
Municipalities Financial Recovery Act

Financial Condition Report

City of Shamokin
Northumberland County, Pennsylvania



Prepared on behalf of the
Commonwealth of Pennsylvania
Department of Community and Economic Development
Governor's Center for Local Government Services

As filed with the City Administrator on September 5, 2019



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September 5, 2019

City of Shamokin
Shamokin City Hall
47 East Lincoln Street
Shamokin, PA 17872

Re: City of Shamokin Act 47 Coordinator's Financial Condition Report

Mayor and Members of Council:

Enclosed please find a copy of the Act 47 Coordinator's City of Shamokin Financial Condition Report (the "Report") which has been mailed today by the Act 47 Coordinator to the City of Shamokin (the "City" or "Shamokin"). The Report will be officially filed on Thursday, September 5, 2019, when the City Administrator will place a true and correct copy of the Report on file for public inspection at the City's offices, and will post the Report on the City's website.

The Coordinator's findings set forth in the Report reflect conditions at the City which require the development of a three-year exit plan in accordance with Section 256 of the Act. The Coordinator has found: (1) that operational deficits of the City have been eliminated, and that the financial conditions demonstrate a reasonable probability of future balanced budgets while remaining in Act 47; (2) debt obligations have been structured so that there is a reasonable probability of continued, timely debt service payments while in Act 47; (3) there are no claims or judgments that would place the City in imminent jeopardy of financial default; (4) reasonably projected revenues of the City are sufficient to fund ongoing necessary expenditures, including pension and debt obligations; and (5) the continuation of collective bargaining agreements and the provision of municipal services while under Act 47 protection, and the City's ability to

maintain fiscal stability with the additional taxing authority allowed pursuant to Act 47, cannot otherwise be maintained without maintaining Act 47 status.

The Coordinator will receive written comments for a period of 15 days until Friday, September 20, 2019. The Coordinator will also hold a public meeting to receive comments on the Report, beginning at 6:00 P.M. on Monday, September 23, 2019, at the City's Rescue Squad meeting room, 511 North Franklin Street, Shamokin, PA. The Coordinator requests that the Mayor and each member of City Council, the City Administrator and the City Administrative Accountant be present at this meeting.

Best regards,

By: /s/ Ryan P. Hottenstein
Act 47 Coordinator

Enclosure (1)

cc: Robert Slaby, City of Shamokin (City Administrator)
Doreen Annis, City of Shamokin (Administrative Accountant)
Gerald Cross, Pennsylvania Economy League (Act 47 Coordinator)
Patricia Moorhead, Pennsylvania Economy League (Act 47 Coordinator)
Susan R. Friedman, Stevens & Lee (Act 47 Coordinator)
John Espenshade, Stevens & Lee (Act 47 Coordinator)
Theodore Martin, Deputy Director (DCED)
Andrew Sheaf, Local Government Policy Manager (DCED)
James Rose, Local Government Policy Specialist (DCED)
Michael Carpenter, Local Government Policy Specialist (DCED)
Frank Konopka, Solicitor

CITY OF SHAMOKIN FINANCIAL CONDITION REPORT

Introduction

Pursuant to the Commonwealth of Pennsylvania's Municipalities Financial Recovery Act, Act 47 of 1987, as amended, (Act 47) the City of Shamokin (City) was declared a financially distressed municipality by order of the Secretary of the Department of Community and Economic Development (DCED) on June 16, 2014. Stevens and Lee, P.C. (S&L) was subsequently appointed the Act 47 Coordinator (Coordinator) for the City. The City adopted its original Act 47 Recovery Plan (Recovery Plan) on February 23, 2015.

