



Beaver County, Pennsylvania

Multi-Year Financial Management Plan

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PFM Group Consulting, LLC
1735 Market Street, 43rd Floor
Philadelphia, PA 19103
215 567 6100
www.pfm.com

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Executive Summary

In June 2016 Shell Chemical Appalachia announced that it would build a petrochemical complex at the site of a former zinc smelter in Beaver County. The complex's primary use will be a "cracker" plant and three related units where ethylene liquid gas will be converted to pellets that can in turn be used in pharmaceutical, industrial chemical and plastic manufacturing.

Shell's decision to build this complex in Beaver County was hailed by public and private sector leaders as "transformative," "a game changer," and a "shot in the arm." Media reports cited 6,000 construction jobs to build the complex and then 600 permanent jobs at the site when it opens after 2020. Regional economic development experts point to the cracker plant's potential as a catalyst for other manufacturing growth since proximity to the polyethylene pellets makes the region more attractive to manufacturers. Expansion of the local manufacturing industry and the professional services that support it (e.g. engineering, architecture) could potentially lead to spinoff growth ranging from additional office space to new hotels for construction workers to retail and service sector growth.

While there is consensus that the cracker plant and spinoff activity should provide an economic boost for the region, it is an open question how much Beaver County will benefit from that boost. Predictions on how the cracker plant will impact property values, create new jobs or increase economic activity usually refer to the region as a whole, not Beaver County specifically.

Beaver County's elected leaders understand that their communities have to be prepared to take advantage of the unique opportunities that the cracker plant provides. The Pennsylvania Department of Community and Economic Development (DCED), which was an active partner in efforts to attract Shell's investment to Beaver County, also recognizes these opportunities.

In 2017 the County received a grant from DCED's Early Intervention Program (EIP) to develop a multi-year financial plan and community and economic development strategies to strengthen the County's tax base. The County selected Public Financial Management to write this multi-year financial plan and has plans to do a separate, complementary phase related to the development strategies.

This multi-year financial plan provides an in-depth look at County government's recent financial performance; a baseline projection of future performance in a *status quo* scenario; and a series of prioritized recommendations (or initiatives) to change that baseline trajectory.

Our primary goal is to provide Beaver County's elected and appointed officials with a well-rounded strategy to strengthen the County government's financial position. That strength will enable the County to deliver critical services to the residents and businesses that already call Beaver County home and attract new residents and businesses drawn to the region by the cracker plant.

This plan has three sections following this Executive Summary:

- The **Financial Condition Assessment** provides much of the historical and forward-looking financial analysis and describes the major trends that drive County government's financial performance.

- The **Departmental Review** summarizes how the financial figures described in the first section translate to the services provided by the Board of Commissioners, the departments the Board oversees, the independently elected County row officers and the County judicial system.
- The **Action Plan** presents a mission statement and initiatives to guide the difficult decisions that County government leaders will have to make to overcome the financial challenges described in the first section.

The rest of this section presents the major findings described more fully in the subsequent parts of this report and highlights 10 high priority initiatives that the County should pursue this year.

Baseline projection: Deficits return in 2019 without corrective action

The request for proposals that Beaver County issued at the start of this process cited the opportunity that the ethane cracker plant development creates. The RFP also cited financial problems that need to be addressed so County government can be an effective partner in the community's efforts to take advantage of that opportunity. The RFP noted:

The county's government has experienced three years of structural deficits and it has extensive capital improvement and replacement costs. The County Commissioners have cut costs and the County still struggles to provide the same level of County services due to the cost of wages and employee benefits.

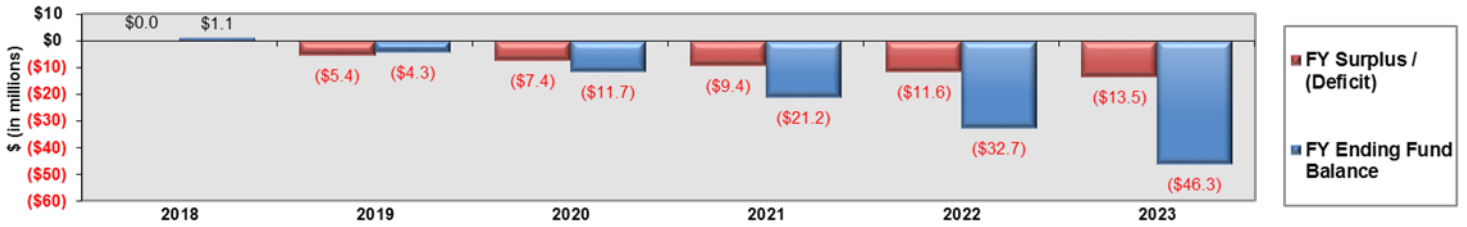
Beaver County had a deficit in its primary operating fund in three of the five years we reviewed (2012 through 2016¹). The County used one-time measures to achieve a surplus the other two years – a one-time \$26.6 million payment when the County sold the Friendship Ridge nursing home in 2014 and a debt restructuring in 2016 that created near-term budgetary relief in exchange for higher debt payments later.

As required under the EIP guidelines, PFM developed a baseline projection for the County's General Fund revenues and expenditures in a *status quo* scenario through 2023. For revenues, the baseline assumes no future real estate tax increases or changes in service charges. For expenditures, it assumes no changes in service levels or headcount. Revenue growth is projected based on recent trends in the tax base or revenue performance absent rate increases, and salary growth is projected based on the wage patterns negotiated in recent years and the labor agreements in place at the time of analysis.

As described in detail in the Financial Condition Assessment, the baseline starts with the County's adopted FY2018 budget, which is balanced in part by using \$1.3 million in prior year reserves (i.e. fund balance). The baseline then applies growth rates calculated based on recent performance, scheduled obligations and other factors described in the Assessment. The baseline projection shows a \$5.3 million deficit in the General Fund beginning in 2019 that grows about \$2.0 million each year through the projection period.

¹ At the time of our analysis the County's most recent set of audited results were from 2016. During our process the County released preliminary, unaudited results for 2017, which showed a surplus that year. County management attributed the surplus to near-term savings from debt restructuring and pension credit created by the County's previous sale of the Friendship Ridge Nursing Home. We discuss the limitations of relying on these factors in the Financial Condition Assessment.

Baseline General Fund Projections (\$ Millions)



	2018	2019	2020	2021	2022	2023
	Budget	Projected	Projected	Projected	Projected	Projected
Total Revenues	\$75.1	\$74.2	\$74.1	\$74.2	\$74.4	\$74.8
Total Expenditures	\$75.1	\$79.5	\$81.5	\$83.6	\$86.0	\$88.4
Surplus / (Deficit)	\$0.0	(\$5.4)	(\$7.4)	(\$9.4)	(\$11.6)	(\$13.5)
Year-End Fund Balance	\$1.1	(\$4.3)	(\$11.7)	(\$21.2)	(\$32.7)	(\$46.3)

Seven key trends drive the recent and projected deficits:

- No. 1: Real estate tax revenues, which account for 75 percent of the General Fund budget in 2018, are generally flat unless the County increases taxes.
- No. 2: Revenue gains in some departmental earnings have been offset by reductions in others, resulting in a pattern that is flat overall and increases the County's reliance on the real estate tax.
- No. 3: Growth in total cash compensation across all employees has flattened since 2012 because of deliberate actions like the 2016 early retirement incentive and base wage freezes for non-represented employees.
- No. 4: Health insurance expenditures grew by 6.4 percent per year from 2012 to 2016, which is faster than the growth in total employee cash compensation and faster than the natural growth in the County's revenues that are available to cover these expenditures.
- No. 5: There has been a lot of volatility in the County's pension contributions, driven in part by the pension credit the County received from selling Friendship Ridge. The County zeroed out the pension contribution for 2018, but we project its return for 2019.
- No. 6: The recent debt restructuring created short-term County budget relief in 2016, 2017 and 2018 but debt service costs will return at higher levels in 2019 and hold there absent any future refunding or restructuring moves.
- No. 7: The County uses its General Fund to subsidize related entities and meet matching requirements for services that are mostly supported by other funds. Revenue and expenditure trends in these other funds create the potential that the County will have to increase its General Fund contributions.

Please see the Financial Condition Assessment for more discussion of these trends.
“Is it really that serious?”

The baseline projection should not be misinterpreted as a prediction of financial disaster.

It is a diagnostic tool to show the size and nature of future deficits **if the County takes no corrective action**. Practically speaking, the County will have to take corrective action. Beaver County is statutorily required to pass a balanced budget each year and it could not sustain the projected deficits in the baseline without exhausting its reserves. The baseline also incorporates assumptions about future tax rates, wage increases, headcount and service levels that are not feasible since they lead to multi-million dollar deficits.

That said, the severity of the problems highlighted by the baseline projection should not be dismissed as “just one scenario.” During our departmental interviews, some people asked questions like, “Are the problems really that serious?” or “Are they any worse than other Pennsylvania counties face?” Doubts about the severity of the problems were bolstered when the County reported a \$4.7 million surplus for 2017 on an unaudited basis after discussing the possibility of debilitating deficits throughout last year.

The County certainly needs to improve its financial reporting process to avoid that kind of year-end surprise. The first recommendation in this plan describes improvements that should give County officials a clearer sense of the government’s financial performance during the year².

External reports, like those generated by credit rating agencies, also provide a useful perspective on how at least one key sector views Beaver County’s finances. When the County refunded some of its debt in September 2017, Standard and Poor’s (S&P) issued a report evaluating the County’s credit rating, which measures the likelihood that the County will be able to pay its debt in full when due.

S&P downgraded the County’s credit rating from A- to BBB+, which is the third lowest rating possible on their scale of investment grade credits. Credits that fall below the tenth slot are considered non-investment grade or “junk bonds”. Beaver County’s drop from A- to BBB+ was the second downgrade in an 18-month span. S&P had previously downgraded the County from A to A- in April 2016 when the County issued another series of bonds.

S&P Credit Ratings as of April 2018			
Grade	Rating	PA Counties	
High	AAA		
	AA+		
	AA	Centre, Franklin, Washington	
	AA-	Allegheny, Butler, Westmoreland	
Upper Medium	A+	Lawrence, Schuylkill	
	A		<i>Beaver (Pre-2016)</i>
	A-		<i>Beaver (2016)</i>
Lower Medium	BBB+		Beaver (Now)
	BBB	Cambria	
	BBB-		
	Non-investment Grade		

² Please see initiative BC01 in the Mission Management chapter.

S&P's credit report cited "weak management," "weak budgetary performance," and "weak budgetary flexibility" as reasons for the downgrade³.

Of the 38 Pennsylvania counties that have received credit rating scores from Standard & Poor's, Beaver County had the third lowest score as of April 2018. The table to the right shows the most recent credit ratings for the neighboring counties and other Counties of the Fourth Class. Beaver is second-lowest among this group.

Credit rating downgrades are a troubling sign with a tangible cost.

Lower credit ratings translate to higher borrowing costs, which means Beaver County now has to spend more money to get the same amount of funding that it would have received with a higher credit rating. *Falling* credit ratings signal that the County is not doing enough to address its problems, at least from the perspective of these observers. Right now Beaver County's credit rating is low and falling.

Beaver County government's financial challenges are real and require deliberate action to fix now. If the County tries to address these challenges solely on a year-to-year basis through its annual budget process, leaders will back themselves into a corner where they will need to implement more severe tax increases, service cuts or both with the sole purpose of remaining solvent.

More than money: From mission to measurement

As noted above, strengthening County government's financial position is the primary goal of this plan, but it should not be the only goal for Beaver County's leaders. County government should strengthen its financial position so that it has the money and resources it needs to fulfill its mission. For that to be true, there first has to *be* a mission that's broad enough to apply to all parts of County government, but specific enough to be meaningful.

We started this engagement by discussing a potential mission statement with the three Commissioners who lead Beaver County government. Each Commissioner emphasized the concept of fiscal responsibility and that County government should be a responsible steward of the resources entrusted to it by its tax payers.

A fiscally responsible government should manage its money well and live within its means. Total recurring expenditures should balance against total recurring revenues in the annual budget.

A fiscally responsible government should manage its physical resources well. There should be a realistic plan to repair and replace County-owned infrastructure.

One Commissioner mentioned the importance of having the financial flexibility to make strategic investments to improve the quality of life for residents. At least one Commissioner emphasized that the County should keep tax rates low and stable.

³ Please see the Debt and Capital chapter for more information.

Based on that discussion and the Financial Condition Assessment, we recommend the following mission statement. This mission statement can and should change over time and it should eventually be broadened to encompass operational goals, but this is a useful starting point.

We strive to be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.

At first glance this mission sounds bland or generic. There are not many elected or appointed leaders to argue against balanced budgets, stable tax rates, infrastructure maintenance or financial flexibility. But the mission statement is meaningful because it elevates those concepts as high priorities.

Right now those priorities do not align with financial reality.

In 2017 the County increased its real estate tax rate by 17 percent to help balance its budget. Coupled with the debt restructuring that reduced associated payments for a couple years and the pension credit related to the Friendship Ridge sale, the tax increase reportedly helped the County generate a \$4.7 million surplus for 2017.

In late 2017 the County adopted a balanced budget for 2018. To do so, the County zeroed out its contribution to the employee pension plan for one year and used \$1.3 million in reserves to cover its anticipated expenditures. The actions that helped the County in 2017 and 2018 – trading lower debt payments now for higher payments later, double-digit tax increases, skipping contributions to the pension plan, using reserves to cover current year expenditures – are not sustainable over the long term. Meanwhile the County's investment in repairing and replacing its core infrastructure remains modest at \$700,000 in 2018 and there is no meaningful plan in place to fund needed capital improvements beyond that.

In addition to highlighting the shortfall between aspirations and the current situation, the mission statement also helps us identify specific obstacles to achieving this mission so the County can build consensus around strategies to overcome them. The Action Plan describes five major financial obstacles and provides recommendations to start to address them.

- **Flat tax base, flat tax revenues:** The County cannot keep its budget in balance, let alone make any meaningful investment in its own infrastructure or economic development, if real estate tax revenues do not grow. Short of repeated tax rate increases, that revenue will not grow unless the assessed value of taxable property does. Beaver County government cannot control the timing or volume of real estate development within the County's borders, but it should focus its efforts on attracting real estate development and collecting tax revenue when it is due.
- **Reliance on the real estate tax:** Pennsylvania county governments depend heavily on the real estate tax to fund operations. Commonwealth law does not allow Beaver County to levy a sales or income tax. There are still steps that the County can take to increase its non-tax revenues so it can marginally reduce its dependence on one slow-growing

source of income and achieve cost recovery for services that are expected to “pay for themselves.”

- **Compensation growth outpacing revenue growth:** Employee compensation accounts for the majority of Beaver County’s budget. That is not unusual since county government services are labor intensive. Because Beaver County depends on one source of revenue that does not grow rapidly from year to year without tax increases, the County has to monitor its spending on employee compensation closely, particularly headcount and the volatile cost of health insurance. At the same time, it needs to offer competitive wages and benefits to maintain a high-quality, talented workforce.
- **High debt burden:** Beaver County’s spending on debt per capita was much higher than its peer Counties of the Fourth Class in 2015. The County restructured its debt to lower scheduled payments in 2016, 2017 and 2018, but starting in 2019 the County’s scheduled debt payments will rise to become higher than they were before the restructuring. This debt problem is compounded by the County’s relatively low credit rating, rising interest rates, and the potential for new debt to fund Court-ordered reassessment.
- **Lack of resources for capital projects:** All elected and appointed officials interviewed during this process understand the importance of investing in the infrastructure, facilities, hardware and software and vehicles that County government and County residents use every day. The answer to the question, “How much should the County invest in these assets” is subjective⁴, but it is certainly more than the \$700,000 allocated in the 2018 budget.

It is unlikely the County will be able to afford a lot of debt-supported capital projects in the next couple years. So, if the County is serious about investing in its infrastructure – even just to maintain and replace the facilities and vehicles already in service – it will have to find room in its operating budget for some amount of “pay-as-you-go” capital projects. Since the County’s budget is narrowly balanced for 2018, with flat revenues and rising expenditures, this means that the County must change what services it provides, as much as statutory requirements will allow, and how it provides them to create room in its budget for more spending on infrastructure.

Where do we start: Ten priority initiatives

The financial problems that push Beaver County’s budget out of balance did not begin during the last two years and they will not be completely resolved in the next two years. County leaders can find some consolation in knowing that many Pennsylvania county governments face the same imbalance between flat property tax revenues and growing personnel expenditures, since most counties have the same taxing powers and same core set of services that they are required to provide under Pennsylvania law.

However, Beaver County should not let that context lead to complacency. As noted earlier, this County’s debt burden is higher, its spending on capital projects is lower and its credit rating is

⁴ Please see our analysis in the Debt and Capital chapter for one estimate for what the County should spend on capital improvements and its shortfall relative to that target in 2016.

weaker than other Pennsylvania counties that largely have the same constraints. The County should not be content to be at the lower end of the rankings.

The final section of this plan has one chapter devoted to each of the five obstacles listed above with recommendations to help the County overcome them. Here are 10 priorities drawn from that section to sharpen the County leaders' focus for the next 18 months:

1) Improve financial reporting (BC01 – See Mission Review chapter)

Without a shared understanding of the County's current financial position and its performance throughout the year, it will be very difficult to build consensus to make the hard decisions ahead. The County should produce and publish monthly cash flow reports, quarterly budget-to-actual reports and periodic updates to the multi-year projections.

2) Hire a Chief Administrative Officer (BC02 – See Mission Review chapter)

Pennsylvania counties commonly have a Chief Administrative Officer who reports to the Commissioners and oversees operations. While the specific title and duties vary by place, this position exists in Butler, Cambria, Fayette and Washington counties. At the time of publication Beaver County had a vacancy here and in the Finance Administrator position. The success of any strategy hinges on rebuilding this capacity at the top of the organization.

3) Evaluate the cost of proposals to calculate savings during collective bargaining (CC01 – See Compensation Cost Control chapter)

The Board of Commissioners has a unique opportunity and critical responsibility for the upcoming round of collective bargaining. Seven of the nine collective bargaining units have labor contracts that expire at the end of 2018 or 2019. The County needs to use the upcoming negotiations on the next contracts to achieve savings relative to the baseline projection and know with quantified certainty that it has done so. The County should evaluate the cost of its own proposals and the union's proposals that impact cash compensation and employee health insurance (see No. 5 below).

