



Newville Borough Act 47 Public Meeting

November 28, 2023

Coordinators:
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Newville's financial challenges

In May 2023, Newville Borough hired PFM Group Consulting (PFM) through the Strategic Management Planning Program (STMP) to help the Borough manage its cash flow and address its financial challenges.

The PFM team soon discovered that Newville's financial challenges required urgent action to avoid collapse.

The Borough did not have enough cash on hand to sustain daily operations, so it borrowed money from the Newville Water and Sewer Authority to cover its health insurance bills in January and February and make payroll in August. The Borough also missed debt and pension payments and accumulated unpaid bills to vendors.

Newville's financial challenges are partially driven by poor financial management. For example, the Borough misused its 2012 State pension aid and state liquid fuels funds, and it has not produced an annual audit (official record of financial activity) in years.

But the Borough's challenges are also driven by a severely imbalanced budget: the Borough budgeted for \$1.1 million in revenues but is likely to collect less than \$750,000 this year. At the same time, the Borough has not been paying the full cost of providing services – it has fallen behind on its debt payments, its bills to vendors and its required contributions to the employee pension plans.



Newville and Act 47

In July 2023, Borough Council and the Mayor requested a determination from the Department of Community and Economic Development (DCED) as to whether Newville met the statutory criteria for fiscal distress. DCED's evaluation found that the municipality met the following criteria under the Municipalities Financial Recovery Act (Act 47):

- The Borough defaulted in payment of bonds after it failed to repay a 2022 tax revenue anticipation note (TRAN) and did not make vehicle loan payments.
- The Borough failed to pay its minimum municipal obligations (MMOs) due to its two pension plans for the years 2012 and from 2016 through 2023.

DCED determined that the Borough qualified to be designated as a distressed municipality under Act 47, citing the criteria above and the Borough's lack of financial management, projected shortfall in its cash position, and a list of past due bills and outstanding liabilities.

In August 2023, the Public Financial Management (PFM) was appointed as the Borough's Act 47 Recovery Coordinator. On November 10, 2023, we filed a Recovery Plan with the Borough outlining its current financial condition, a baseline projection over five years, and one initiative to increase the earned income tax (EIT) by 1.5 percent. An amended Plan with more initiatives will follow in early 2024.

The Act requires us as Recovery Coordinator to hold a public meeting and to hear comments on the Recovery Plan as part of the recovery process.



Debts and Liabilities

Newville Borough has not paid the true cost of government operations for years. It has recently missed its schedule debt payments and accumulated unpaid obligations to vendors. Beyond that, the Borough has not consistently made its pension payments over the last decade. PFM compiled an initial list of these outstanding obligations as of July 2023.

The Borough received two loans from DCED in September and November to pay off some – but not all -- of these liabilities. The largest outstanding liability identified to date is the outstanding pension contributions.

Estimated Outstanding Debt and Liabilities as of July 2023

	Amount Owed	Covered by DCED Loans	Amount Remaining
Outstanding pension payments and interest	\$601,510*	\$0	\$601,510
Misallocated 2012 State Pension Aid	\$25,286	\$0	\$25,286
Misallocated Liquid Fuels funds	\$45,133	\$15,044	\$30,088
2022 Tax Anticipation Note	\$158,632	\$158,632	\$0
Vehicle Loan	\$26,505	\$26,505	\$0
Amounts owed to the Authority	\$99,000	\$65,020	\$33,980
Estimated Past Due Bills as of July 2023	\$60,905	\$60,905	TBD

**May not include all interest accrual since the most recent Auditor General's report.*



Setting a baseline for the 2024 budget

Recent years' budgets and actual expenditures have not reflected the true cost of running the Borough government because the Borough was not paying its debt, pension, or other bills. Newville also has not produced an annual audit (the official record of expenditures) since 2015.

In the absence of historical trends, PFM used what was available and input from Council and departments to develop a one-year projection as a basis for the 2024 budget, assuming no changes to tax rates, fees, headcount, or other factors under the Borough's control.

This projection revealed a roughly \$790,000 (or more than 100 percent) operating deficit. The anticipated cost to run the Borough in 2024 will be \$1.4 million while projected revenues total \$622,000, absent any tax rate increases.

Borough Council will need to take corrective action to remedy the 2024 operating deficit before the end of the year as it is required to pass a balanced budget.

2024 Projection	
Property Taxes	\$302,779
EIT	\$175,068
Other Taxes	\$28,700
Departmental Earnings	\$67,700
Other Revenue	\$48,317
Total Revenue	\$622,564
Personnel	\$883,737
Contracted Services	\$137,700
Other Departmental Expense	\$292,395
Debt Service	\$95,000
Total Expenditure	\$1,408,832
Surplus/(Deficit)	(\$786,268)



Where the Borough gets money

Property Tax (\$302,779 projected in 2024): The Borough's largest revenue source is its property tax. The Borough levy of 4.895 mills is allocated between its General (4.45), Fire Tax (0.155), and Street Light (0.29) funds. The tax base is the total assessed value of taxable land and buildings in the Borough, and it grows slowly at 0.6 percent year to year.

Earned Income Tax (\$175,068): Newville also receives a large portion of revenue from earned income taxes (EIT) levied on residents. The tax base is mostly Newville residents, regardless of where they work.

Other Taxes (\$28,700): This includes the Borough's **Realty Transfer Tax** (0.5 percent tax on the sale of property), **Occupation Tax** (5.0 mills levied on all employed residents, assessed by occupation), and **Local Services Tax** (a flat \$47 per year levied on anyone who works in the Borough).