Act 199 of 2014 (Act 199) amended Act 47 to, among other provisions, limit the amount of time a municipality may be declared a financially distressed municipality. The City adopted its Recovery Plan after the effective date of Act 199. Thus, it is subject to a termination date five (5) years from the effective date of its then most recent recovery plan, i.e., five years from February 23, 2015. As part of the Act 199 process, the Coordinator is required to complete a report stating the financial condition of the municipality no later than 180 days after the beginning of the final year of distressed status. The report is required to include one of the following findings based on the conditions within the municipality: (1) termination of distressed status; (2) municipal disincorporation; (3) fiscal emergency; or (4) a three-year exit plan. The Coordinator has prepared this City of Shamokin Financial Condition (Report), which makes a finding that conditions within the City require the development of a three-year exit plan. Accordingly, the Coordinator files this Report with the DCED and City representatives.

Financial Condition

Background

The City of Shamokin is located in Northumberland County in Central Pennsylvania. The City's estimated 2017 population was 7,165¹ making it the second largest municipality in Northumberland County. The City is governed pursuant to the Pennsylvania Third Class City Code. Under the Third Class City Code, the City's governing body is a five-member City

¹ U.S. Census Bureau. American Fact Finder, ACS Demographic and Housing Estimates, 2013-2017 American Community Survey 5-Year Estimates.

Council, composed of a Mayor and four (4) additional Council Members. The current elected officials have cooperated with the Coordinator to implement most of the initiatives included in the City's original 2015 Recovery Plan. The City has taken numerous steps that have substantially improved the financial position of the City, however, without the taxing authority provided to it under the provisions of Act 47, maintaining this improved financial stability is unlikely without the City taking extraordinary measures.

This report will review the factors that led the City to its Act 47 designation, which have been remediated but would return if outside the provisions of Act 47. In its filing to DCED the City alleged it met the following five (5) criteria as set forth in Section 201 of Act 47:

1. The City has maintained a deficit over a three-year period, with a deficit of 1% or more in each of the previous fiscal years.
2. The City's expenditures have exceeded revenues for a period of three years or more.
3. The City has accumulated and has operated for each of two successive years at a deficit equal to 5% or more of its revenues.
4. The City has failed to make the budgeted payment of its minimum municipal obligation as required by the Municipal Pension Plan Funding Standard and Recovery Act (Act 205) with respect to a pension fund during the fiscal year for which the payment was budgeted and has failed to take action within that time period to make required payments.
5. The City has experienced a decrease in quantified level of municipal service for the preceding fiscal year which has resulted from the municipality reaching its legal limit in levying real estate taxes for general purposes.

From the five alleged criteria DCED's Consultative Report affirmed four of the five criteria.

The following information has been used by the Coordinator to determine if the previous criteria have been sustainably remediated.

Operating Budget Review

The City has experienced operating budget surpluses every year since it adopted the 2015 Recovery Plan. The City's 2019 financial projections indicate that the City will end 2019 with a \$477,159 cash surplus.

General Fund Revenues, Expenditures, Surplus(Deficit) 2015 - 2019

	2015 Audited	2016 Audited	2017 Audited	2018 Unaudited	2019 Projection
Revenues	\$ 3,349,749	\$ 3,660,738	\$ 3,544,730	\$ 4,076,433	\$ 3,404,065
Expenditures	3,200,000	3,582,880	3,453,576	3,947,793	3,175,772
Surplus/(Deficit)	\$ 149,714	\$ 77,858	\$ 91,154	\$ 128,640	\$ 228,293

The City's legacy costs include retiree healthcare, pension, and debt service. Although these ongoing legacy costs were incurred by the City in prior years, the City remains legally required to satisfy the commitments. The City presently commits current General Fund operating budget revenue to fulfill retiree healthcare and pension legacy costs. Debt Service costs are covered by a separate, dedicated tax millage paid from the City's Debt Service Fund. During the 2015-2018 operating budget review period, the City's legacy costs varied. In 2015, the City's legacy costs were \$876,995 or 27.4% of the City's total 2015 operating expenditures. In 2016, 2017 and 2018, the City's legacy costs increased to \$884,619 or 24.7% of the City's total 2016 operating expenditures; \$1,032,040 or 29.9% of the City's total 2017 operating expenditures and \$1,022,454 or 25.9% of the City's total 2018 operating expenditures. These legacy costs significantly impact the City's ability to provide current services to its residents from the revenue it receives from its annual operating tax revenues.