4) Carefully manage headcount to realize savings from the 2016 early retirement incentive (CC02 – See Compensation Cost Control chapter)

In 2016 the County offered an early retirement incentive to employees so it could reduce headcount and associated expenditures through attrition. The County's spending on base salaries dropped by \$0.7 million in 2016, but the cash incentive paid to program participants was also \$0.7 million⁵. Those incentive payments continue at lower levels until 2020 when they fall to zero. The savings created by the headcount reduction should continue into the future, but only if the County manages headcount carefully.

⁵ There were additional savings in employee health insurance expenditures that are hard to quantify because of the County's budgeting methodology. There were also additional expenditures on part-time employees who were hired after the full-time employees left.

5) Manage growth in employee health insurance expenditures (CC05 – See Compensation Cost Control chapter)

Spending on employee health insurance has grown faster than the natural growth in the revenues that are available to pay for it. Health insurance expenditures have also grown faster than total employee cash compensation. The County and its unions should have some shared interest in curbing this growth that makes it harder for the County to fill vacancies and provide salary increases. Most significant changes to union employees' health insurance require collective bargaining, and the upcoming negotiations provide the opportunity to do so.

6) Improve current year real estate tax collection rates (TR03 – See Boosting Tax Revenue chapter)

Compared to other Pennsylvania counties, Beaver County collects a relatively low percentage of its real estate tax revenues in the year when they are due. The Beaver County Treasurer's Office has other responsibilities in addition to current year tax collection and it operates under the constraints set by Pennsylvania law. But this is also true of other Pennsylvania counties that often post higher current year collection rates. Incremental improvements in the collection rate translate to hundreds of thousands of dollars in additional revenue. We encourage all officials involved in this process to discuss how the County can improve its performance here.

7) Improve cash management through the auditing process (RD04 – See Revenue Diversification chapter)

In August 2017 the Beaver County Controller released an audit of the County Recreation Department with recommendations to improve how the County collects, secures and ultimately deposits cash payments. The County should use this process as a guide for auditing other agencies and row offices with a large volume of cash transactions, including the Treasurer's office, and then make the changes recommended.

8) Set aside money in the 2019 budget for a facility condition assessment (Part of DC03 – See Debt and Capital chapter)

The County needs to invest more in replacing and repairing its facilities, equipment and other capital assets. While it is unlikely that the County will be able to afford a lot of new debt-funded capital projects in the near future, it should be able to execute some priority projects on a "pay-as-you-go" or grant-funded basis. The County cannot prioritize its needs unless it has a better handle on what all its needs are. The Recreation Department evaluated its needs for the County parks and recreation system and the Liquid Fuels Manager has information on the County-owned roads and bridges. The County should set aside money in the 2019 budget to do a similar condition assessment of County-owned buildings. Subsequently, the County should set up an annual capital review that prioritizes those needs and matches priority needs with funding sources.

9) Improve cost recovery at Brady’s Run Park Ice Arena (PP03 – See Prioritization and Process Efficiency chapter)

One of the most frequent issues raised during our departmental interviews was whether the County should continue to own and operate this facility. Some interview participants noted that running an ice arena is not a core or mandatory function for a county government. Others noted that the arena provides a valuable quality-of-life amenity that should not be abandoned for short-term financial gain. We believe these two positions are not mutually exclusive. The County can get out of the business of running the ice arena and eliminate the operating deficits it incurs, while ensuring that it continues to be a community amenity. The Recreation Department commissioned a separate study that provides a strategy to do so and we encourage the Board to meet with the study author to learn more about its options.

10) Review subsidies and contributions to external organizations for potential reductions (PP04 – See Prioritization and Process Efficiency chapter)

The County allocates a portion of its General Fund budget to support other organizations that are related to County government but separate from it. We were asked whether County government should continue to make these contributions when its own financial situation is precarious. The first step to answer that question is reviewing the agreements or statutes that govern those contributions and determining whether the County can reduce its contribution. Then the County should speak privately with those organizations about the potential impact of a reduced contribution and alternative sources of funding. Ideally this should occur before the 2019 budget process begins so there is a clear understanding what flexibility the County has before individual contributions are discussed in public meetings.

While we recommend these initiatives as priorities for the next 18 months, they are not the only initiatives that the County should pursue. The six chapters that comprise the Action Plan describe other longer term initiatives. The County also anticipates receiving another Commonwealth grant through the same Early Intervention Plan program that funded this work, which could help fund implementation efforts for this plan or related efforts, like updating the comprehensive plan to facilitate economic development.

In just a few months the Board of Commissioners will begin its FY2019 budget process and the financial challenges described in this report will take on a heightened sense of urgency. The County will start work on a budget that ultimately has to balance available revenues against anticipated expenditures, even though the former naturally grows more slowly than the latter.

The largest source of revenue is essentially stagnant absent tax increases. The County’s debt payments are scheduled to increase in 2019 and County leaders have already been advised by their actuary not to zero out the employee pension plan contribution again in 2019. So it is reasonable to assume that the \$1.3 million gap between revenues and expenditures in the 2018 budget will be larger in 2019. That does not account for the negotiated raises for two unions with contracts covering 2019; potential increases in employee health insurance costs; or general inflationary pressures.

The County has historically used a mix of short- and long-term fixes to maneuver its way through the annual budget process, usually with a view to passing a budget that gets County

government through the next 12 months. This year Beaver County needs to take a multi-year perspective that emphasizes solutions with a recurring benefit so the actions taken in 2019 also help in 2020, 2021 and into the future. The initiatives described in the final section of this plan have that multi-year perspective.

The County's leaders need to take action on a multi-year strategy that puts County government on course to be the kind of government the Commissioners described at the start of this process – one with a structurally balanced budget, stable tax rates, a meaningful capital improvement plan and some flexibility to make targeted investments where it improves the quality of life for its residents.

Then Beaver County government will also be strong enough to help attract the kinds of economic development that public and private sector leaders envisioned when Shell made its announcement in 2016.

Financial Condition Assessment

At the start of this process Beaver County government issued a request for proposals that succinctly described its difficulty balancing its budget.

The county's government has experienced three years of structural deficits and it has extensive capital improvement and replacement costs. The County Commissioners have cut costs and the County still struggles to provide the same level of County services due to the cost of wages and employee benefits.

Beaver County had a deficit in its primary operating fund in three of the five years we reviewed (2012 through 2016¹). The County used one-time measures to achieve a surplus the other two years – a one-time \$26.6 million payment when the County sold the Friendship Ridge nursing home in 2014 and a debt restructuring in 2016 that created near-term budgetary relief in exchange for higher debt payments later.

As required under the terms of Pennsylvania's Early Intervention Program, the County requested a "Financial Condition Assessment...as a means to establish a realistic baseline of the County's historic and financial condition." In addition to establishing a baseline projection, this chapter answers three questions that should shape future financial, operational and strategic decisions:

- Are the County government's recurring revenues expected to cover recurring expenditures?
- How large are any projected deficits, and how much will they be expected to grow over the projected period?
- What are the key trends in revenues and expenditures, which will drive the County's financial position?

The reader should remember two important points when reviewing the baseline projection:

- **The baseline projection presents a *status quo* scenario.**

Under the *status quo* scenario, the projections assume no significant changes in the County's policies or operational structure. For revenues, this includes the assumption that there will be no increases in the real estate tax rate, or changes in charges for service levied by the County's departments. Unless explicitly noted in the sections below, revenue growth will be related to expected growth in the underlying tax base, or the volume of fees charged. Grant revenues are removed after the expiration of existing grants, or they are held flat to account for revenues that are passed through to other service providers.

For the County's expenditures, the baseline projections assume no changes in the levels of service provided by the County's departments and row offices. The projections do not assume changes in headcount or new hires, other than those needed to fill vacant positions. Salary increases are projected based on the pattern of wage increases that have been negotiated by bargaining units in previous years.

¹ We conducted our review during the second half of 2017. The County reported a \$4.7 million surplus for 2017 based on preliminary unaudited numbers, which we address later in this chapter.

These key assumptions will be discussed in further detail later in the chapter.

- **The baseline projection is not a prescription for the County's financial policies, nor is it a prediction of future annual results.**

The baseline projection contains assumptions about the County's future tax rates, wage increases, and service levels assuming no changes to the current structure. These are not recommendations for what these elements should be or what they will be through 2023. Practically speaking, the County will have to take corrective action. Beaver County is statutorily required to pass a balanced budget each year and it could not sustain the projected deficits in the baseline without exhausting its reserves. The baseline also incorporates assumptions about future tax rates, wage increases, headcount and service levels that are not feasible since they lead to multi-million dollar deficits.

The baseline projection is a diagnostic tool to show the size and nature of future deficits **if the County takes no corrective action**. Practically speaking, the County will have to take corrective action. Beaver County is statutorily required to pass a balanced budget each year and it could not sustain the projected deficits in the baseline without exhausting its reserves. The assumptions about future tax rates, wage increases, headcount and service levels that are not feasible since they lead to multi-million dollar deficits.

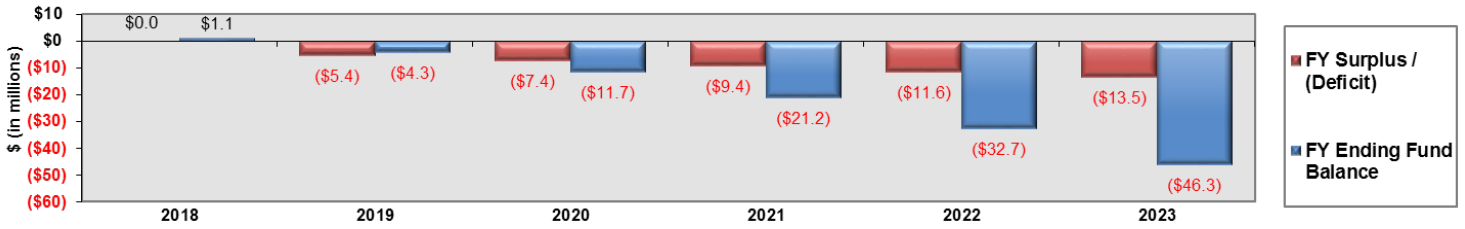
The baseline projection starts with the County's 2018 budget as adopted by the Board of Commissioners in December 2017 and then runs five years through 2023. The baseline shows the County's projected annual operating results in the General Fund, which is the primary fund where the County receives real estate tax revenues and funds most departments' operations². The County will have a surplus when its General Fund revenues exceed General Fund expenditures and a deficit when the opposite is true. As shown in the chart and table below, the baseline projection shows a deficit of \$5.3 million in the County's General Fund beginning in 2019 and growing \$1.9 to \$2.2 million each year until 2023.

The baseline then takes the projected surplus or deficit and applies it to the County's fund balance, which is an accounting measure of the resources available at the end of one year (or very early in the next) to pay for the next year's expenditures. The 2016 Comprehensive Annual Financial Report showed a very minimal non-restricted fund balance of only \$0.6 million³. The 2017 budget had a \$1.7 million positive difference between revenues and expenditures that would have taken the County's total fund balance to \$2.4 million entering 2018. The 2018 budget uses \$1.3 million from that fund balance to cover this year's expenditures, leaving \$1.1 million in fund balance at the end of 2018. That is the starting point for the baseline projections.

² The County has separate funds for a couple departments, like Domestic Relations and Children and Youth. We address those separately at the end of the chapter.

³ See 2016 CAFR, page 44. The \$0.6 million excludes \$6.2 million in fund balance restricted to specific purposes (mostly debt repayment) and \$0.2 million in non-spendable items. We are not including the restricted fund balance because, by definition, it cannot be used to pay for all types of future obligations.

Baseline General Fund Projections (\$ Millions)



	2018	2019	2020	2021	2022	2023
	Budget	Projected	Projected	Projected	Projected	Projected
Total Revenues	\$75.1	\$74.2	\$74.1	\$74.2	\$74.4	\$74.8
Total Expenditures	\$75.1	\$79.5	\$81.5	\$83.6	\$86.0	\$88.4
Surplus / (Deficit)	\$0.0	(\$5.4)	(\$7.4)	(\$9.4)	(\$11.6)	(\$13.5)
Year-End Fund Balance	\$1.1	(\$4.3)	(\$11.7)	(\$21.2)	(\$32.7)	(\$46.3)

In early 2018 the County reported a \$4.7 million surplus for 2017 on an unaudited basis. If that result holds up through the County’s external audit process, it would increase the fund balance entering 2018 and all subsequent years by \$3.0 million (i.e. the difference between \$4.7 million actual and the \$1.7 million budgeted). So the County would end 2018 with \$4.1 million in fund balance instead of \$1.1 million.

That stronger starting point would certainly be welcome, but it would not change the fundamental dynamic shown in the baseline projection.

According to the County’s former Financial Administrator, the \$3.0 million positive variance between the 2017 budget and the unaudited results was because of better-than-expected savings from the 2017 debt restructuring and a pension credit related to the sale of the Friendship Ridge nursing home. We discuss both of those elements later in this chapter, but in short the first one is not recurring and the second one is volatile enough that the County’s actuary is not willing to project what that “revenue” will be in the future. So the County shouldn’t count on having that \$3 million positive swing in the future.

Even if the County’s results *were* \$3 million better than projected every year, that would still not be enough to erase the projected deficit in any year. The County has a structural deficit, meaning recurring revenues are not sufficient to cover recurring expenditures and total expenditures are growing at a faster rate than total revenues.

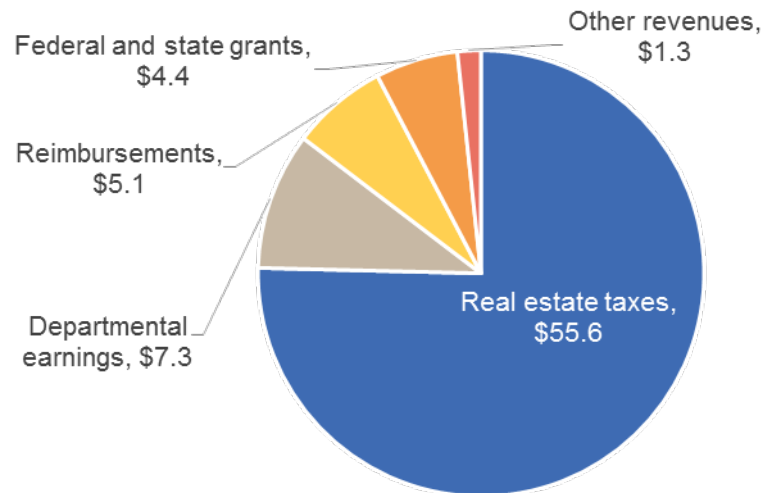
The rest of the chapter describes this structural deficit in detail.

Revenues

The County's 2018 General Fund budget includes revenues of \$73.7 million, excluding the use of \$1.3 million in budgetary reserves. Current and delinquent real estate taxes account for \$55.6 million, or over 75 percent, of the total budgeted revenues.

Between 2012 and 2016, the County's General Fund revenues grew from \$64.4 million to \$69.5 million, which is equivalent to a compound annual growth rate of 1.9 percent. The table below shows the County's General Fund revenues for 2012 to 2016.

General Fund Revenues (\$ Millions)



General Fund Revenues⁴

	2012	2013	2014	2015	2016	CAGR
	Actual	Actual	Actual	Actual	Actual	4-Year
Real estate taxes	46,172,675	46,392,084	47,462,979	47,840,972	47,687,188	0.8%
Departmental earnings	7,778,155	7,596,874	7,890,838	7,702,859	7,513,200	(0.9%)
Reimbursements	4,392,942	4,087,358	3,762,879	4,213,702	4,680,616	1.6%
Federal and state grants	4,213,492	3,526,599	3,649,774	3,484,146	4,100,322	(0.7%)
Other revenues	1,857,522	2,225,038	2,157,310	3,763,095	5,518,322	31.3%
Total Revenues	64,414,785	63,827,953	64,923,780	67,004,774	69,499,647	1.9%
Annual Growth	N/A	(0.9%)	1.7%	3.2%	3.7%	

The relatively large increases in 2015 and 2016 revenues were due to a pension credit related to the County selling the Friendship Ridge nursing home facility. That credit accounts for \$3.6 million recorded under "other revenues" in 2015 and \$3.2 million in 2016. The credit is discussed in more detail later in the chapter. If that pension credit is excluded from the results, the compound annual growth in revenues would fall to 0.7 percent over this period.

Real estate taxes

Real estate taxes are the County's largest source of General Fund revenue, accounting for over 75 percent of the 2018 budget. It is not unusual for a Pennsylvania County government to receive two-thirds to three-quarters of its budget from this source. By Commonwealth law most county governments, including Beaver, cannot levy a sales or income tax.

In 2018, the County's real estate tax millage rate was 26.0 including 1.0 mill for debt service. Since 2008 Beaver County has only had one tax rate increase, a 3.8-mill (or 17 percent) tax

⁴ Many of the tables in this report use the historical period from 2012 through 2016 or the forward-looking period from 2018 through 2022. We also reviewed the 2017 budgeted figures, but most of our analysis occurred during the 2018 budget process and the projections apply growth rates to the 2018 budget. At that point the County did not have 2017 year-end results.

increase in 2017. In comparison to nearby Pennsylvania counties of the fourth class, Washington County is the only other county to increase its tax rate once from 2008 through 2017 and Beaver had the second lowest rate increase in the group shown below. The table below shows tax increases highlighted in red and tax decreases highlighted in green.