Other revenue (\$116,000): Remaining revenue (19 percent of the 2024 budget) comes from departmental earnings like permits and fees for services and intergovernmental revenues. More than a third of this will come from a DCED grant in 2024 that expires mid-2025.

The budget does not include any direct contribution from the Authority, though the Borough and the Authority split several expenses, like certain staff salaries and liability insurance.

**This slide only discusses Borough municipal tax rates. Big Spring School District also levies taxes on residents.*



Where the Borough spends money

Personnel costs are the largest expenditure category for the Borough, representing 66 percent of the total projected General Fund expenditures in 2024.

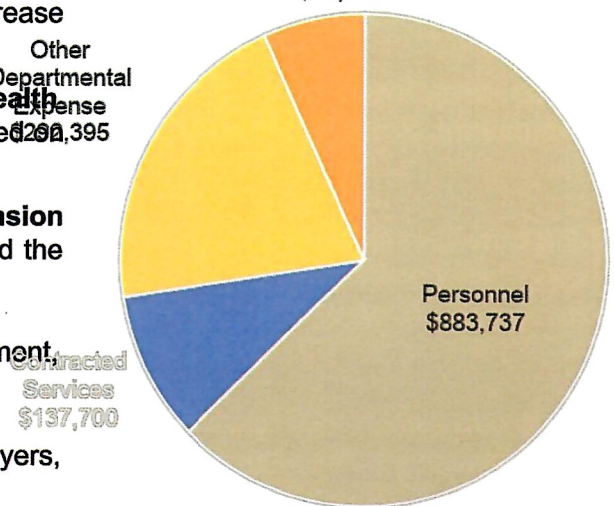
- **Salaries and wages** for Borough employees; no wage increase is assumed
- The Borough provides medical, vision, and dental **health insurance** to its employees and pays for that insurance based on monthly premiums
- The Borough has annual contributions to two employee **pension plans** – police (\$55,000) and non-uniform (\$24,000) – called the minimum municipal obligations (MMO).

Departmental expenses include materials, supplies, equipment, insurances, and a contingency for outstanding liabilities.

The Borough spends money on **contracted services** for lawyers, payroll, auditors, and engineers; we estimate \$137,700 for 2024.

The Borough will pay \$80,000 in **debt service** for two DCED loans and \$15,000 for the third and final repayment for the misappropriated Liquid Fuels money.

2024 Projected General Fund Expenditures (Thousands)





Balancing the 2024 Budget: EIT and Spending Cuts

Earned Income Tax

The Recovery Plan includes a 1.5 percent increase to the earned income tax. Before the Borough can petition the Cumberland County Court of Common Pleas to get approval for the higher tax rate, it must first adopt the Recovery Plan and propose a 2024 budget.

The higher tax rate is projected to bring an additional \$445,000 in revenue to the Borough, closing more than half of the budget gap. For the average working resident making \$47,000 annually, this will be a \$707 increase in their annual tax burden.

Impact of raising resident EIT	Median	Mean	High End
<i>Estimated taxable income</i>	<i>\$47,143</i>	<i>\$55,104</i>	<i>\$75,000</i>
Current municipal EIT burden (Excludes 1.15% School District EIT)	\$236	\$276	\$375
1.5% increase	\$707	\$827	\$1,125
Total municipal EIT	\$943	\$1,102	\$1,500

Spending Cuts

The Mayor and Borough Council have also made decisions to cut spending in areas including personnel, the Summer Program, and contributions to the Newville Economic Development Authority. These cuts amount to around \$114,000.



Balancing the 2024 Budget: Two Scenarios

After these tax increases and spending cuts, the **Borough's 2024 budget still has a projected \$233,000 shortfall**. The Mayor and Borough Council have two levers to close this gap: real estate tax increases and cuts to the police department. The scenarios presented below show these options in different combinations to close the budget gap:

	Scenario 1	Scenario 2
# of Full-Time Police Officers	3 no change from current staffing	2 1 fewer officer
Real Estate Tax Increase	3.61 mills	2.09 mills
Total Municipal Millage Rate	8.50 mills	6.99 mills
<i>Annual Impact on Taxpayers</i>		
Home Value of \$129,300	\$466	\$271
Home Value of \$150,000	\$541	\$314

Scenario 1 retains the current police staffing (1 Chief and 2 officers) and fills the remaining budget shortfall with a 3.61 mill increase.

Scenario 2 reduces the current police staffing by 1 (leaving the Chief and 1 officer) and increases the real estate tax millage by a smaller amount, 2.09 mills, to close the remaining deficit.



Next Steps

Public Hearing on the Recovery Plan

According to Act 47, we are required to hold a public hearing on the Recovery Plan that was filed on November 10th, 2023 to receive public comment on the Plan. This is that hearing.

Adopt Recovery Plan

After the public hearing, the Mayor and Borough Council may adopt the Recovery Plan by ordinance. The Plan must be adopted by ordinance for the Borough to petition the Court for the EIT increase to take effect January 1, 2024.

Introduce a balanced budget for 2024

The Mayor, Borough Council, and the Borough Manager will decide which combination of real estate tax increase and spending cuts it will use to close the 2024 projected deficit and introduce a balanced budget.

Petition the Court for higher EIT

The Borough will petition the Cumberland County Court of Common Pleas to approve an earned income tax in 202.

Amended Recovery Plan

PFM is working to file an amended recovery plan to supplement the shorter Plan that was filed early this month. This amended plan will include recommendations for improving financial management and longer-term solutions for fiscal sustainability.