Legacy Costs by Type and Proportion of Total Expenditures 2012 - 2018

	2015 Reported	2016 Reported	2017 Reported	2018 Reported
Retiree Healthcare	\$ 74,262	\$ 74,262	\$ 90,694	\$ 110,643
Pension MMO	387,845	392,958	524,571	518,288
Annual Debt Service ²	414,888	417,399	416,775	393,523
Total Legacy Costs	\$ 876,995	\$ 884,619	\$ 1,032,040	\$ 1,022,454
% of Total Expenditures	27.4%	24.7%	29.9%	25.9%

The largest legacy cost increase during the review period was the City's Minimum Municipal Pension Obligation (MMO) which increased from \$387,845 in 2015 to \$662,365 in

² Note: debt service payments are not part of the City's General Fund. The City has a dedicated tax millage with a segregated fund for debt service.

2019, an increase of 70.7 percent. This large pension increase is primarily due to the underfunded liabilities in the City's Pension Fund created by a change in the assumed rate of return and by unlawful pension benefits that were awarded to the Police collective bargaining unit prior to entry into Act 47. The unlawful pension benefits have been removed from the current collective bargaining contract. The City's retiree healthcare obligation increased from \$74,262 in 2015 to \$83,644 in 2018, while the City's debt service decreased slightly from \$425,000 in 2015 to \$394,000 in 2018.

Elimination of Operating Deficits

Annual financial reports and recent audits indicate that operating budget deficits have been eliminated and the City exhibits sound financial management practices. As previously stated, the City's audits indicate that the City incurred operating budget surpluses in 2015 through 2018.

2018 Financial Review

The City reported ending the 2018 fiscal year with an operating surplus of \$128,640. For the 2018 fiscal year, the City's audited operating revenues were \$4,076,433 or 29% more than the budgeted amount, for a budget to actual difference of \$916,792. Unaudited operating expenditures were also lower at \$3,947,793 or 26% under the approved budget by \$823,800. Accordingly, the City is expected to have a 2018 operating surplus of revenue over expenditures of approximately \$128,640.

2018 Actual vs. Budget

	2018	2018	Variance	
	Actual	Budget	\$	%
<u>Revenues</u>				
General Property Taxes	\$1,114,768	\$1,089,841	24,927	2.3
EIT	1,185,062	1,000,000	185,062	18.5
Other Taxes	241,651	229,500	12,151	5.3
Other Revenue	<u>1,534,953</u>	<u>840,300</u>	<u>694,653</u>	<u>82.7</u>
Total Revenue	\$4,076,433	\$3,159,641	916,792	29.0
	0	0		
<u>Expenditures</u>				
Employee	2,550,948	2,387,633	163,315	6.8
Non Employee	1,396,845	736,361	660,485	89.7
Debt Service	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.0</u>
Total Expenditures	\$3,947,793	\$3,123,994	823,800	26.4
Operating Surplus/(Deficit)	\$128,640	\$35,647		

2019 Financial Condition

The City adopted a balanced 2019 operating budget on December 26, 2018, with General Fund revenues and expenditures of \$3.2 million. Throughout the 2019 fiscal year, the Coordinator has and will continue to monitor the City's fiscal position and prepare monthly cash flow estimates for the City's use.

As of the date of this Report the City has a typical amount of accounts payable with none known to be over thirty days due and a sufficient cash balance to meet anticipated costs. The City ended 2018 with \$310,820 in cash and \$38,435 in accounts payable. The City is projected to end 2019 with \$477,159 in cash and \$15,000 in payables, and a \$228,293 operating budget surplus.