County Tax Millage Rates from 2008 - 2017

	Beaver County	Butler County	Cambria County	Fayette County	Washington County*
Total real estate millage in 2008	22.200	30.000	23.250	3.514	21.400
Total real estate millage in 2009	22.200	23.628	26.900	3.514	21.400
Total real estate millage in 2010	22.200	23.628	26.900	3.514	24.900
Total real estate millage in 2011	22.200	23.628	29.500	3.514	N/A
Total real estate millage in 2012	22.200	23.628	29.500	4.514	24.900
Total real estate millage in 2013	22.200	24.628	29.500	4.514	24.900
Total real estate millage in 2014	22.200	24.628	29.500	4.514	24.900
Total real estate millage in 2015	22.200	24.628	29.500	4.514	24.900
Total real estate millage in 2016	22.200	27.628	34.500	5.514	24.900
Total real estate millage in 2017	26.000	27.626	34.000	5.514	2.430
% Change	1.8%	(0.9%)	4.3%	5.1%	N/A
Number of tax decreases	0 of 9	2 of 9	1 of 9	0 of 9	0 of 7
Number of tax increases	1 of 9	2 of 9	3 of 9	2 of 9	1 of 7

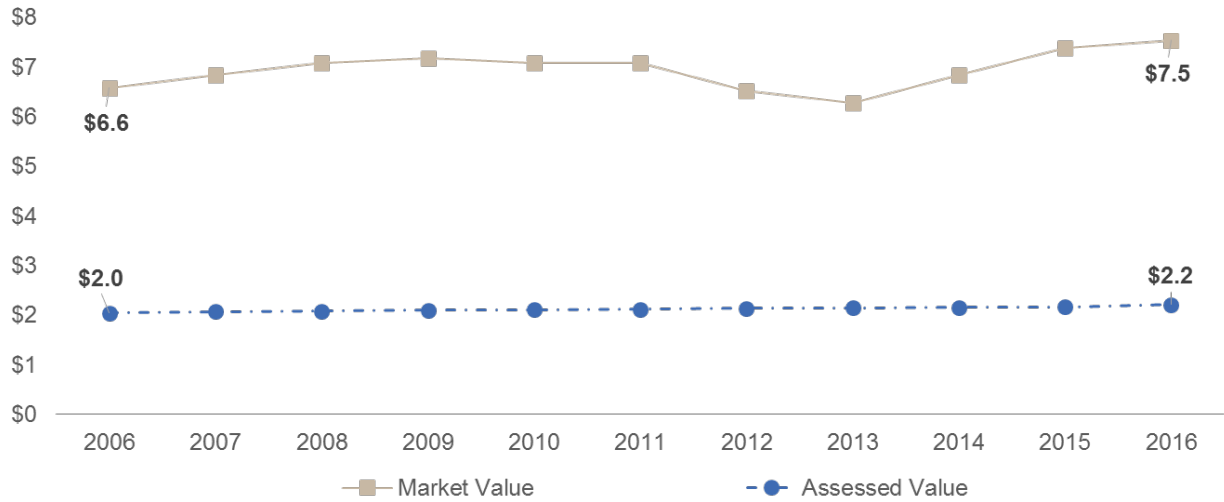
* Washington County completed reassessment in 2017, resulting in the apparent tax rate reduction.

Another major variable in the County's real estate tax revenues is the tax base. Like other Pennsylvania Counties, Beaver County does not tax the current market value of land or buildings. It taxes the assessed value of taxable property and the County assesses properties at 50 percent of the base year in 1982, which is the last time there was a complete reassessment of property values throughout Beaver County.

In 2015 a developer filed a complaint in mandamus with the Beaver County Court of Common Pleas claiming that the 1982 base year methodology violates the Pennsylvania constitution by not uniformly and accurately reflecting assessed value for all parcels in the County. As of June 2018 the litigation was still ongoing.

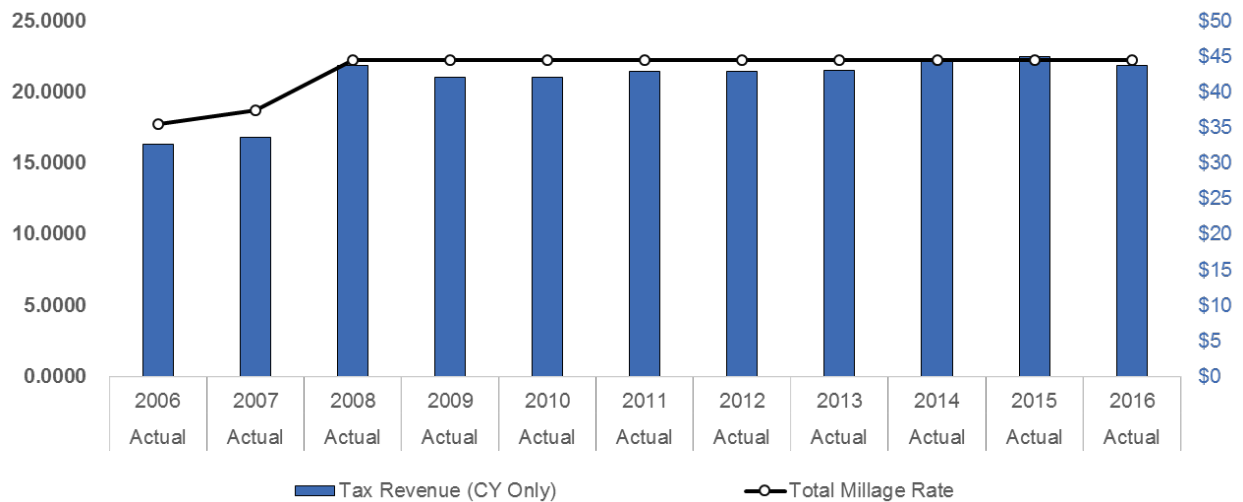
The total assessed value of taxable property has been essentially flat for the last decade, growing from \$2.0 billion in 2006 to \$2.2 billion in 2016. That translates to 1.0 percent annual growth and just 0.6 percent since 2011. The market value of taxable property has grown a little more, from \$6.6 billion to \$7.5 billion (or 1.4 percent annually), but that growth doesn't carry over to tax revenues since the County's last reassessment was in 1982.

Market and Assessed Value of Taxable Property (\$ Billions)



Since the total assessed value of taxable property in Beaver County is not growing, the County's real estate tax revenues generally only increase when tax rates do. Current year real estate taxes grew by 3.0 percent when the millage rate was increased in 2007, and an additional 30.3 percent in 2008 when the millage rate was increased further. Otherwise the County's real estate tax revenues have been relatively flat since 2008.

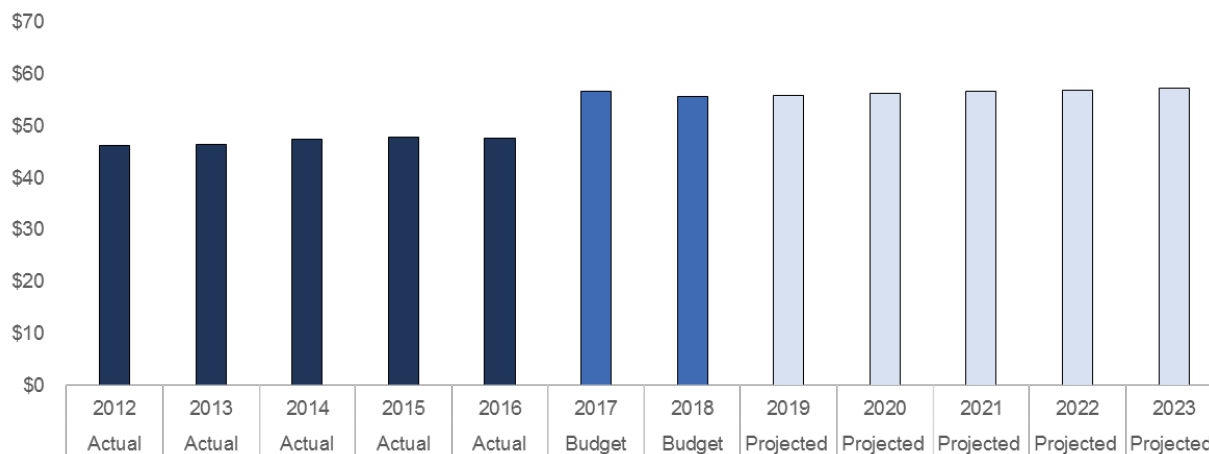
Real Estate Tax: Rate (Mills) versus Revenue (\$ Millions)



Key trend 1: Real estate tax revenues, which account for 75 percent of the General Fund budget in 2018, are generally flat unless the County increases taxes.

By definition the baseline projection shows the County’s revenues in a *status quo* scenario that assumes no future real estate tax increases. The 2017 tax increase will eventually translate to higher revenues from delinquent real estate taxes, but then those revenues will also be flat absent any changes to the collection rate. The County reduced its budget target from 2017 to 2018 because delinquent tax revenues were lagging behind the budgeted pace. The baseline projection assumes 0.6 percent annual growth for current year tax revenues off the 2018 budgeted amount and the same growth rate for delinquent tax revenues after 2019.

Real Estate Tax Revenues (\$ Millions)



What about the cracker plant?

One of the primary reasons that Beaver County pursued and received Commonwealth grant funding for this multi-year financial plan was the decision by Shell Chemical Appalachia to build a petrochemical complex within the County’s borders in Potter and Center Townships.

Public and private sector leaders in Southwestern Pennsylvania have hailed that decision as “transformative,” “a game changer” and a “shot in the arm.” The Pennsylvania Department of Community and Economic Development (DCED), which is funding our work, was an active partner in the effort to convince Shell to locate its plant in Beaver County.

The primary use for Shell’s complex is a cracker plant and three related units where ethylene liquid gas will be converted to polyethylene pellets that can in turn be used in pharmaceutical, industrial chemical and plastic manufacturing. Shell will also build a power plant, a wastewater treatment plant and a loading dock at the site.

This process tracks back to at least 2011 when Shell announced that it would evaluate sites in Appalachia for a facility that could take advantage of the natural gas in the region. Shell purchased the site from Horsehead zinc smelter, demolished the abandoned factory, and successfully obtained air and wastewater permits for the cracker plant. In June 2016 Shell announced that it would begin construction on the plant in Beaver County with the plant beginning production sometime after 2020.

Press reports frequently cite 6,000 construction jobs to build the complex and then 600 permanent jobs at the site. Regional economic development experts cite the potential for the cracker plant to be a catalyst for related manufacturing growth since proximity to the polyethylene pellets makes the region more attractive to plastic manufacturers.

Growth in the manufacturing industry and the professional services that support it (e.g. engineering, architecture) could potentially lead to spinoff growth ranging from additional office space to new hotels for housing construction workers to retail and service sector growth.



While there is consensus that the cracker plant and spinoff activity should be an economic boost for the region, it is less clear to what extent that benefit will accrue specifically to Beaver County. Predictions on how the cracker plant will impact property values, create new jobs or increase economic activity usually refer to the region as a whole, not Beaver County specifically. Some new businesses will likely move into the region because of opportunities created by the Shell complex, but that does not mean they will need to locate in Beaver County to capitalize on those opportunities. Some spinoff growth will likely occur in other Pennsylvania counties, Ohio or West Virginia.

County government leaders emphasized that Beaver County has to be prepared to take advantage of opportunities to host spinoff development, including having the infrastructure (e.g. water, wastewater, telecommunications) and development-ready sites.

Based on our conversations with Commonwealth and County officials, the plant's potential impact on County government's bottom line is hard to predict and likely years away. Construction at the plant site is underway, but the plant won't be operational for years. Plus, County governments, including Beaver, receive most of their revenue from the real estate tax. New jobs and increased economic activity would certainly be welcome and impact the broader economy, but Beaver County government itself does not have a sales⁵ or income tax.

The most direct impact on County government would come from growth in the assessed value of taxable property. Media reports cite the cracker plant as a \$6 billion dollar project, but the project sits in an expanded Keystone Opportunity Zone (KOZ) where real estate tax revenues are abated. The County will receive a \$100,000 annual payment-in-lieu-of-taxes from Shell that has been incorporated in our projection.

One State economic development official noted that the price of industrial land very close to the cracker plant is rising because buyers are purchasing other properties. But the economic benefit of that activity depends on whether the purchases are backed by an intention to invest in them or

⁵ Beaver County does have a hotel/motel tax and plant construction has increased demand for temporary housing for the construction workers working at the site, which has partially been met through hotel construction. The hotel/motel tax revenue cannot be used to support County government's daily operations according to the Commonwealth law authorizing the tax. Workers who reside in Beaver County for more than 30 days are not subject to the tax.

more speculative purchases in the hopes of selling the land to another developer. The benefit to County government depends on whether those properties have tax abatements via the KOZ. This particular official indicated that there would need to be additional petrochemical development in the area, other than this cracker plant, to have a meaningful, long term impact on the industrial real estate market for Beaver County as a whole.

He also theorized that the plant's impact on the residential real estate market would be meaningful at the local level – for example new housing units placed at renovated properties in Aliquippa – but not large enough to change the flat trajectory across the County as a whole.

Beaver County government will benefit more from the real estate development spurred by spinoff development. The financial and economic experts we interviewed agreed that spinoff growth would mostly occur after the plant begins operations sometime after 2020, potentially at the very end or after our projection period.

From Beaver County government's perspective, the key to development-related revenue growth is to have several projects occur in the County since the impact of any individual project on the County's budget is small. If there was \$10 million in new development in Beaver County, it would be valued at approximately \$2.6 million in 1982 based on the County's common level ratio calculated by the State Tax Equalization Board, and that would generate less than \$70,000 a year in new County tax revenue.

In short there is good reason for optimism about the economic impact that the cracker plant and related development will have on the region, including Beaver County government. Planning, economic development and finance officials in County government should work together to track that development and increase the revenue estimates beyond what is in the baseline as they learn more about the timing, type and volume of spinoff development.

Departmental earnings

Departmental earnings generate the second largest amount of revenue for the County's General Fund, budgeted at \$7.3 million (or 9.8 percent) for 2018. These revenues come from a variety of service charges and fees collected by the County's row officers and departments.

Five departments or offices generate more than half of the departmental earnings total:

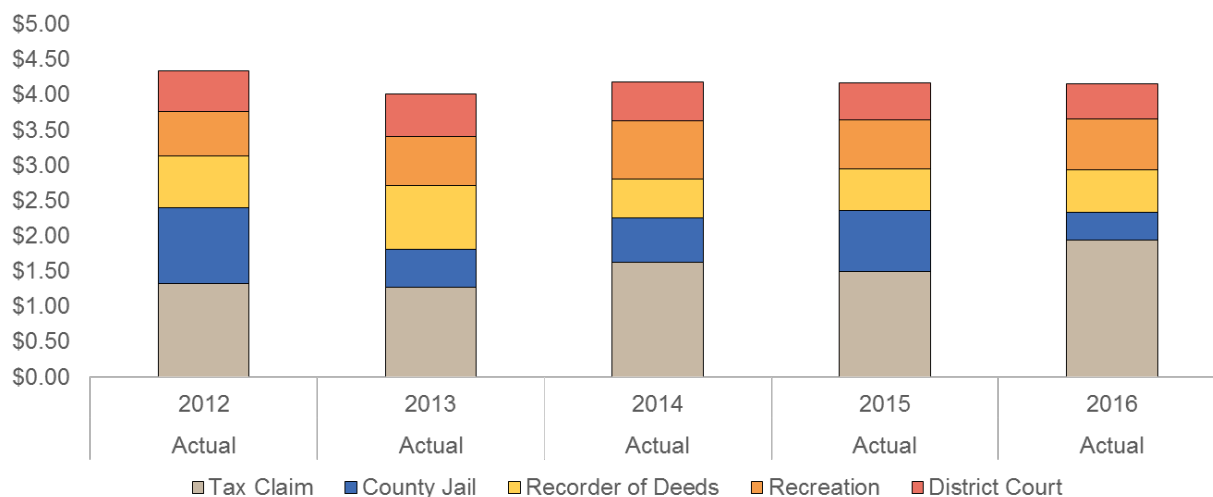
- The **County Tax Claim office** generates \$1.0 million to \$2.0 million a year by collecting delinquent real estate taxes on behalf of most municipalities and school districts in Beaver County⁶. Please note that this is separate from the delinquent real estate tax revenue that the Office collects for the County's own tax bills. The Tax Claim Office's largest sources of revenues are the tax claims costs charged back to the individual municipalities and school district (\$1.3 million in 2018) and a five percent commission that the County receives for pursuing delinquent accounts (\$450,000 in 2018). Tax claim cost revenues tend to run in two- or three-year cycles (down for one or two years, up for one) because of the payment plan agreements, though a couple large accounts can throw off the trend.

⁶ Three school districts and one municipality use a separate private tax collector for delinquent real estate taxes. The County still receives a commission from the external collector for these delinquent accounts.

- The **Department of Recreation** generates revenue by charging admission to the Brady's Run Park Ice Arena, renting ice time to organizations at that facility or renting facilities at the County parks. The revenues have fluctuated between \$630,000 and \$820,000 in recent years and the County budgets \$728,000 for them for 2018⁷.
- The separately elected **Recorder of Deeds** collects revenues by charging fees for the preparation and maintenance of property ownership records.
- The County has eight **Magisterial District Courts** that have jurisdiction over minor criminal offenses, traffic violations and other civil actions where the amount of damages is \$12,000 or less. These District Courts also hold preliminary hearings for misdemeanor and felony cases. Receipts from these courts dropped each year from 2013 through 2016. The County budgets \$499,000 in 2018.
- The **County Jail** generated \$0.3 million in 2016, down from \$1.1 million in 2012 because of the end of the inmate programs at the state and federal levels. The County budgets \$310,000 in 2018.

While revenues from some departments, like Tax Claim and Recreation, grew from 2012 through 2016, revenues from others fell, like the District Courts and the County Jail, resulting in a net annual growth rate of -0.9 percent over this period.

Departmental Revenues for Five Largest Categories (\$ Millions)



Key trend 2: Revenue gains from some departmental earnings have been offset by reductions in others, resulting in a pattern that is generally flat and increases the County's reliance on the real estate tax.

