be handled by civilians and should not involve a sworn police officer. McKeesport's TAG officer is a sworn officer whose duties are limited to parking law enforcement. Having a civilian perform this function would be economically advantageous in salary savings alone.

- There is no need to have a command-level officer perform the duties of a D.A.R.E. officer. Since there are already three School Resource Officers who are in the schools, it is recommended that one of them be trained to take over the D.A.R.E. Officer duties.

Additional items related to command, supervision, work rules, and structure, including a complete recommended organization chart, are contained in Step IV - Management Audit and Review.

FIRE DEPARTMENT

Based on an initial review of the fire department budget and operations, the following cost-containment recommendations are made for the short-term.

- The department incurs approximately \$90,000 per year for overtime expense. This is about 4.5% of the overall fire department budget. The Chief should provide a report and plan for working to reduce this expense.
- The use of four deputy chiefs and four captains in a department of 20 full-time and 11 part-time employees makes the department top-heavy with command positions. Approximately 40% of the full-time members are supervisors. The City should work toward a department with fewer supervisors by not filling the command positions as they become vacant.
- The current shift schedule, which results in a 42-hour average workweek, is not considered to be as efficient as the majority of fire department schedules found elsewhere in the United States. At the end of the current labor agreement, the City should work with the bargaining unit in an effort to increase the average hours worked per week from 42 to a higher figure ranging between 48 and 56 hours per week. By using this schedule, several staff reductions through attrition could be the result of successful negotiations, also resulting in higher pay for the remaining employees. This should not be allowed to affect the negotiated or recommended staffing levels of six to seven fire fighters per shift.
- The department needs to implement a structured on-duty training program incorporating International Organization for Standardization (ISO) and National Fire Protection Association (NFPA) training requirements. All members should receive a minimum of 10 hours of on-duty training per month. A designated training officer should oversee the training program and provide training topics and materials and ensure consistency. All training should be documented.
- The department should implement an occupancy inspection program to include commercial and multi-family residential dwellings currently not being inspected. These inspections should be conducted by the companies, with pre-plans being developed during the inspection visits. Each company should inspect a minimum of four occupancies per month. An inspection fee should be included in the City's fee schedule.

Additional items related to command, supervision, work rules, and structure, including a recommended organization chart, are contained in Step IV - Management Audit and Review.

PUBLIC WORKS AND PARKS

Based on an initial review of the public works budget and operations, the following cost-containment recommendations are made for the short-term.

- A number of years ago, a temporary deal was struck with the public works department whereby the employees in the parks department would receive compensatory time (at time-and-a-half according to the Fair Labor Standards Act [FLSA]) instead of paying the employees overtime during the summer months. The temporary deal continues to this day and has resulted in the employees in this department typically taking the time off at the end of the year. Some of these employees are done for the year as early as late October or early November. Because these employees have specific skills, this causes problems when something needs done such as fabrication for a snow plow. In order to get the work completed, the City must bring the employee back to complete the work, and then provide more compensatory time off. This practice should also be reviewed by the solicitor, as it relates to the FLSA and the IRS rules.
- The collective bargaining agreement sets up specific job classifications that are essentially boundaries or barriers for management. Employees in certain job areas and job classifications can only do work within the area and classification. For example, if the recycling crew finishes two hours before the end of the day and there is no additional work to be completed in that department, the employee does nothing for the rest of the day, when there is ample work available in the public works department. This practice should be reviewed with the union at the earliest possible opportunity.
- The public works director should be more involved in the development of the public works budget and the control and management of the budget on a regular basis. The director should be held accountable for overtime issues and purchasing related to the public works department.
- The collective bargaining agreement allows employees half an hour to report when called out for overtime. The employee gets paid for the half hour even though there is no work being completed. There is no incentive to report quickly, as the employees are getting paid for doing nothing for the first half hour. This practice should be reviewed with the union at the earliest possible opportunity.

Additional items related to command, supervision, work rules, and structure are contained in Step IV - Management Audit and Review.

PENSIONS

The City sponsors and administers four contributory defined benefit pension plans: the police pension fund, the firefighters' pension fund, the municipal employee's pension fund, and the combined pension fund. Historical trend information relative to the City's pension plans through 2007 indicates that the City's pension plans continued to be underfunded even after general obligation bonds were issued in 1997 and again in 2005 for the purpose of funding the deficiency in the actuarial accrued liability. The liability was approximately \$20 million prior to the deposit of the bond proceeds. At January 1, 2008, the combined assets at fair market value were \$27.8 million. According to the City's 2008 audited financial statements, the four pension funds lost a combined \$7.4 million in the value of the assets during 2008. This will have a devastating impact on the City's 2009 actuarial calculations and subsequently the amount that the City will be required to contribute to the pension funds in future years. The combined value of the pension funds at January 1, 2009, was \$20 million. The total MMO requirement for the pension plans in 2009 was \$1.3 million. Pension state aid covered approximately \$680,000 of the MMO requirement.