2019 Budget

	2019 Budget
Revenues	
Real Estate Taxes	1,123,140
EIT	1,110,000
LST	47,000
Other Taxes	188,300
Licenses & Permits	128,900
Fines & Forfeits	97,500
Interest Income	20
Rents & Royalties	15,080
Intergovernmental Revenue	49,324
Fed Capital & Operating Grant	0
State Capital & Operating Grant	12,700
State Shared Revenue & Entitlement	172,989
Local Gov't Grants/Revenue	12,000
Charges for Services	44,750
Parking Meter Revenue	100,000
Miscellaneous	42,900
Transfers	77,582
Other Financing Sources	0
Total Revenues	3,222,185
Expenditures	
Payroll	1,203,882
Benefits	637,468
Pension	662,365
Fire Relief	23,000
Other Expenditures	676,131
Transfers	0
Total Expenditures	3,202,846
Surplus/(Deficit)	19,338

2019 Estimated Cash Flow

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	FY 2017
Revenues	747,397	1,256,591	802,153	597,924	3,404,065
Expenditures	709,775	583,529	609,656	1,272,812	3,175,772
Surplus/(Deficit)	37,621	673,062	192,497	-674,888	228,293
Cash Beginning of Quarter	310,820	330,043	959,817	1,152,047	
Surplus/(Deficit)	37,621	673,062	192,497	-674,888	
Increase/(Decrease) in Payables	-19,677	-3,491	-266	0	
Other Items Effecting Cash	1,278	-39,798	0	0	
Cash End of Quarter	330,043	959,817	1,152,047	477,159	

Cost Centers

Labor

The City currently has 23 budgeted employee positions. The City's managerial and confidential employees are "at will" employees. Most of the City's employees are represented by one of two unions and are subject to labor contracts with the City.

Shamokin Police Officers Association represents the City's uniformed police officers. The current City and Police Officers Association collective bargaining agreement term began on January 1, 2018 and will expire on December 31, 2019.

The American Federation of State, County and Municipal Employees Council 86, Local 2433 (AFSCME) represents the City's Public Works employees. The City's current collective bargaining agreement with AFSCME for the Public Works employees began on January 1, 2018, and will expire on December 31, 2020.

All of the new contracts negotiated with the City bargaining units provide for the Act 47 Recovery Plan cost containment provisions.

Debt

The City's outstanding principal long-term debt as of December 31, 2018, was approximately \$3,448,600. The City is currently expected to make approximately \$396,000 of

long-term debt service payments of principal and interest in 2019 for its General Obligation and Redevelopment Authority debt.

Long-Term Debt Summary

	Outstanding Principal	Rate	Maturity
Taxable General Obligation Note, Series A of 2018	919,000	4.40% to 6.00%	2031
General Obligation Note, Series B of 2018	730,000	2.95% to 4.25%	2031
2014 DCED Loan	698,000	0.00%	2024
Shamokin RDA Note, Series A of 2005	578,517	3.708%	2030
Shamokin RDA Note, Series B of 2005	525,734	3.250%	2030
Total Outstanding as of December 31, 2018	3,451,251		

Pension

The City of Shamokin participates in two single-employer pension plans. As of December 31, 2017, the Non Uniform Pension Plan (NUPP) funding ratio was 56.27 percent (Distress Level II) with a Net Pension Liability of \$501,102. The Police Pension Plan (PPP) funding ratio was 59.73 percent (Distress Level II) with a Net Pension Liability of \$3,355,053. The City's annual minimum pension obligation in 2019 is estimated to be \$662,365.