The baseline projection applies growth rates based on the County's revenue performance from 2012 through 2016 and the input of the row officers and department directors for larger items. In some cases, like most of the fees charged by the Recorder of Deeds, the revenue comes from

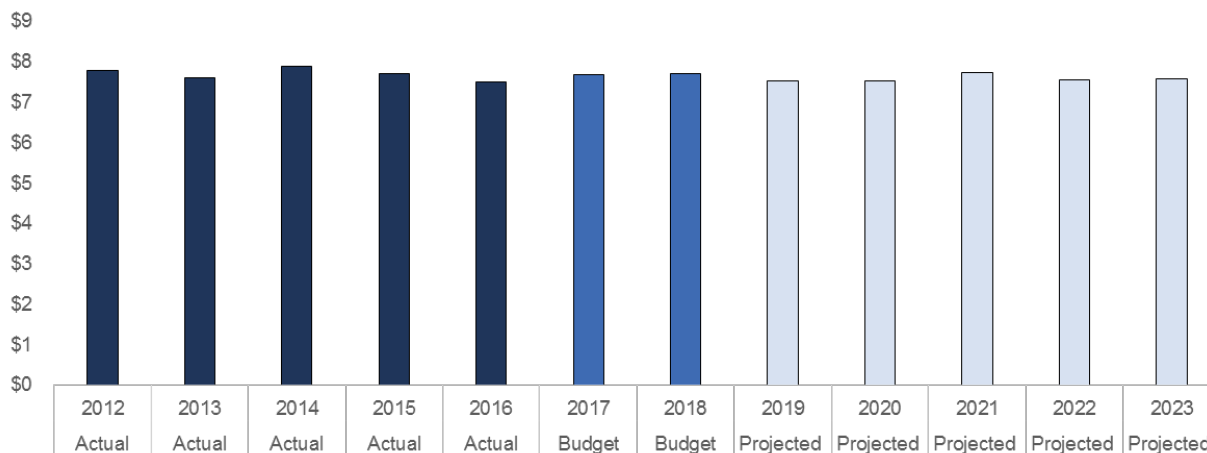
⁷ There is an additional \$58,000 generated at the County Pool not counted here. Please see initiative PP01 in the Prioritization and Process Efficiency chapter for more information.

fees set by Commonwealth law. The baseline holds the projected revenues flat at 2018 levels because Beaver County itself cannot change them and the historical trend does not show a clear pattern. The Prothonotary’s Office, which generates close to \$0.5 million, has the opportunity to do an inflationary increase to its fees in 2019 at the discretion of the County’s president judge, but we have not assumed that will occur in the baseline.

For other revenues, like those collected by the Clerk of Courts, the total receipts are split between several levels of government and funds according to the law that governs them. For that particular office, the County is allowed to enact inflationary increases every three years but the portion of the revenues that flow to the General Fund has been generally declining, so the inflationary increase will just keep the overall trend flat.

In cases where the Board of Commissioners controls the fee levels and revenues have generally grown, like the fees charged by Recreation, the baseline assumes an inflationary growth rate of 2.3 percent per year. The baseline assumes District Court revenues will continue their recent decline.

Departmental Earnings (\$ Millions)



Reimbursements

Beaver County is able to charge the cost of some services provided through the General Fund to other funds. Those funds repay the General Fund through reimbursements. The largest reimbursement comes from the Emergency 911 Center Fund that receives phone surcharge revenue and then reimburses the General Fund for the cost to operate that center. The E911 reimbursements increased from \$1.6 million to \$2.2 million in 2015 when the Commonwealth changed the law authorizing these surcharges⁸. The change took effect midway through 2015 so surcharge revenues (and the reimbursement to the General Fund) increased to \$2.4 million in 2016. The County budgets \$2.3 million for this revenue line in 2018. The baseline projects these revenues will grow by 2.2 percent per year, which is close to the historical growth trend before the Commonwealth changed the surcharge structure in 2015.

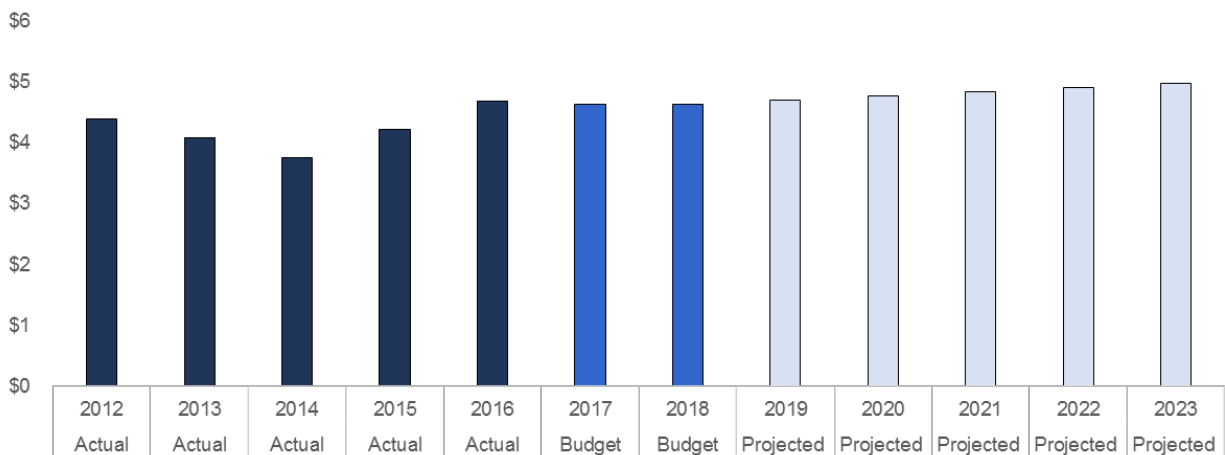
The other large reimbursement comes from the separate Children and Youth Services Fund. In 2018 the County budgets \$700,000 for this reimbursement to the Juvenile Probation Department

⁸ The Commonwealth changed the monthly surcharge from different amounts for landlines, cell phones and Voice over Internet Protocol (VoIP) to one higher flat fee of \$1.65 a month for all service.

for the placement of delinquent youth. The baseline projects that these reimbursement revenues will grow by inflation as a proxy for the rising cost of providing these services.

Total reimbursement revenues dropped from 2012 to 2014 and then rose in 2016. The decrease was the result of the timing and amount of reimbursement to the General Fund for tax claim postings, which dropped from \$207,000 in 2012 to \$0 in 2014. The aforementioned increase in the E911 reimbursement in 2015 and the return of the tax claim reimbursement in 2016 brought revenues back to \$4.7 million in 2016. Because some reimbursements have already reached their maximum allowed amounts, the baseline projects that total reimbursement revenues will grow by 1.4 percent per year.

Reimbursements (\$ Millions)



Federal and state grants

Beaver County receives money from the federal and Commonwealth government to fund specific projects or cover costs for services covered by the grants.

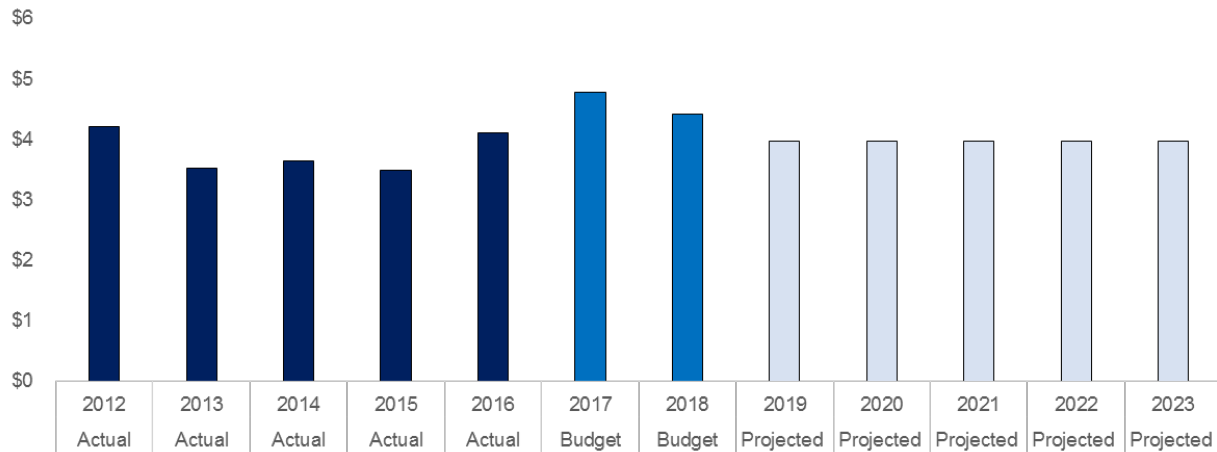
On the federal side, the largest regular allocation is the medical assistant program grant that funds some of the medical transports for Medicaid patients handled by the Beaver County Transit Authority (\$949,000 budget in 2018). The County receives this money and then passes it through to the Authority.

The County Planning department received an Environmental Protection Agency grant for brownfield assessment (\$444,000 budget in 2018). While the County is applying for a second EPA brownfield grant, receipt of it is not guaranteed or assumed in our projection. The baseline projection assumes the brownfield-related grant revenues and expenditures drop to \$0 in 2019.

On the Commonwealth side, the largest recurring item is the Commonwealth share of the Beaver County Transit Authority’s expenses (\$1.2 million budget in 2018). Like the federal grant, the County receives this money and passes it through to the Authority. The County receives Commonwealth funding for the Beaver County Library System (\$629,000 budget in 2018) and then passes the majority of that money through to the nine local libraries that are part of the system, but run by other entities other than County government. The County also receives Commonwealth aid to fund its probation and parole work (\$605,000 budget in 2018).

Across all federal and state grants Beaver County’s revenue was 2.7 percent (or \$113,000) lower in 2016 than in 2012. The federal brownfields grant increases the total budgeted revenues in this category in 2017 and 2018 and then expires in 2019. The baseline projection assumes a constant level of grant funding at 2019 levels. It is possible that the County will receive additional grant money above the baseline, but the County may simply pass that additional money through to other organizations or use it to fund items not assumed in the baseline expenditure projection, depending on the terms of the grant.

Federal and State Grants (\$ Millions)



Other revenues

This catch-all category includes operating transfers from other funds and smaller items. The largest single item in this category is a credit that the County receives against its contribution to the employee pension plan related to the sale of the Friendship Ridge nursing home.

When the County sold the nursing home and reduced its employee head count, the assets placed in the pension fund for those employees remained but the liability to fund their pension plan did not. So the assets related to Friendship Ridge are converted to an annual credit which gets recorded as revenue in the County’s financial reports. Eventually those assets will be drawn down fully and the credit will be \$0. The County’s actuary calculates the value of the credit each year, but could not project when the credit would be exhausted. The County generally does not include the revenue in its budget, but it is included in the County’s year-end financial results. In the absence of better information, we have assumed a \$1.0 million credit in 2019, dropping to \$0.5 million in 2020 and then \$0 thereafter based on our discussions with the former Finance Director⁹.

⁹ We acknowledge the uncertainty of our projection for future pension credit “revenue,” which has been as high as \$3.0 million. There is similar uncertainty on the expenditure side regarding the County’s future pension contributions. It is difficult to include the pension credit “revenues” in the annual budget without some guidance from the actuary on what they will be, but the size of the credit can be the difference between a balanced budget and a deficit in a given year. This uncertainty was one reason why the 2017 year-end results (which included the credit) were better than the 2017 budget (which did not include the credit). We encourage the County to revisit this issue with its actuary during the 2019 budget process.

As shown in the table below, PFM's baseline revenue projections show minimal growth over the five-year projection period. Real estate tax revenues are essentially flat and, because they account for such a large portion of the total, the total revenue picture follows that pattern. The County's pension credit recorded under "other revenues" contributes some volatility in 2019 and 2020, and then is assumed to end in 2021.

General Fund Baseline Projection

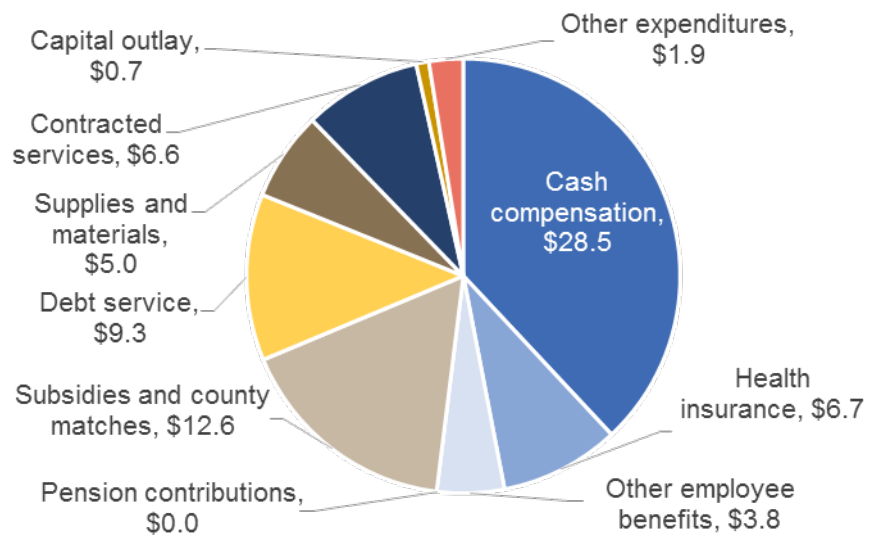
	2018	2019	2020	2021	2022	2023	5-Year
	Budget	Projected	Projected	Projected	Projected	Projected	CAGR
Real estate taxes	55,589,500	55,923,037	56,258,575	56,596,127	56,935,703	57,277,318	0.6%
Departmental earnings	7,342,860	7,179,639	7,175,488	7,380,285	7,193,477	7,214,763	(0.4%)
Reimbursements	5,129,010	4,698,999	4,770,598	4,843,843	4,918,773	4,995,427	(0.6%)
Federal and state grants	4,419,899	3,976,226	3,976,226	3,976,226	3,976,226	3,976,226	(2.1%)
Other revenues	1,254,100	2,374,831	1,876,878	1,378,972	1,381,114	1,383,306	2.0%
Total Revenues	73,735,369	74,152,732	74,057,765	74,175,453	74,405,294	74,847,039	0.3%

Annual Growth	N/A	0.6%	(0.1%)	0.2%	0.3%	0.6%
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Expenditures

The County's 2018 budget includes \$75.1 million in expenditures from its General Fund. Shown in the blue-shaded portions of the pie chart to the right, personnel costs comprise approximately 52 percent of the total 2018 budget. This percentage is lower than prior years because the County did not budget any contribution from the General Fund to the employee pension plan in 2018. The County also reduced the per employee monthly contribution from the General Fund to the separate internal service fund that covers employee health insurance costs. Both of these items are discussed in more detail below. Overall spending increased by \$1.4 million, or 1.9 percent, compared to the amended 2017 budget.

General Fund Expenditures (\$ Millions)



Excluding the large transfers related to the sale of Friendship Ridge¹⁰, the County's expenditures increased each year between 2012 and 2015 and then sharply decreased in 2016. Total expenditures increased by \$5.1 million (or 7.6 percent) in 2014, mostly because of changes to non-personnel costs. The County's debt service rose by \$1.4 million, it spent \$1.4 million more on capital (e.g. equipment, vehicles, computer hardware) and the General Fund contribution

¹⁰ Those transfers skew the results lower than usual in 2014 and higher in 2015.

toward the cost of services provided by Beaver County Children and Youth Services increased¹¹. In 2015 the Children and Youth match dropped back to prior year levels, but spending on personnel increased, particularly for the pension contribution¹² and health insurance. In 2016 the County's total General Fund expenditures dropped by \$10 million (or 13.3 percent), mostly because the County restructured its debt and cut spending in that category by \$6.4 million for one year. The County also reduced its contribution to the Beaver County Community College by \$511,000 for one year and spent less on capital.

General Fund Expenditures

	2012	2013	2014	2015	2016	CAGR
	Actual	Actual	Actual	Actual	Actual	4-Year
Cash compensation	25,205,729	25,737,704	26,249,663	26,881,804	27,043,193	1.8%
Health insurance	5,379,591	5,487,488	5,494,500	6,573,260	6,888,702	6.4%
Pension contributions	1,260,780	1,550,623	1,104,765	2,982,489	2,838,399	22.5%
Other employee benefits	2,798,139	2,847,416	2,923,431	3,094,637	3,119,475	2.8%
Subsidies and county matches	11,393,364	11,181,379	12,463,580	11,811,936	11,047,595	(0.8%)
Debt service	8,236,592	8,430,064	9,897,293	9,731,742	3,365,743	(20.0%)
Supplies and materials	5,035,323	5,228,218	5,790,610	5,225,191	4,466,905	(3.0%)
Contracted services	5,651,667	5,380,014	5,572,394	5,677,621	4,455,237	(5.8%)
Capital outlay	781,863	350,413	1,755,031	1,854,043	827,524	1.4%
Other expenditures	1,312,177	1,252,541	(20,732,800)	7,097,460	1,177,931	(2.7%)
Total Expenditures	67,055,225	67,445,860	50,518,467	80,930,184	65,230,704	(0.7%)
Annual Growth	N/A	0.6%	(25.1%)	60.2%	(19.4%)	

The next section of the chapter addresses these trends and explains the expenditure projection in more detail.

Cash compensation

The largest spending category in the General Fund is the **salaries and wages** paid to the County's full-time and part-time employees. Across all filled positions the County's spending on salaries increased by 2.2 percent per year from 2012 to 2015 and then dropped by 2.5 percent in 2016. Please note that this is the total spending across all employees, not the wage increase pattern for any individual employee. Other factors affect these totals, including changes in headcount and position vacancies throughout the year.

Salary spending dropped by 2.5 percent in 2016 when the County offered an early retirement incentive where employees could receive four years of cash payments. Of the 131 employees who were eligible for the incentive, 72 employees (or nearly 9 percent of the estimated number of full-time equivalent positions) took the incentive and the County left some of the positions vacant or eliminated them. The early retirement incentive could translate to ongoing savings provided the County does not add those positions back at a later date. The salary savings that the County received in 2016, 2017 and 2018 were offset by higher retirement incentive payouts, which

¹¹ Most of that contribution covers the personnel related costs for that agency whose spending occurs outside the General Fund.

¹² As described above, the County also received a large credit against its required pension contribution following the sale of Friendship Ridge. That credit appears on the revenue side of the ledger.

jumped from \$92,000 in 2015 to \$727,000 in 2017. The final payouts from that incentive program will occur in 2019.

While data specific to the General Fund was not available, the County Payroll Department provides a report on the total number of full-time equivalent positions (FTEs) for the County's comprehensive annual financial report. That FTE report shows total FTEs rising from 764 in 2012 to 771.5 in 2015 and then dropping to 750 in 2016, presumably because of the early retirement incentive¹³.

In 2018 the County budgets \$26.1 million for salaries and wages across all full- and part-time positions in the General Fund. The salary budget is \$1.6 million (or 6.5 percent) higher than in 2017 because of negotiated salary increases for employees represented by collective bargaining groups and a 3.0 percent increase provided by the Commissioners for non-union employees.

About 63 percent of the County employees whose salaries are paid directly by the General Fund are represented by one of nine collective bargaining units. Six of the nine collective bargaining units have labor contracts that expire at the end of 2018. One expired at the end of 2015 and another expires at the end of 2019. The County recently negotiated a new contract with the County Jail employees that runs through 2020.

In recent years base wage increases for the represented employees ranged from 1.5 to 4.5 percent as shown in the table below. Years shaded in green indicate the years with the most recent effective collective bargaining agreement provided to PFM.