Police Fund

In 2002, the police pension fund had assets in the amount of \$8.9 million, 84% of the full funding requirement. By 2007, the plan was funded at only 76.4% of the funding requirement, with assets in the amount of \$10 million and liabilities of \$13.1 million. In 2008, the City's contribution to the plan was \$473,196 as required by the MMO calculation. The police contribute 4% of base pay plus \$1 per month to the plan.

According to the City's 2008 audited financial statements, the four pension funds lost a combined \$7.4 million in the value of the assets during 2008.

Fire Fund

In 2002, the firefighters' pension fund had assets of \$7.7 million, which was about 83.6% of the amount required to fully fund the plan. By 2007, the plan was only 83% funded and had assets in the amount of \$8.5 million and liabilities of \$10.3 million. In 2008, the City's contribution to the plan was \$302,719 as required by the MMO calculation. Plan members contribute 5% of base pay plus \$1 per month to the plan.

Municipal Employees' Pension Fund

In 2002, the municipal employees' pension fund had assets of \$5.9 million and was 93.5% funded. By 2007, the municipal employee's plan was only 86% funded, with assets in the amount of \$5.7 million and liabilities of \$6.7 million. In 2008, the City's contribution to this plan was \$373,719 as required by the MMO calculation. Plan members contribute 4% of their base pay to the plan.

Combined Pension Plan

In 2002, the municipal employees' pension fund had assets of \$606,208 and was only 60% funded. By 2007, the municipal employee's plan was 94.7% funded with assets in the amount of \$2.2 million and liabilities of \$2.3 million. In 2008, the City's contribution to this plan was \$242,472 as required by the MMO calculation. Plan members contribute 3.5% of their base pay to the plan.

With a combined total contribution of over \$1.3 million in 2009, this is one of the single largest items in the City's general operating budget, and it is only partially supported by the annual state allocation of pension aid. Because the City officials and management have ultimate fiduciary responsibility for management of these funds, it is important that management play a very active role in the oversight of the pension fund activity and preservation of the plan assets.

- It is recommended that the City closely monitor the pension investment activity and make adjustments as necessary to preserve assets and protect the City from any additional expense from the general fund to the pension funds. The \$7 million loss in 2008 is an extremely disturbing trend that should be addressed immediately with a thorough review and evaluation of investment management. The City should considering using a pension advisement service to assist it in evaluating and selecting pension managers and analyzing investment activity on a quarterly basis. A review of pension investment managers should be conducted at least every five years. Investment managers should be held accountable for significant losses in plan assets' fair market value.

INTERGOVERNMENTAL INITIATIVES

Council of Governments and Regional Groups

The City should attempt to encourage and pursue intergovernmental solutions with its surrounding communities. The City has many opportunities for this, because it shares 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 best method for effecting such cooperating, merging, or sharing is for the Mayor, City Administrator, and Department Directors to participate in any and all regional discussion opportunities available to them. Therefore, recommendations include active participation in the following organizations:

- Turtle Creek Council of Governments
- Western Pennsylvania Municipal Managers
- Western Pennsylvania Police Chiefs
- Allegheny League of Municipalities
- Pennsylvania State Association of Cities
- Pennsylvania League of Cities and Municipalities

Entering into discussions with these groups and others will provide priceless opportunities for working on regional solutions and engaging in regional dialogue about local issues.

In addition to the traditional opportunities for shared services, it is recommended that the City engage the Local Government Academy (LGA) for assistance in opening discussions with surrounding communities relative to the ability of the City to offer its public safety services as contracted services. The City of McKeesport already provides contracted police services to Dravosburg Borough. Many of the other adjacent communities have very small departments that provide limited service to their residents.

Local Government Academy

In April, the LGA joined with Allegheny County to announce the establishment of the Municipal Service Sharing and Consolidation Program, an initiative to encourage municipalities to share services and consolidate functions for better ,more efficient services to residents. The LGA program will provide professional technical assistance and grant funds through the Authority for Improvements in Municipalities (AIMJ) to provide professionally trained facilitators who can assist the municipalities with issues related to the merger or consolidation of municipal services in order to provide better service delivery in the region.

The City is encouraged to enlist the LGA to provide consensus-building services to open discussions with its neighboring communities about contracted services in the region. The LGA can provide coordination of meetings, facilitation of discussions, conflict resolution, and assistance for the development of intergovernmental cooperation agreements.