Retiree Healthcare

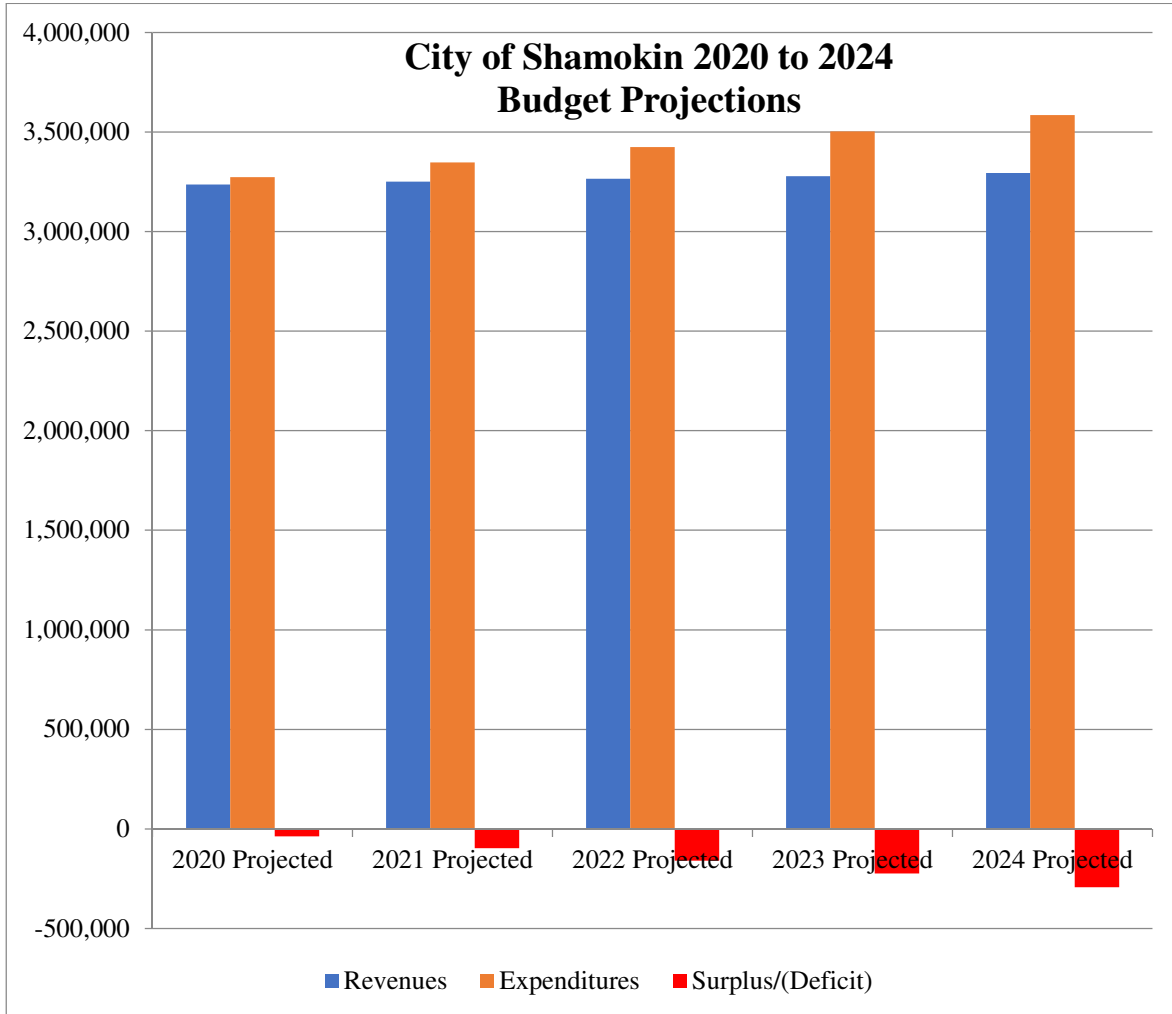
The City's retiree healthcare contribution in 2019 is projected to be \$104,730. These legacy costs are funded on a pay-as-you-go basis.

Financial Baseline

The Coordinator has reviewed Shamokin's financial history and developed financial projections for 2019-2024, using the City's 2019 budget maintaining the increased EIT rate as the projection baseline. Normal expenditure growth assumptions indicate that the City will incur a general fund operating deficit in 2020 of **-\$36,565** growing to **-\$292,150** in 2024 absent increases in revenue or decreases in expenditures.