Historical Base Wage Growth

Employee Group	Contract Term	2015	2016	2017	2018	2019
S-1 (Commissioners' Unit)	Expires 2018		1.5%	3.25%	4.0%	
S-2 (Court Appointed Clerical) ¹⁴	Expires 2018	3.0%	2.0%	3.5%	3.0%	
S-3 (Probation Officers, Domestic Relations, etc.)	Expires 2018		2.0%	3.0%	3.5%	
S-4 (County Jail) ¹⁵	Expires 2020	3.0%	3.0%	3.0%	2.0%	3.25%
S-7 (Court-Related Paraprofessionals)	Expires 2018		1.5%	3.25%	4.0%	
S-8 (PD/DA)	Expires 2018		1.5%	4.5%	4.5%	
S-9 (Detectives)	Expires 2018			2.5%	3.0%	
P-5 (Human Services)	Expires 2018	1.50%	3.0%	3.0%	1.5%	
Sheriff	Expires 2019			2.0%	3.0%	3.5%
Non-Represented (No contract)	N/A	0.0%	0.0%	0.0%	3.0%	

The baseline projection assumes three percent annual base wage increases for all employees, including those not represented by a bargaining unit, for each year after the current collective bargaining agreement expires.

These projections are not recommendations for the County's upcoming collective bargaining negotiations. The baseline projection shows a deficit each year after 2018 so, absent corrective

¹³ See 2016 CAFR, page 199. The report shows the number of FTEs on December 31st of each year. Each full-time employee is counted as 1.0 FTE and each part-time employee as 0.5 FTEs. Elected officials are excluded.

¹⁴ The Court Appointed Clerical bargaining agreement was being reviewed by a mediator when the EIP process began.

action, the County will not be able to afford three percent base wage increases unless it also reduces headcount. In line with the other assumptions in the baseline scenario, these estimates reflect the financial impact of recent trends continuing into the future.

The baseline projection also accounts for other factors besides base wage increases. The projections assume annual step increases for employees who are eligible to receive them in addition to annual base salary increases. The combination of these two salary increases results in total increases higher than 3 percent whenever step increases occur.

The projection assumes a 5 percent turnover rate and then assumes those vacancies will be filled immediately by new employees beginning at the lowest step for the appropriate positions. The baseline does not assume any changes to the total number of positions, either in terms of new positions added after 2018 or position cuts.

In addition to base salaries, many County employees are also compensated for working overtime according to their labor contract or terms of employment. The County allocated \$1.4 million for overtime in its 2018 General Fund budget with most of it allocated to the Jail (\$716,000), Sheriff's Office (\$265,000) and Emergency Services (\$130,000). These public safety operations require some amount of staffing 24 hours a day so overtime is often used to cover vacancies or handle critical tasks occurring after regularly scheduled shifts.

Across all General Fund departments, overtime expenditures increased by \$443,000, or a compound annual growth rate of 11.5 percent, between 2012 and 2016 with the largest increases occurring at the Jail and Sheriff's Office. If a government uses overtime to consistently fill vacant shifts, the increase in overtime may be offset by a reduction in salary spending. So it is useful to review the total spending across these categories to see if trends in one offset the other¹⁶.

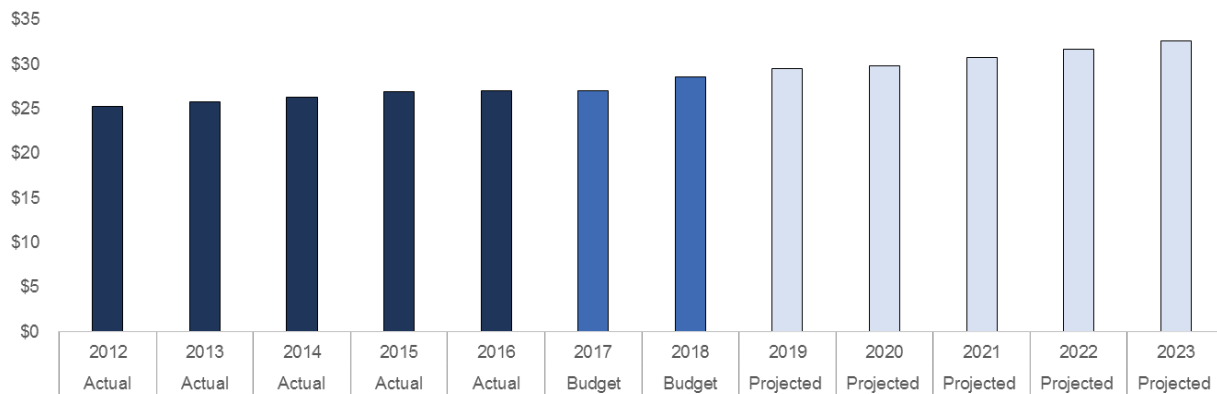
As noted above, the County offered an early retirement incentive in 2016. Other smaller forms of additional cash compensation include longevity and payments to employees who convert their unused sick leave to cash.

The baseline projection assumes the other forms of cash compensation tied to hourly wages, like overtime, grow in tandem with base salaries. As the hourly wage rates for employees increase, so will overtime payments indexed to those wages. The early retirement incentive payments stay at \$576,000 in 2019 and then drop to zero.

Taken all together, cash compensation across all employees in the General Fund grew by about 2.0 percent per year from 2013 through 2015 and then grew by only 0.6 percent in 2016. The County's 2017 budget anticipated total cash compensation spending would be flat in 2017, though actual expenditures could differ from budgeted levels. The baseline assumption assumes total cash compensation grows by about 3.0 percent per year, driven by the salary assumptions described above, except in 2020 when the early retirement incentive payment drops to \$0 and the growth is 1.2 percent over 2019 levels.

¹⁶ Please see initiative CC04 in the Compensation Cost Growth chapter for more information.

Total Cash Compensation (\$ Millions)



The projected growth in cash compensation is higher than the historical growth because the baseline does not assume the types of actions that helped flatten the historical spending trend, like the early retirement incentive or base wage freezes for non-represented employees. The baseline also assumes all positions are filled throughout the year, following the County’s budgeting convention, even though vacancies will occur throughout the year.

Key trend 3: Growth in total cash compensation across all employees has flattened since 2012 because of deliberate actions like the 2016 early retirement incentive and base wage freeze.

Health Insurance

The County is self-insured for employee medical and prescription drug insurance, which means it pays the actual cost of claims filed by its employees when they receive care. Unlike a fully insured arrangement in which an insurance company would charge the County a predetermined monthly amount for each insured employee, the County takes on some of the risk of funding health insurance on its own in return for potential savings in years where actual claim costs are lower than projected. The County uses a third-party administrator to manage the insurance claims and has a “stop-loss” policy where the County can be reimbursed if the cost of an employee’s medical care exceeds \$150,000 in a year.

Beaver County uses a separate internal service fund (ISF), outside the General Fund, to manage its insurance costs. The ISF is an accounting mechanism where the County collects money contributed by its employees and itself to pay the cost of claims, administrative fees and other miscellaneous items. The employees’ contributions are set by the terms in their collective bargaining agreements or conditions of employment and generally range from 2.0 to 3.5 percent of base salary. The County contributes whatever else is necessary to cover the costs paid out of the ISF. Those costs are divided by the number of employees on the County’s insurance plan and then charged to each fund with employees in it. In 2018 the County allocates \$6.7 million in its General Fund for its own health insurance contribution.

Prior to 2017 the cost of medical and prescription drug claims was higher than the amount that the County had set aside to pay for it. Therefore the County increased the monthly contribution in 2017 to cover this deficit. For the General Fund, this translated to an increase from \$6.9 million in 2016 to \$7.9 million in 2017. After the County increased its contribution, the actual claim costs finished lower than projected in 2017. So the County reduced its monthly contribution in 2018.

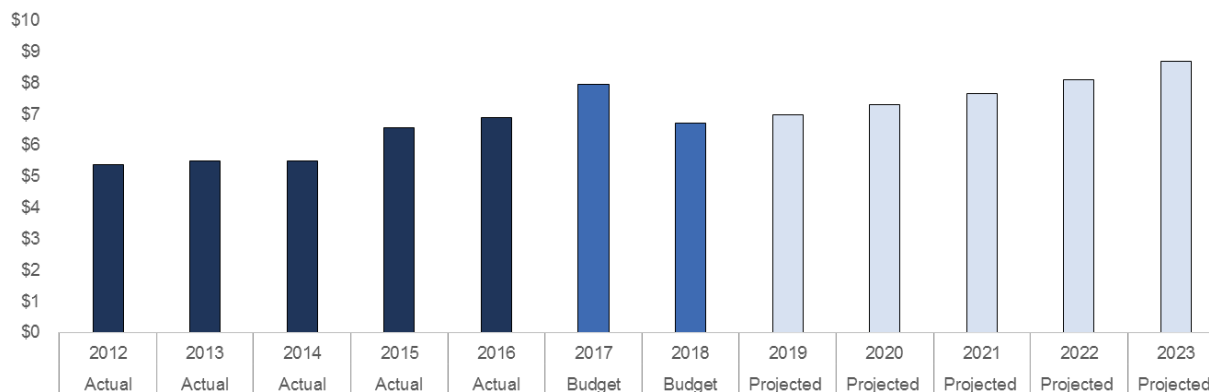
For the General Fund this translated to a decrease from \$7.9 million in 2017 to \$6.7 million in 2018.

From 2012 through 2016 health insurance expenditures from the General Fund increased by 6.4 percent per year. Going forward the County needs to cover the rising costs of health insurance and build a reserve in the ISF for cash flow and as a contingency for years when medical claims are higher than expected.

The key question is how much will the cost of medical and prescription drug claims rise going forward. Beaver County’s year-to-year historical results have limited value since they have fluctuated from +12.9 percent to -3.9 percent in recent years¹⁷. The 6.4 percent compound annual growth rate noted above is a more useful reference point, though it is high relative to national trends. Nationally, across all employers with self-insurance arrangements, the premium cost of family coverage grew by 3.6 percent a year from 2012 to 2016¹⁸.

For now the baseline projection assumes that claim costs grow by 6.5 percent per year. Once those costs are combined with the other items in the ISF, health insurance expenditures from the General Fund are projected to grow by 4.0 percent in 2019, 4.5 percent in 2020, 5.0 percent in 2021, 6.0 percent in 2022 and 7.0 percent in 2023. Under these assumptions, that growth pattern allows the County to cover the costs of health insurance and accumulate a \$2.0 million reserve for cash flow and a contingency for years where claims cost more than projected.

General Fund Health Insurance Expenditures (\$ Millions)



Key trend 4: Health insurance expenditures grew by 6.4 percent from 2012 to 2016, which is faster than the growth in total employee cash compensation and faster than the natural growth in the County’s revenues that are available to cover these expenditures.

¹⁷ This is the growth in the cost of medical and prescription drug claims in the internal service fund. Year-to-year health insurance expenditures from the General Fund also fluctuated from 0.1 percent to 19.6 percent from 2012 to 2016.

¹⁸ Average for entities with at least 200 employees as reported in the 2016 Kaiser Family Foundation Employer Health Benefits Annual Survey, page 39. This is a national average across all employees, and not specific to Beaver County’s market or public sector employers.

Pension Contributions

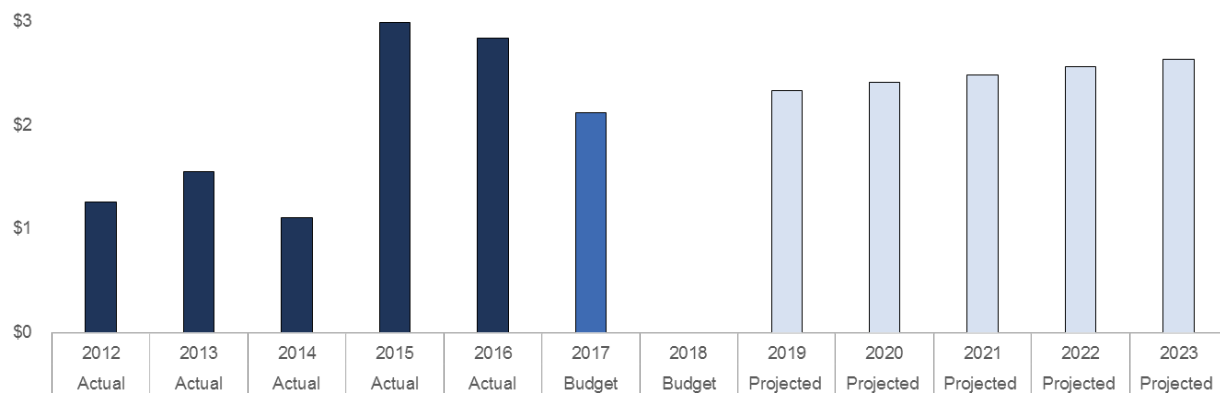
In most years the County makes a contribution to its employee pension plan to help cover the cost of County employee pension benefits. In short the combination of the County’s contribution, the employees’ contributions and earnings on the pension plan investments are expected to cover the cost of pension benefits already earned, the anticipated future cost of benefits and the administrative costs associated with the pension plan.

As shown in the table below, the County’s contribution from the General Fund has fluctuated between \$1 million and \$3 million in recent years. The most significant increase occurred between 2014 and 2015 when the expenditures rose by nearly \$1.9 million.

The Board of Commissioners zeroed out the pension contribution to help balance the 2018 budget. According to one commissioner, the County’s external actuary recommends against skipping the contribution again in 2019. PFM requested an estimate of the County’s minimum municipal obligation to the employee pension plan for 2019 through 2023, but the actuary declined the request. As a placeholder, the baseline uses the County’s 2017 contribution amount, adjusts it for 2018 to account for salary growth and then increases the contributions for 2019 through 2023 to account for salary growth.

Recent history indicates the County’s pension contribution is likely to be more volatile than our projection assumes. We acknowledge the uncertainty of our projection and its oversimplification of the factors that will determine the County’s actual contribution. As noted earlier, we also assume a portion of this contribution will be offset by the pension credit described earlier related to the 2014 sale of Friendship Ridge. We encourage the County to revisit this issue with its actuary during the 2019 budget process and determine whether there is a better way to estimate the County’s pension contribution through 2023 than our placeholder.

General Fund Pension Contributions (\$ Millions)



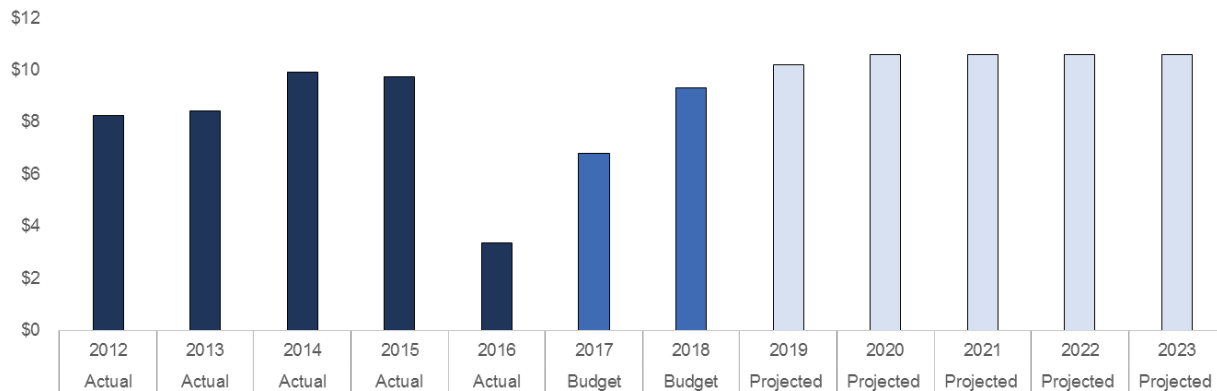
Key trend 5: There has been a lot of volatility in the County’s pension contributions, driven in part by the pension credit the County received from selling Friendship Ridge. The County zeroed out the pension contribution or 2018, but we project its return for 2019.

Debt Service¹⁹

The County pays principal and interest related to prior years' borrowings from its General Fund. Debt service expenditures increased from \$8 million in 2013 to \$10 million in 2014. In 2016 and 2017, the County restructured its debt to reduce its debt service expenditures in those years and 2018 in exchange for higher debt service payments from 2020 through 2032. According to the current debt schedule, the County's expenditures will increase to \$10.1 million in 2019 and then \$10.6 million in 2020. Absent any further restructuring or refunding moves, the County's debt payments would stay at that level until 2032.

PFM's baseline budget projections do not assume additional debt service issuances for capital projects, to refund or re-structure existing debt or to fund a potential court-ordered reassessment process.

General Fund Debt Service (\$ Millions)



Key trend 6: The recent debt restructuring created short-term relief in 2016, 2017 and 2018 but debt service costs will return at higher levels in 2019 and hold there absent any future refunding or restructuring moves.

Subsidies and County Matches

The County allocates a portion of its General Fund budget to supplement the cost of operations for County departments that are mostly funded by the federal or Commonwealth government. In some cases the County is required to make a "local matching" contribution as a condition of the County receiving money from other governments. In other cases the County is covering the cost of service, over and above whatever level of intergovernmental aid is available. In those instances the County's General Fund contribution will depend on the performance in these other funds.

We evaluated the historical performance in the Children and Youth Services and Mental Health/Intellectual Disabilities Funds and discussed projected revenues and expenditures with County department managers²⁰. The General Fund baseline projection accounts for any

¹⁹ Please see the Debt and Capital chapter for more information on this topic.

²⁰ We also evaluated the HealthChoices and Community Development Funds, which historically have not received a General Fund contribution.

anticipated shortfall in these other funds according to the insight provided by those County managers.

Children and Youth Services

The Department of Children and Youth Services provides services to children and families in the child welfare and juvenile justice system through placement, in-home, or preventative care. The Department had 72 employees who serve in administrative, clerical, and case worker positions according to the most recent data provided by the County.

The County has a separate fund for Children and Youth Services where it pays for the Department employees' compensation, contracted services and supplies and the cost of placement services provided by third-party organizations. The 2018 budget allocates \$16.2 million for expenditures from this fund with about a third going for employee compensation (including health insurance and pensions), a third going toward placement services and a third for everything else.