**Projected Baseline Revenues, Expenditures, Surplus (Deficit)
2019 – 2024**

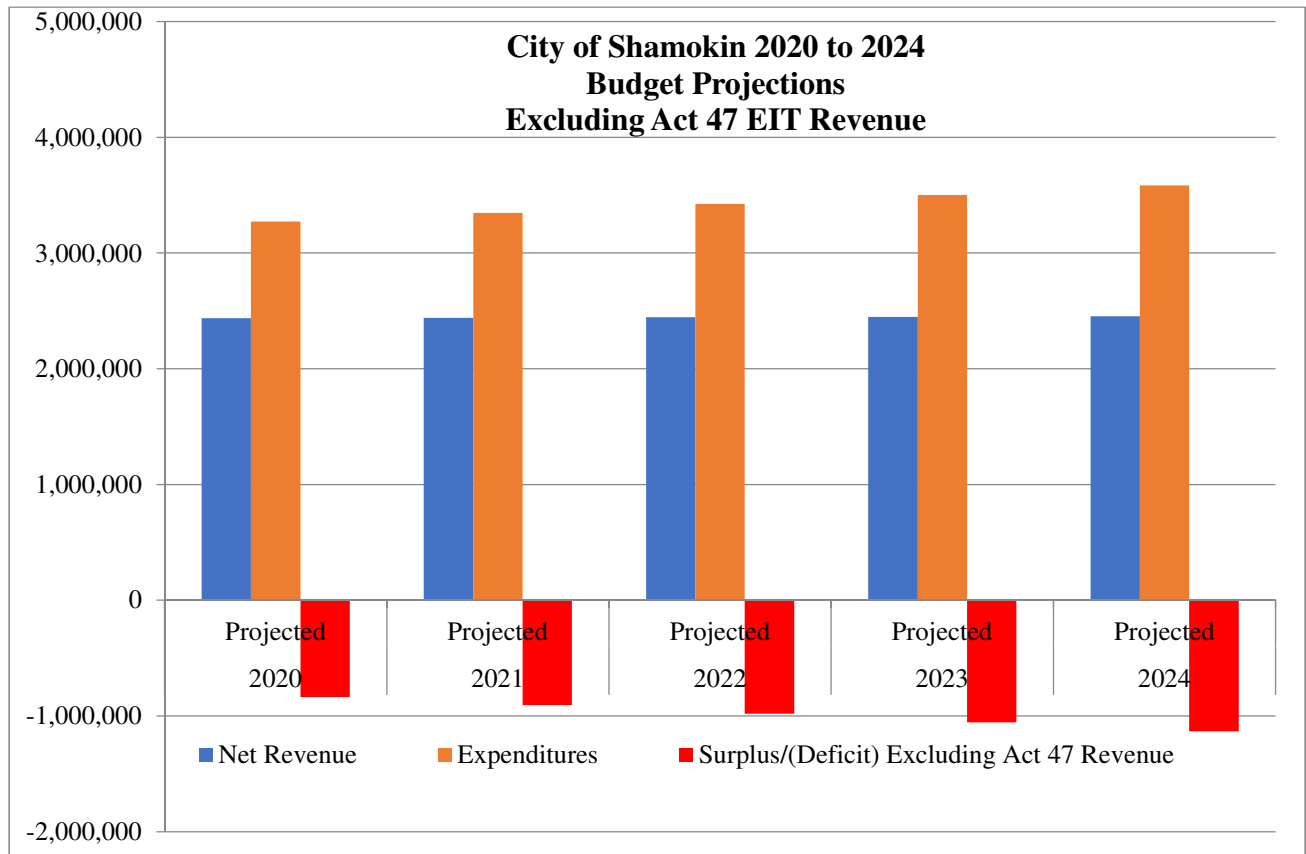
	2019 Estimated	2020 Projected	2021 Projected	2022 Projected	2023 Projected	2024 Projected
Revenues	3,404,065	3,236,060	3,250,108	3,264,332	3,278,734	3,293,316
Expenditures	3,175,772	3,272,624	3,346,678	3,423,580	3,503,073	3,585,466
Surplus/(Deficit)	228,293	-36,565	-96,570	-159,248	-224,339	-292,150



Additionally, the Coordinator produced budget projections which factor in the loss of increased EIT as a comparison to the projection baseline. Without the additional Act 47 EIT revenue projections indicate that the City would incur a general fund operating deficit in 2020 of **-\$836,565** growing to **-\$1,132,906** in 2024 absent increases in revenue or decreases in expenditures.

**Projected Baseline Revenues without Act 47 EIT, Expenditures, Surplus (Deficit)
2019 – 2024**

	2019 Estimated	2020 Projected	2021 Projected	2022 Projected	2023 Projected	2024 Projected
Revenues	3,404,065	3,236,060	3,250,108	3,264,332	3,278,734	3,293,316
Less: Est Act 47 EIT	-	<u>-800,000</u>	<u>-810,000</u>	<u>-820,125</u>	<u>-830,377</u>	<u>-840,756</u>
Net Revenue	3,404,065	2,436,060	2,440,108	2,444,207	2,448,357	2,452,560
Expenditures	<u>3,175,772</u>	<u>3,272,624</u>	<u>3,346,678</u>	<u>3,423,580</u>	<u>3,503,073</u>	<u>3,585,466</u>
Surplus/(Deficit)	228,293	-836,565	-906,570	-979,373	-1,054,716	-1,132,906



Overcoming Deficits

Home Rule Charter

As a Home Rule community, the City would no longer be bound by statutory limits on rates for EIT, property taxes and realty transfer taxes, providing for greater flexibility in the future to generate tax revenue based on community needs. In order to establish a Home Rule charter registered voters of the local municipality approve and elect a Home Rule Study commission. This question was placed on the City’s May 2019 primary election. It was rejected

by the City's voters. Rejection of Home Rule greatly limits the City's ability to balance its budget without extraordinary measures.

Real Estate Taxes

Northumberland County last implemented a property reassessment in 1972. When Shamokin entered Act 47 it was at its limit for general purpose real estate millage, leaving no room to gain additional general purpose revenue if needed through a property tax increase. The City remains at the current general purposes limit of 35.00 mills in 2019. One mill is valued at approximately \$23,800. Outside the benefits of Home Rule, the City does not have the ability to raise its general purpose property tax to meet its revenue requirements.

Earned Income Taxes

City officials spearheaded an effort to develop a Home Rule Charter for the City that allows the City to retain the higher resident EIT level as necessary after exiting Act 47. As mentioned earlier in this Report that effort was rejected by the City of Shamokin voters.

Summary

The City's financial condition has improved significantly during the last five (5) years. The taxing authority granted while in Act 47 allows the City to receive the necessary funding to support City operations and maintain balanced budgets. Without the additional 1.0% Earned Income Tax the City receives while in Act 47, the City could not maintain its current fiscal improvements and would likely return to financial distress without making significant cuts to public services, including, but not limited to public safety.

Without reassessment by Northumberland County and/or the City becoming a Home Rule municipality, the PA Third Class City Code does not provide the necessary taxing authority to allow the City to fund current service levels and/or to increase those levels of service if the City determines that it is needed.

Absent Act 47 status, the City's financial parameters are constrained by the PA Third Class Code, Act 511, Act 111, Act 195, and related laws of the Commonwealth which are

applicable to local governments, and will not allow the City to maintain its current fiscal performance.

Finding

The Coordinator makes the finding that the financial condition of the City requires the development of a three (3) year exit plan.

The City has made substantial progress on a number of fronts, since it entered Act 47, however, due to municipal legislation outside the City's control, the City's lacks the ability to (1) generate the revenue necessary to maintain current services and (2) ensure it does not quickly return to fiscal distress.

Based on the City's current inability to achieve long-term financial sustainability outside Act 47, it is the Coordinator's finding that conditions within the City of Shamokin require the development of a three-year exit plan in accordance with Section 256.

Act 47 Coordinator

Financial S&Lutions
Stevens & Lee, Lawyers and Consultants
Pennsylvania Economy League