Most of the \$16.2 million in expenditures are covered by the Commonwealth (\$10.8 million) or the federal government (\$3.1 million). Beaver County can apply to the Commonwealth for reimbursement for the cost of placement services according to rates that vary according to the funding source and statute. Services funded by Act 148 revenues, which provide nearly half of the Department's revenue, are reimbursed at rates ranging from 50 percent to 80 percent. Special grants from the Commonwealth may reimburse the County for over 80 percent of the costs.

The County's General Fund covers the difference between the Department's total expenditures and any reimbursements, grants and program revenues provided by the Commonwealth and federal government²¹. Historically this contribution has ranged from \$1.5 million in 2012 to \$1.8 million in 2016, though it did reach as high as \$2.2 million in 2014 when the County increased its spending on placement services. Key drivers of the department's expenditures and the County's General Fund contribution include:

- The largest item in the Department's budget is the payment to third-party providers for placement services so **demand for those services** drives the Department's spending. Placement payments are driven in part by the number of children served and the types of services provided, which in turn determines the County's reimbursement rate. The County has to increase its General Fund contribution if the costs of providing services exceed the level of reimbursement received or if services provided are not eligible for Commonwealth reimbursement.
- **Employee compensation and benefits costs** also directly impact the County's General Fund contribution. Between 2012 and 2016, the Department spent approximately 36 percent of its budget on personnel costs. The previously described projected increases in employee salaries, health insurance costs and the County's pension contribution would have a carryover effect on the Children and Youth Services Fund, which would in turn require a larger contribution from the County's General Fund.

The County can use a portion of the Commonwealth funding to cover the cost of County employee benefits, but only up to a statutory limit of 52 percent²². The County should

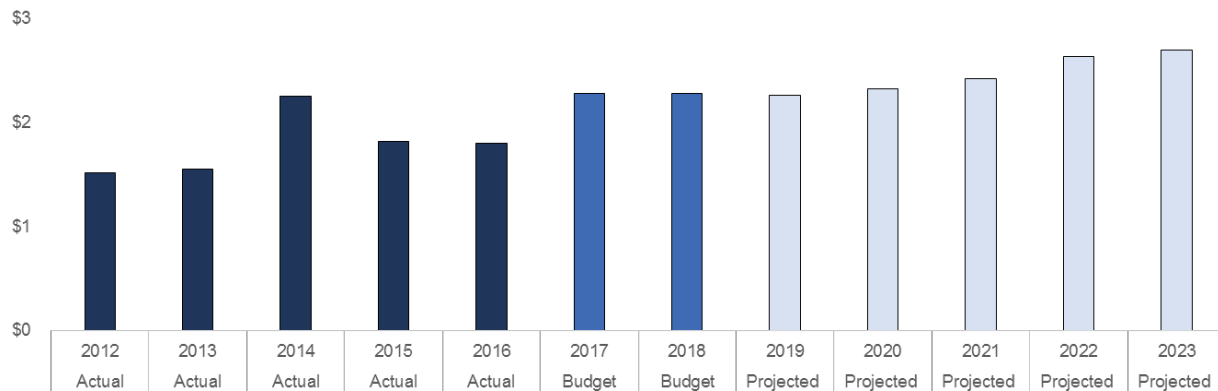
²¹ While the General Fund supplements the Children and Youth Fund, money also flows in the opposite direction. As noted earlier, the Children and Youth Fund reimburses the General Fund for placement of delinquent youth (\$700,000 in 2018).

²² This same limit applies for employees in the Mental Health and Intellectual Disabilities department.

monitor personnel expenditures for these departments to limit the risk of increasing the County match.

Beginning with the 2017 budget, the County’s share increased to nearly \$2.3 million. Based on our interviews with Department staff and a review of financial and operational data, the County’s local match will remain at these elevated levels due to a combination of increased personnel costs and increased demand for services. The baseline projection for the County’s match grows annually but unevenly over this time with the largest increase occurring in 2022 according to the needs of the C&Y Fund.

Children & Youth Services County Match (\$ Millions)



Mental Health/Intellectual Disabilities

Behavioral Health and Developmental Services (also known as Mental Health/Intellectual Disability or MH/ID) helps direct individuals to behavioral health resources and treatment programs and manages provider contracts for these services. The Department has 72 employees who serve in administrative, clerical, and case worker positions according to the most recent data provided by the County. Their work focuses on four specific areas²³:

- *Mental Health* which provides assessment, case management, and treatment services to eligible children, adults, and families in need of mental health assistance.
- *Intellectual Disabilities*, which helps determine program eligibility and assists with enrollment in appropriate services for individuals with developmental disabilities
- *Early Intervention*, which focuses on children ages 0-3 who are at risk for or have developmental disabilities.
- *Drug and Alcohol*, which offers screening, assessment, and referral services for drug and alcohol abuse care.

Similar to the Children and Youth Fund, the County uses a separate fund to manage the financial activity for this Department. The County allocates \$20.8 million for the Mental Health/Intellectual

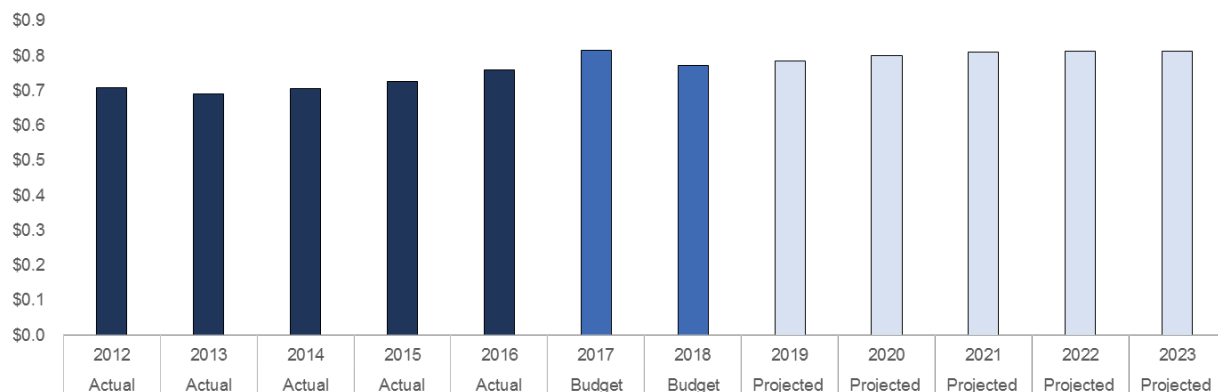
²³ The Behavioral Health department also oversees the Health Choices program, which is Pennsylvania’s managed care program for Medical Assistance (or Medicaid) recipients. Health Choices operates both behavioral health and physical health managed care organizations.

Disabilities Fund in 2018 and more than half of that amount (\$13.6 million) pays for contracted or subcontracted services. Employee compensation accounts for another \$6.0 million. Intergovernmental revenue from the Commonwealth (\$12.9 million) and federal government (\$5.6 million) cover the majority of the Fund's expenditures. The County contribution covers the difference between revenues and expenditures, which is budgeted at \$773,000 for 2018.

Due to the structure of the funding streams for this department, the General Fund match here is more stable than in the Children and Youth Fund. The majority of revenues for the Mental Health / Intellectual Disabilities Departments are provided through the State's human services block grant which requires a 4.81 percent local match.

Between 2012 and 2016, the County's General Fund match for the Mental Health Departments grew by 1.8 percent per year. In the baseline projection, the County match is expected to grow based on the projected growth for the revenues for the Drug and Alcohol and Early Intervention functions.

Mental Health / Intellectual Disabilities County Match (\$ Millions)

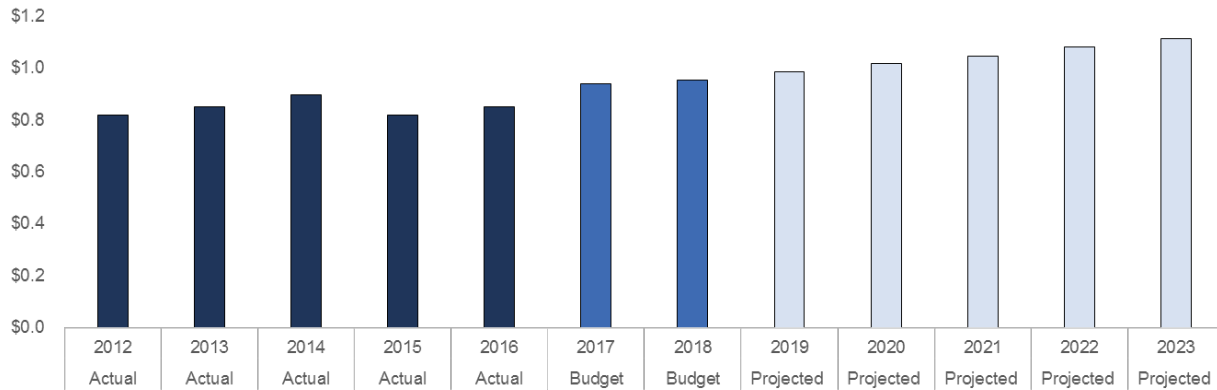


Domestic Relations

As part of the County Court of Common Pleas, this Department establishes and enforces court orders related to spousal and child support. The Department had 31 full-time equivalent positions in 2016. The County uses a separate Domestic Relations Fund for the enforcement of these support orders. Most of the Fund's expenditures are covered by intergovernmental revenue from the Commonwealth, which was \$1.7 million in 2015 and 2016 before increasing to nearly \$2 million in 2017 and 2018. The County also makes a General Fund contribution to cover the balance of any expenditures, which averaged \$850,000 from 2012 through 2016. The County allocates \$950,000 in its General Fund budget for this purpose.

Most of the Department's expenditures from the Domestic Relations Fund are related to employee compensation (85 percent in 2018 budget) so projected growth in those costs drives a higher General Fund contribution in the baseline projection.

Domestic Relations County Match (\$ Millions)



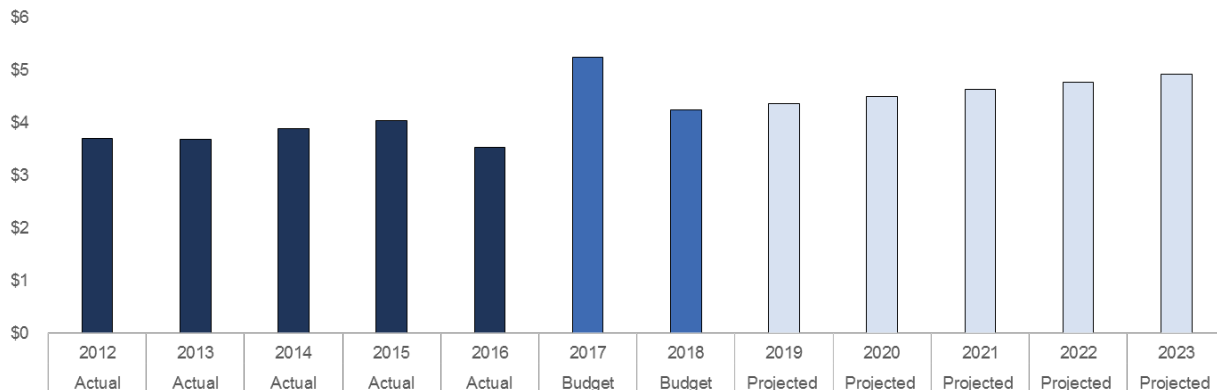
Other Subsidies and Matches

Some of the largest County subsidies and matches flow to organizations that are related to County government but separate from it.

Beaver County is the local sponsor for the **Community College of Beaver County**, which means that the County assumes responsibility for providing the local share of the community college’s operating budget. The funding arrangement is governed by an “articles of agreement” between the County and the community college, and the term was extended to 2042 in the college’s 2014-15 fiscal year. Until 2002, the Community College of Beaver County was sponsored by the 11 local school districts.

Between 2012 and 2016, the County’s contribution to the community college decreased by 1.2 percent per year. In order to provide short-term budgetary relief, the County reduced the annual payment in 2016 by \$500,000, and an additional \$1 million was deferred to 2017. Beginning in the 2018 budget year, the County’s contribution is expected to be \$4.2 million. In the baseline, this contribution grows by an inflationary rate of 2.3 percent.

Community College Subsidy (\$ Millions)

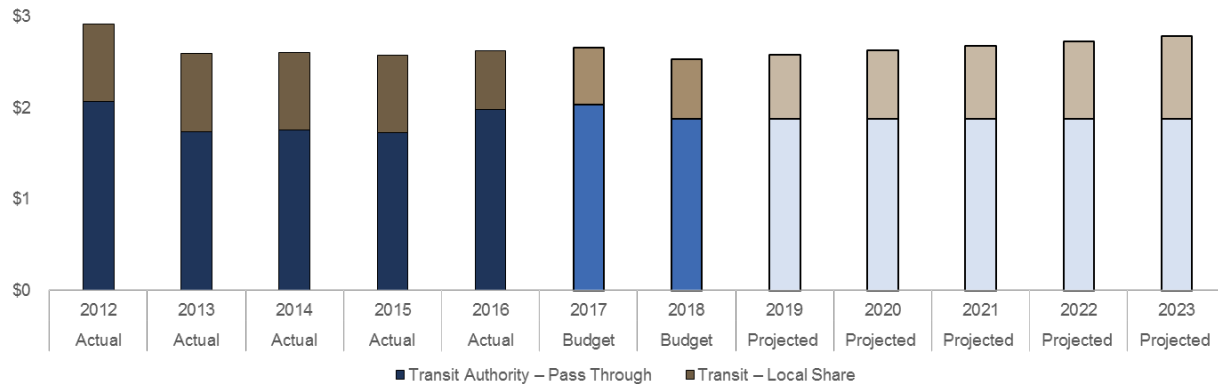


The County’s contribution to the **Beaver County Transit Authority** is divided into pass through funds from Commonwealth and federal sources, and the County’s local share of the authority’s operating costs. Total transit authority subsidies decreased by 2.6 percent per year between 2012 and 2016, which were driven by a reduction in the County’s local share. The County’s share

of transit agency costs was flat before being reduced by \$200,000 in 2016. Pass through funds match the available revenues from the state and federal government, and changes in funding levels are net neutral to the County’s General Fund budget.

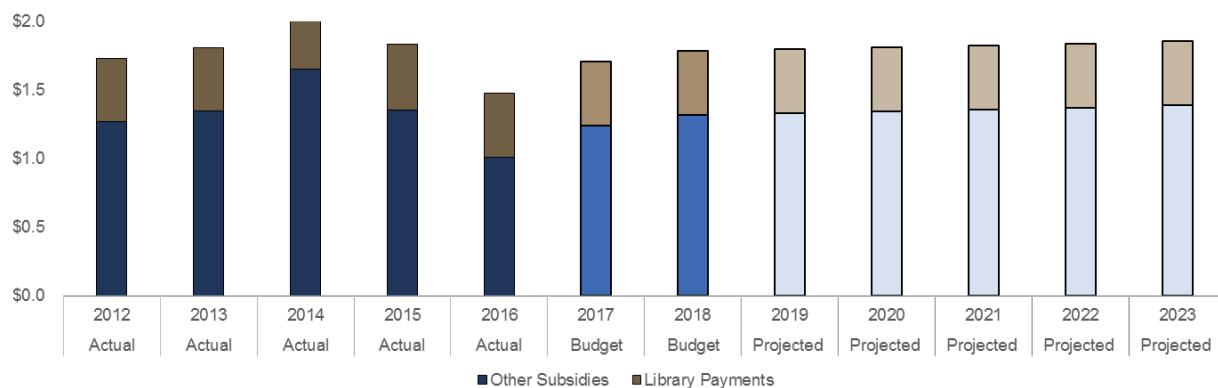
Based on estimates provided by the County, the baseline projections show an annual increase of \$50,000 per year for the County’s local share. The County’s pass through expenditures are held flat because the revenue sources are also held flat in the projections. Any increase in revenues would be directly offset by an increase in expenditures for these sources.

Transit Authority Subsidy (\$ Millions)



Other subsidies and County matches include the pass through payments from the Commonwealth public library grant, as well as subsidies and matches for various small boards and authorities. PFM has projected flat revenues for the library grant because any increase or decrease in funding would be offset by an equal change in expenditures. Expenditures for the County’s other subsidies and matches are grown at 1.4 percent based on the historical growth in these expenditures from 2012 to 2016.

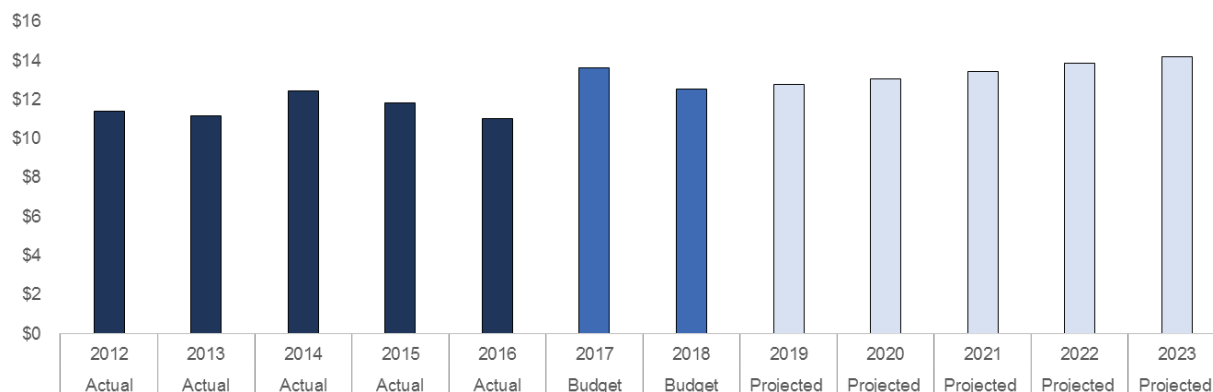
Other Subsidies and County Matches (\$ Millions)



Total General Fund spending on subsidies and County matches declined by 0.8 percent per year between 2012 and 2016, which was driven by reductions in the subsidies for the community college, transit authority, and smaller subsidies included in the “Other Subsidies” category.

In the baseline projection, total spending on General Fund subsidies and matches is projected to increase at a compound annual rate of 2.5 percent over the five-year period. If the County can control growth in personnel costs, then the General Fund contributions to the Children and Youth and Domestic Relations funds would be lower. The opposite will be true if employee compensation costs grow more than projected.

Total General Fund Subsidies and County Matches (\$ Millions)



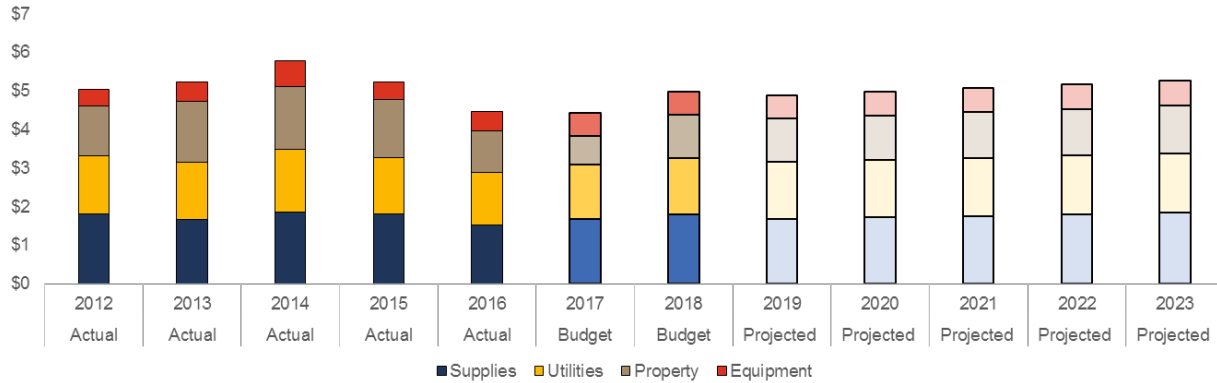
Key trend 7: The County uses its General Fund to subsidize related entities and meet matching requirements for services mostly supported by other funds. Revenue and expenditure trends in these other funds create the potential that the County will have to increase its General Fund contributions.

Other expenditures

Over time the County has reduced its spending on supplies and materials. Spending on these items decreased by 3.0 percent per year between 2012 and 2016. Most of the reductions were concentrated in the supplies category, and decreases were spread across all departments. Spending on utilities decreased by 2.3 percent during the same period, potentially due to declines in commodity costs for various utilities or reduced usage.

The baseline takes the five-year average expenditure for supplies as the base amount and then grows it by inflation. The 2018 budgeted amounts for property and equipment are also grown at an inflationary rate. Utilities costs were projected using information for major types of utilities from the U.S. Energy Information Administration.

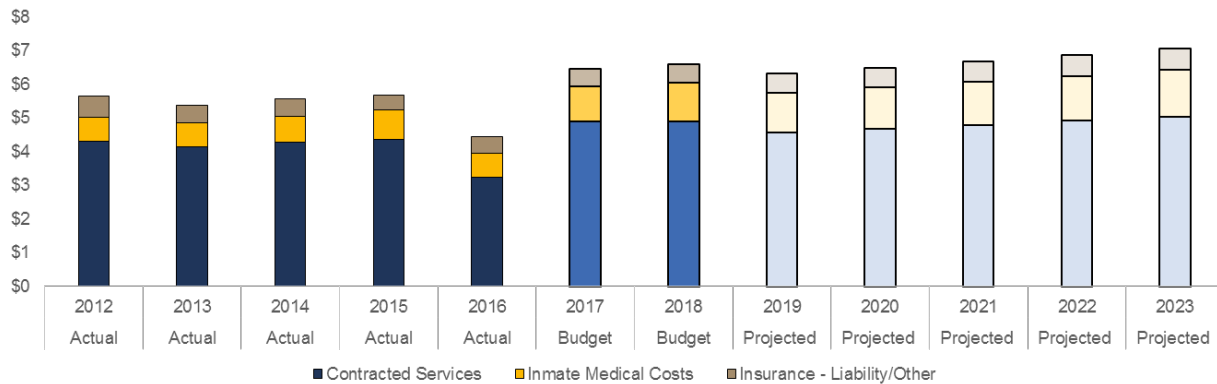
Supplies and Materials (\$ Millions)



The County has also reduced spending on contracted services, which dropped by 6.8 percent per year from 2012 to 2016. Reductions were concentrated in the Public Works Department and contracts labeled general government. The financial data provided for the projections did not provide enough detail for further trend analysis. With the exception of inmate medical costs, the baseline takes the five-year average expenditure for contracted services as the base amount and then grows it by inflation.

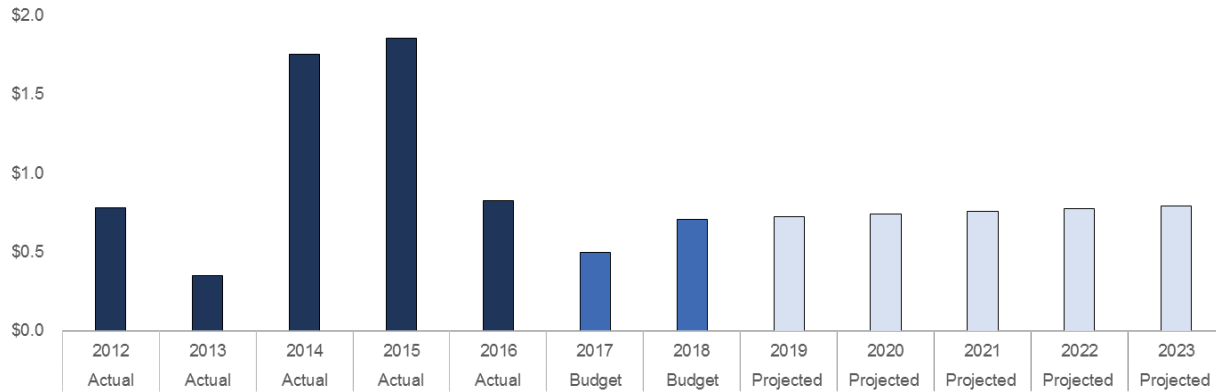
The County has a contract with Southern Health Partners to provide medical care and prescription drugs to inmates at the County Jail. Discussions with the Jail Warden indicated that the County is expected to spend over \$1 million on inmate medical costs for 2017 and 2018. The 2018 budgeted amount grows by 4.09 percent based on trend analysis data from the Kaiser Family Foundation’s Employer Health Benefits Survey to account for the higher growth rate for medical costs compared to general inflation.

Contractual Services (\$ Millions)



Beaver County does not have a capital improvement plan or a formal capital budgeting process to identify capital needs and allocate spending to County’s priorities. While the County has many needs, the baseline projection simply takes the 2018 allocation and grows it by inflation as a starting point. This issue is discussed in more detail in the Debt and Capital chapter.

General Fund Capital Outlays (\$ Millions)



The baseline expenditure projections are summarized in the table below. Expenditures increase by 5.9 percent in 2019 because of the scheduled increase in debt service and the assumption that the County will resume its contributions to the employee pension plan after zeroing them out in 2018. After 2019 expenditures grow between 2.0 percent and 3.0 percent each year, which is higher than the minimal projected growth in baseline revenues.

	2018	2019	2020	2021	2022	2023	5-Year
	Budget	Projected	Projected	Projected	Projected	Projected	CAGR
Cash compensation	28,545,914	29,506,180	29,913,382	30,819,395	31,774,992	32,747,933	2.8%
Health insurance	6,705,360	6,973,574	7,287,385	7,651,755	8,110,860	8,678,620	5.3%
Pension	0	2,334,959	2,414,274	2,487,329	2,564,393	2,642,853	N/A
Other employee benefits	3,771,442	3,888,779	4,008,848	4,119,898	4,236,808	4,355,795	2.9%
Subsidies & matches	12,560,535	12,777,664	13,084,043	13,421,516	13,869,512	14,175,726	2.4%
Debt service	9,303,184	10,198,696	10,605,361	10,605,664	10,603,772	10,600,731	2.6%
Supplies and Materials	4,978,621	4,888,804	4,982,013	5,077,174	5,174,329	5,273,522	1.2%
Contracted Services	6,593,817	6,319,152	6,493,290	6,672,682	6,857,501	7,047,932	1.3%
Capital Outlay	707,250	723,517	740,158	757,181	774,596	792,412	2.3%
Other expenditures	1,913,740	1,922,780	1,959,505	1,997,192	2,035,075	2,073,215	1.6%
Total Expenditures	75,079,863	79,534,105	81,488,262	83,609,785	86,001,837	88,388,738	3.3%

Annual Growth	N/A	5.9%	2.4%	2.6%	2.9%	2.8%
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The County continues to have a structural deficit, meaning recurring revenues are not sufficient to cover recurring expenditures and total expenditures are growing faster than total revenues.

This is not a new problem. As described earlier, the County had a deficit in its primary operating fund in three of the five years we reviewed. The County used one-time measures to achieve a surplus the other two years – a one-time \$26.6 million payment when the County sold the Friendship Ridge nursing home in 2014 and a debt restructuring in 2016 that created near-term budgetary relief in exchange for higher debt payments later.

The baseline projection shows the County exhausting its modest General Fund reserves in 2019, though perhaps the surplus reported on an unaudited basis for 2017 would carry the County into 2020. The question when the County would exhaust its reserves is secondary to the key point that the County will eventually do so, absent corrective action.

The deficits in the baseline projections should spur action, but not despair. They provide County leaders with the financial context and the framework to begin discussing solutions to address the underlying structural deficit and advance the goals that define County government's mission. Those goals are not strictly financial – balancing the budget without providing quality services or setting aside enough money to replace and repair capital assets would be an empty victory.

The next chapter provides a high level overview of which services County government provides and then the remaining chapters provide an action plan to begin to close the projected deficit.

Departmental Overview

The prior chapter described Beaver County government finances and the key trends that drive its financial performance. This chapter gives a very high level overview of County government operations – the services that County government provides, how those duties are distributed across the County’s row offices and departments and how much the County spent in each department from 2012 through 2016¹.

During our departmental review process we requested interviews with each row officer and department director². In some cases the row officer and department director included other staff in the interviews at their discretion. We also met with the Court Administrator and Deputy Court Administrator to discuss Beaver County government’s judicial functions. We are thankful for their time and the insight that they provided.

Before each interview we sent the key findings from the Financial Condition Assessment presented in the prior chapter to provide context for our work. We then discussed each department or office’s major duties; how staff are allocated to those functions and any recent changes in staffing levels; and other factors relevant to County government’s financial and operational performance. The areas that we identified as most promising for improving efficiency, controlling expenditure growth or increasing revenues without increasing taxes are discussed in the next six chapters organized thematically.

This chapter presents information on the row offices and departments in larger categories according to the types of service they provide. This is not intended as a description of the current organizational structure and reporting relationships between the departments. Instead, these categories are intended to help the reader understand which agency provides which types of services.

Commissioners and Row Officers

Beaver County government has a three-member Board of Commissioners and nine other independently elected row officers³. The table below shows the expenditures for these offices from the County’s General Fund from 2012 through 2016. Please note that many of these offices also have expenditures from other smaller funds that do not depend on the County’s real estate tax for funding. The “growth rate” column in the table below shows the compound annual growth rate of expenditures over this period. Overall the County’s spending on these offices grew by just 0.8 percent. The County allocated \$11.6 million in its General Fund for these functions in its 2018 budget, which is \$199,000 less than the County spent in 2016.

¹ At the time of analysis 2016 was the most recent year with final audited numbers.

² The Controller did not respond to our requests for meetings during the Financial Condition Assessment or Departmental Review.

³ Beaver County also has elected judges and magisterial district justices within the judicial branch of County government, which are discussed later.

Elected Officials Expenditures - General Fund Only

	2012	2013	2014	2015	2016	Growth
	Actual	Actual	Actual	Actual	Actual	Rate
Sheriff	\$3,736,089	\$3,997,838	\$3,552,166	\$3,864,013	\$3,560,624	-1.2%
District Attorney	\$2,434,973	\$2,528,755	\$2,610,950	\$2,867,368	\$2,712,130	2.7%
Treasurer	\$964,947	\$872,693	\$962,435	\$903,359	\$941,098	-0.6%
Clerk of Courts	\$724,245	\$766,589	\$765,356	\$796,048	\$793,141	2.3%
Commissioners	\$731,288	\$728,329	\$787,153	\$862,276	\$834,440	3.4%
Prothonotary	\$684,769	\$724,311	\$698,805	\$770,490	\$706,217	0.8%
Controller	\$689,343	\$727,846	\$755,999	\$727,295	\$638,988	-1.9%
Recorder of Deeds	\$520,874	\$512,215	\$491,961	\$528,037	\$510,039	-0.5%
Coroner	\$337,796	\$352,463	\$319,397	\$356,954	\$466,904	8.4%
Register of Wills	\$408,388	\$417,271	\$429,786	\$409,165	\$439,930	1.9%
Row officers	\$11,232,713	\$11,628,309	\$11,374,007	\$12,085,004	\$11,603,511	0.8%

Beaver County government is led by a three-person **Board of Commissioners**. The Board serves as the primary executive body for County government. Under the leadership of one Commissioner serving as the Chairperson, the Board oversees the administration of all County departments and agencies except for those reporting to another independently elected row officer and the County court system. The Board is also the legislative body for Beaver County government. It enacts all ordinances and approves the annual budget that allocates money to all parts of County government, including the row officers and court system.

In addition to the three elected Commissioners, this Office currently has three clerical positions, each of whom supports one Commissioner, and the Financial Administrator. This Office also had a Chief of Staff position that was eliminated in 2016. That position cut dropped the Commissioners' budget down to \$724,000 in 2018, slightly below the actual spending level in 2012⁴.

Beaver County has nine independently elected row officers each of whom oversees his or her own office.

Under the leadership of the elected **Sheriff** and his Chief Deputy, the Sheriff's Office is responsible for providing security at County facilities; transporting prisoners from the Beaver County Jail in Aliquippa to the Courthouse in Beaver Borough and other locations as needed; transporting delinquent youth to facilities outside the County; posting civil writs during the court process (e.g. complaints, summons); serving warrants; and operating the Regional Booking Center.

According to the most recent data provided for the engagement, there were a total of 47 employees (full- and part-time) in the Sheriff's Office as of January 2017. During the department interview, there were 24 full-time deputies and 18 part-time deputies. The County's spending on the Sheriff's Office dropped over the historical period shown above because of lower spending on part-time deputy salaries.

⁴ Beaver County is unique in that it does not have a Chief Administrative Officer, Chief Clerk or Chief of Staff. We address this point further in initiative BC01 of the Mission Management chapter.

The **District Attorney** and his Office oversee the prosecution of criminal cases in Beaver County. In addition, the Office also provides investigative support to local law enforcement agencies. During the interview with the Office, it was reported that a majority of the County's criminal cases are related to drug use, theft, and driving under the influence ("DUI"). Attorneys in the Office work closely with federal, state, and local law enforcement agencies to prosecute cases.

The Office also manages the County's Victim Witness Fund, the Anti-Drug Taskforce Fund, and the Emergency Services Unit. The Emergency Services Unit will be described in further detail in the Criminal Justice section. The District Attorney has 30 full-time and part-time employees, which include the District Attorney, nine full-time assistant district attorneys, five part-time attorneys, eight detectives, six clerical staff, and one paralegal position. Expenditures in the District Attorney's Office increased by 2.7 percent from 2012 through 2016 mostly because of rising employee compensation costs (e.g. salaries, health insurance, pensions).

The **Treasurer's Office** manages the preparation and collection of real estate tax bills that generate the majority of the County's General Fund revenues. The Office also collects the County's hotel tax and manages the investment of the County's cash deposits. As an agency of the Commonwealth, the Treasurer issues licenses for hunting, fishing, dog ownership and small games of chance.

The Office has 12 total employees including the Treasurer, two deputies, seven clerical staff and two part-time clerical positions. Expenditures in this Office were flat from 2012 through 2016.

The **Clerk of Courts** prepares and maintains the records for criminal cases handled by the Beaver County Court of Common Pleas. The Clerk collects court imposed fines, fees and restitution and disburses the money to the Commonwealth, County, municipalities and crime victims. It also conducts record searches for law enforcement agencies. According to the most recent data provided by the County, there were 13 positions in the Clerk of Courts as of January 2017. The **Prothonotary's Office** has a similar function except it maintains court records for civil cases. That Office has a total of 12 employees including the Prothonotary, two deputies, six clerical staff, one bookkeeper, and two part-time clerical positions.

The **Controller** manages financial reporting for the County, including the preparation of the annual audit. The Controller oversees the accounts payable functions and conducts departmental financial and performance audits. According to the most recent data provided by the County, there were 11 positions in the Controller's Office as of January 2017.

The **Recorder of Deeds** maintains the County's records of property ownership and transfer of ownership. It also collects the real estate transfer tax on behalf of Beaver County's municipal governments and school districts. The Office has eight employees including the Recorder, two deputies, four clerical staff, and a part-time solicitor.

The **Coroner** conducts autopsies and investigations to determine the cause of sudden or unexplained deaths and maintains death records and certificates. The Coroner has seven employees including the full-time Coroner, four part-time deputies, a part-time clerical position, and a part-time solicitor.

The **Register of Wills** processes records to establish estates and probate wills and collects estate taxes on behalf of the Commonwealth. The Register also serves as the head of the Orphans Court, which is responsible for issuing marriage licenses and processing records for adoptions and guardianships. The Office has six employees including the Register, two deputies, three clerical positions and a part-time solicitor.

Some Pennsylvania counties have used the Home Rule process to eliminate some row offices and shift the associated functions to another part of County government. Home Rule is discussed in the Prioritization and Process Efficiency chapter.

Administrative Services

The departments in this category generally provide services to other parts of County government, as opposed to those in the next section that interact primarily with individuals and organizations outside County government. These departments all report to the Board of Commissioners.

The table below shows the expenditures for these units from the County's General Fund from 2012 through 2016. Please note that the table below does not show any expenditures from other smaller funds. The "growth rate" column in the table below shows the compound annual growth rate of expenditures over this period. Across these units the County's spending dropped by \$314,000 during the review period with most of the decrease in Information Technology.

Administrative Services Expenditures - General Fund Only

	2012	2013	2014	2015	2016	Growth
	Actual	Actual	Actual	Actual	Actual	Rate
Information Technology	\$999,092	\$1,039,337	\$1,421,641	\$855,469	\$795,738	-5.5%
Law	\$342,765	\$438,611	\$461,048	\$452,980	\$390,291	3.3%
Employee Relations	\$367,924	\$373,803	\$439,012	\$571,697	\$344,520	-1.6%
Central Services	\$194,140	\$182,800	\$139,377	\$219,349	\$219,556	3.1%
Payroll	\$153,450	\$157,726	\$176,093	\$176,146	\$163,860	1.7%
Micrographics	\$297,352	\$247,104	\$208,475	\$201,301	\$126,685	-19.2%
Administrative services	\$2,354,723	\$2,439,379	\$2,845,645	\$2,476,941	\$2,040,649	-3.5%

Information Technology provides purchasing, installation, and ongoing support for most of the County's networking, computer, and communications infrastructure. The Department offers help desk support for County departments, supplemented by individuals in other departments who are responsible for responding to lower priority service requests. For example, the human services departments (Mental Health, Children and Youth Services, and the Office of Aging) have separate staff outside of County IT who manage the information technology needs of these departments.

There are seven employees in the Department, including the Chief Technology Officer, a deputy, a systems analyst, a voice-over internet protocol (VoIP) technician, two part-time employees who provide help desk support, and one part-time employee who supports the assessment software.

The table above shows IT Department expenditures dropping from \$1.4 million in 2014 to \$796,000 in 2016. That variance is the result of the County's changing investments in computer hardware. The County spent \$605,000 on equipment in 2014 and \$63,000 in 2016.

The **Law Department** serves as the general counsel for the County. According to the most recent data provided by the County, there were four positions in the Law Department as of January 2017. Some row officers have their own part-time solicitors, separate from the County Law Department.

Employee Relations is County government's Human Resources agency. It manages the County employee benefit programs, like health insurance; workers' compensation; and issues related to the Family Medical Leave Act (FMLA). Its staff participate in the collective bargaining process and manage grievances filed by the one of the nine employee bargaining units⁵. It also oversees employee training and oversees parts of the hiring process. Employee Relations has three employees including the Director, the Assistant Director, and one part-time clerical employee.

The Employee Relations Director also oversees the **Payroll unit** that manages the wage and salary payments to County government employees and related functions, like time and attendance recordkeeping and paycheck deductions. There is one full-time and one part-time position in Payroll.

Central Services is responsible for purchasing, mail processing, and document printing. Beaver County has a decentralized purchasing process. Individual departments initiate purchases on their own and Central Services provides administrative oversight for the process—ensuring compliance with bidding requirements, processing purchase orders, recordkeeping, etc.

Two clerical employees in Central Services process incoming and outgoing mail at the County Courthouse where mail and packages are distributed to County agencies located elsewhere. Central Services handles some large and sensitive print jobs, such as printing tax bills for several Beaver County local governments and school districts⁶ and printing documents for the warrant or tax claim process. The Department has a Director and three clerical positions.

Records Management (also called Micrographics) is responsible for scanning checks and documents for several departments. This unit is down to one employee who was on medical leave during our review.

Resident Services

The departments in this category generally provide services to County residents, businesses or other organizations outside County government itself. These departments report to the Board of Commissioners. Departments and agencies that primarily address criminal justice, including the County court system, are covered separately.

The table below shows the expenditures for these units from the County's General Fund from 2012 through 2016. Please note that the table below does not show any expenditures from

⁵ Please see the Compensation Cost Control chapter for more on this subject.

⁶ The Treasurer's Office prepares, prints and mails the County's real estate tax bills.

other smaller funds. The “growth rate” column in the table below shows the compound annual growth rate of expenditures over this period.

Resident Services Expenditures - General Fund Only

	2012	2013	2014	2015	2016	Growth
	Actual	Actual	Actual	Actual	Actual	Rate
Emergency Services	\$4,227,672	\$3,897,812	\$4,317,966	\$4,379,217	\$3,735,625	-3.0%
Public Works	\$3,518,512	\$3,492,560	\$4,101,267	\$4,209,742	\$3,332,398	-1.3%
Assessment/Tax Claim	\$1,557,687	\$1,566,384	\$1,626,644	\$1,877,377	\$1,711,816	2.4%
Library Commission	\$1,266,078	\$1,281,000	\$1,323,475	\$1,373,400	\$1,217,942	-1.0%
Recreation	\$824,257	\$778,188	\$1,026,398	\$1,979,669	\$947,141	3.5%
Election Bureau	\$781,260	\$704,856	\$741,109	\$811,123	\$864,447	2.6%
Planning Commission	\$358,569	\$379,525	\$422,385	\$476,446	\$614,125	14.4%
Waste Management	\$467,091	\$472,348	\$785,060	\$534,180	\$460,654	-0.3%
Veterans Affairs	\$282,736	\$279,465	\$282,707	\$340,443	\$310,131	2.3%
County Parks	\$344,207	\$329,557	\$317,860	\$368,133	\$265,780	-6.3%
Weights and Measures	\$63,430	\$64,496	\$66,410	\$71,704	\$64,812	0.5%
Resident services	\$13,691,500	\$13,246,192	\$15,011,281	\$16,421,435	\$13,524,871	-0.3%

Emergency Services manages the County’s emergency 911 dispatch center located in Ambridge. The Department has 38 full-time employees at the dispatch center who are supported by part-time personnel including those who assigned to training and database management. The Department also has two full-time planners who handle emergency planning and disaster preparedness programs and two contracted positions to assist with training for nuclear emergencies.

In addition to the General Fund spending shown in the table above, Emergency Services is also supported by the separate Hazardous Materials Fund and Emergency 911 Center Fund. The County receives revenues from phone surcharges in its Emergency 911 Center Fund and then transfers a portion of that revenue to the General Fund to support the dispatch center. The Hazardous Materials Fund receives grant funding that supports the emergency planning programs and part of the Emergency Services Director salary.

The County’s expenditures on Emergency Services dropped from \$4.4 million in 2015 to \$3.7 million in 2016 because of less spending on equipment, supplies and capital projects. Across all employees, Department expenditures on salaries, part-time employee wages and overtime remained even at \$2.1 million.

The County also shows debt service payments associated with Emergency Services dropping from \$141,000 in 2015 to \$0 in 2016. We assume the reduction is the result of the County reclassifying its debt payments after it refunded portions of its debt in 2016 and 2017. The refunding moves in 2016 and 2017 did create some near-term savings, but did not eliminate the debt obligation as the department figures suggest. The County started tracking those debt service payments outside the individual department budgets in 2016⁷.

⁷ This reclassification of debt service causes an apparent reduction in total expenditures for several departments, but it is more noticeable in the larger departments, like Emergency Services, the Sheriff’s Office and Public Works.

Public Works maintains and repairs the County parks, buildings, and other major assets such as vehicles. The Department has 25 full-time employees including the Director, two foremen, and 22 skilled laborers and trades positions. One foreman oversees park maintenance and the other manages the Department's other functions. There are 11 employees at the main facility in Brady's Run Park and the remaining staff are based at Bush Creek Park, Old Economy County Park, the Emergency Services building or the County Jail. Vehicle maintenance takes place at the Brady Run Park facility.

Public Works expenditures dropped from \$4.2 million in 2015 to \$3.3 million in 2016. As was the case for Emergency Services, some of the reduction was due to less spending on capital and reclassifying debt costs. However, Public Works also reduced its spending on employee salaries, wages and overtime from \$1.71 million in 2015 to \$1.45 million in 2016 and cut its spending on outside contractors by \$297,000.

Under the oversight of the Liquid Fuels Manager, the County uses the separate Liquid Fuels Fund for road and bridge maintenance projects. The Liquid Fuels Manager works with Public Works but is separate from the Department.

The **Assessment/Tax Claim Office** is responsible for determining the value of properties and collecting delinquent real estate tax revenue. The Office has 16 employees include the Director, two supervisors, six clerical positions, three field assessors, a mapper and part-time staff. One supervisor oversees assessment functions, which include assessment appeals, subdivision of properties, and programs that impact property assessments such as Clean and Green. The other supervisor oversees tax claim and delinquent collections for the County, municipalities, and school districts.

The **Library Commission** provides technical and administrative support for the nine autonomous libraries in Beaver County that are operated by separate non-profit organizations. Beaver County also has two facilities of its own – a small branch library in Chippewa that is partially funded by the Township and the main headquarters that includes a very small collection of its own called the Center Express Library Outlet. The Commission has 12 positions and six of them are funded mostly or entirely by the County. The rest are funded by the Commonwealth. The Library Commission receives and distributes Commonwealth aid to the libraries and the County makes an additional \$100,000 contribution.

The **Planning Commission** administers and coordinates processes for development projects in the County. Activities include reviewing municipal zoning amendments and land use plans; updating the County's own comprehensive land use plan; working with municipalities on storm water management plans and overseeing the Geographic Information System (GIS) functions. The Commission has five full-time employees including the Director, Assistant Director two technicians and one administrative staff member. The Planning Commission Director also serves as the Director for the County's Redevelopment Authority. The Commission's expenditures increased by \$256,000 during the 2012 - 2016 review period because the County added a position to the Commission's General Fund budget in 2013 and had grant-funded expenditures in 2016.

Beaver County has five parks and two recreation facilities. The Recreation Department runs and maintains the Brady's Run Park Ice Arena, Tennis Facility and outdoor athletic space (i.e. Action Park) at Brady's Run Park. It also runs the swimming pool at Old Economy County Park and books facility rentals. Recreation programming is generally provided by local organizations

outside County government, such as youth sports leagues or the Beaver Valley Tennis Association. Public Works maintains the parks except for the Brady's Run Park Ice Arena. The personnel costs associated with parks maintenance are budgeted in Public Works and the non-personnel costs are budgeted within the separate County Parks Division budget shown in the earlier table⁸.

Outside of the General Fund the County has a separate Tourism Promotion Fund which receives revenue from the County hotel tax. That Fund pays the portion of the Recreation Director's salary associated with tourism and other activities related to that function.

The **Election Bureau** is responsible for conducting elections and administering associated processes, such as voter registration, campaign finance record management and polling location oversight. The Bureau has seven employees including the Director, five clerical positions, and one part-time clerical position.

Waste Management coordinates programs and grants for waste disposal and recycling. In addition, the Department operates a composting facility for organic material; a facility to sort recyclable materials; and a paper shredding truck. The Department helps Beaver County municipalities prepare applications for grants from the Pennsylvania Department of Environmental Protection and other organizations. Waste Management has 4 full-time positions including the Director, a foreman, and two support positions.

The **Veterans Affairs** Office administers and provides access to benefit programs for Beaver County's veterans. The Office has four employees including the Director, two full-time clerical positions, and one part-time clerical position.

Weights and Measures is one-person unit responsible for inspecting and certifying the accuracy of gas station pumps, scales and other measuring devices.

Criminal Justice

Like other Pennsylvania counties, Beaver County spends a large part of its General Fund budget on its criminal justice system. This system includes the Beaver County Jail, which has the largest departmental budget in the General Fund, and the County Court system. The table below shows the expenditures for these units from the County's General Fund from 2012 through 2016⁹. Please note that the table below does not show any expenditures from other funds, though there are several separate funds related to the criminal justice system. The "growth rate" column in the table below shows the compound annual growth rate of expenditures over this period.

⁸ Please see initiative PP01 in the Prioritization and Process Efficiency chapter for more information on the County's approach to budgeting parks and recreation system revenues and expenditures.

⁹ The Clerk of Courts, Coroner, District Attorney, Prothonotary, and Sheriff are also integral to the County's criminal justice process. Their expenditures and functions are addressed earlier in the chapter with the County's other elected row officers.

Criminal Justice Expenditures - General Fund Only

	2012	2013	2014	2015	2016	Growth
	Actual	Actual	Actual	Actual	Actual	Rate
Jail	\$8,258,330	\$8,329,612	\$8,246,389	\$9,125,854	\$9,013,482	2.2%
Juvenile Probation	\$3,560,615	\$3,393,077	\$3,469,602	\$3,762,772	\$3,451,650	-0.8%
Court Administration	\$2,690,623	\$2,845,027	\$2,926,765	\$3,056,708	\$3,011,416	2.9%
Adult Probation	\$2,516,737	\$2,600,067	\$2,710,377	\$2,926,161	\$2,992,877	4.4%
District Courts	\$1,931,639	\$1,976,973	\$2,055,775	\$2,227,102	\$2,020,386	1.1%
Public Defender	\$1,244,167	\$1,324,450	\$1,350,023	\$1,469,013	\$1,419,731	3.4%
DUI Program	\$256,759	\$275,200	\$281,257	\$227,124	\$220,857	-3.7%
Law Library	\$175,495	\$169,487	\$185,730	\$176,616	\$163,781	-1.7%
Jury Commission	\$139,630	\$139,224	\$155,109	\$153,307	\$154,939	2.6%
Emergency Services Unit	\$0	\$0	\$0	\$0	\$14,214	N/A
Underage Drinking Program	\$12,463	\$9,448	\$5,659	\$8,136	\$7,089	-13.2%
Subtotal	\$20,786,458	\$21,062,566	\$21,386,683	\$23,132,793	\$22,470,422	2.0%

The **Beaver County Jail** in Aliquippa is a secure 402-bed facility that holds pretrial detainees and sentenced offenders. The County's prison population includes County sentenced inmates, State sentenced inmates who committed technical parole violations, Immigration and Customs Enforcement (ICE) detainees and work release sentenced inmates. The Jail has eight housing units (seven male, one female) including separate facilities for work release, special needs, restrictive housing and general population.

The Jail has the largest departmental budget and largest number of employees in the County's General Fund. There are approximately 100 employees including 50 full-time corrections officers, 30 part-time corrections officers and management and administrative employees. Personnel costs including fringe benefits accounted for \$7.0 million in expenditures in 2016. The County spent \$710,000 on inmate medical care and \$539,000 on food services at the Jail in 2016. Through the use of programs such as pre-trial services and electronic monitoring, the County has been able to reduce the number of pretrial detainees, which in turn reduces these medical and food costs.

Beaver County's court system is part of the Unified Judicial System of Pennsylvania, so it is jointly funded by the Commonwealth and County governments. The highest court at the County level is the Beaver County Court of Common Pleas which has seven judges including the President Judge. The Court of Common Pleas handles all major criminal and civil cases; those involving family law matters (e.g. divorce, alimony, child custody, protection from abuse); and appeals from the District Court level.

The judges are supported by the Court Administrator who helps oversee and support all aspects of court operations, including those listed below. The County's seven commission judgeships, three senior judgeships, and their support staff are included in the budget for **Court Administration**. The unit has 60 employees including administrative positions, clerical positions, and the staff members that support the judges. Other County judicial system elements include:

- **District Courts:** Beaver County has eight Magisterial District Courts located in Ambridge, Chippewa, Freedom, Center, Hopewell, Beaver Falls, New Brighton, and Brighton Township. A ninth district court in Aliquippa was closed in 2016. Magisterial District Justices hear less serious civil and criminal cases, conduct preliminary arraignments and hearings; and adjudicate traffic cases. Beaver County District Courts have 30 employees including the district judges, office managers, and clerical support positions. The County owns and maintains the District Court facilities.
- **Adult Probation** manages the programs for people awaiting trial and those who have been mandated to serve probation by the Courts. The Department has 34 full-time positions including five administrative positions, seven clerical positions, 15 parole officers, and seven support positions. Parolees are required to report to the County's offices in Beaver Falls and Aliquippa. They may also utilize satellite offices in the District Court, and some municipal buildings. Adult Probation stations one employee at the County Jail to identify and register inmates for pre-trial services.
- **Juvenile Probation** monitors delinquent youth and provides services to divert youth from the criminal justice system, such as truancy intervention, drug and alcohol rehabilitation, family services, and support for the resolution of custody cases. Juvenile Probation has 26 full-time employees including 17 parole officers, four administrative positions and five clerical positions.
- Beaver County had two part-time **Jury Commissioners** who managed the process for selecting jurors for County court proceedings. The part-time elected positions were eliminated effective in 2018. The Courts oversee this unit which now has a jury coordinator and a clerk.
- The **Law Library** maintains the County's library of legal resources for judges, attorneys, and the general public. Resources include the United States Code, State Statutes, local ordinances, and legal journals. According to the most recent data provided by the County, there were two positions in the **Law Library** as of January 2017.

Three parole officers are assigned to the **County's DUI Program** on a part-time basis. This program runs classes for individuals who are entered in to the County's accelerated rehabilitative disposition program. There is also an Underage Drinking Program.

The **Public Defender** provides legal representation to individuals who meet income guidelines or who have been ordered representation by the courts. Public Defender attorneys may work with defendants at different points in the criminal justice process, from pre-trial to probation hearings. The Office has 18 positions including the Public Defender, six full-time attorneys, six part-time attorneys, three clerical positions, an intake coordinator, and a part-time position that supports investigations.

The **Emergency Services Unit** provides trained responders for extraordinary law enforcement events such as barricades or hostage rescues. One detective from the **District Attorney's Office** supervises the program. Approximately 29 officers from municipal police departments serve on the unit on a part-time basis. The small General Fund allocation (\$38,000 in 2018) supports about 25 percent of the overall costs. The remainder is covered by the County's asset forfeiture funds within the separate Anti-Drug Taskforce Fund.

Health and Human Services

Some of Beaver County's largest agencies are primarily funded outside the General Fund. The table below shows the expenditures for these units *from their own fund* to show their relative size. Please note that these expenditures shown below are **not** from the General Fund. The "growth rate" column in the table below shows the compound annual growth rate of expenditures over this period.

Departmental Expenditures outside the General Fund

	2012	2013	2014	2015	2016	Growth
	Actual	Actual	Actual	Actual	Actual	Rate
HealthChoices	\$35,810,744	\$34,810,197	\$34,608,614	\$35,855,882	\$43,141,509	4.8%
Mental Health / Intellectual Disabilities	\$19,631,391	\$17,962,338	\$19,311,570	\$18,300,848	\$18,566,585	-1.4%
Children & Youth Services	\$12,489,077	\$12,482,047	\$14,089,079	\$14,058,953	\$14,408,101	3.6%
Office of Aging	—	—	—	\$4,813,109	\$4,935,068	N/A
Community Development	\$6,988,985	\$5,297,858	\$4,513,738	\$3,916,774	\$4,062,045	-12.7%
Community Services	\$617,082	\$645,157	\$642,847	\$589,527	\$767,929	5.6%
Subtotal	\$75,537,279	\$71,197,597	\$73,165,848	\$77,535,094	\$85,881,236	3.3%

Behavioral Health and Developmental Services (also known as Mental Health/Intellectual Disability or MH/ID) helps direct individuals to behavioral health resources and treatment programs and manages provider contracts for these services. The Department has 72 employees who serve in administrative, clerical, and case worker positions according to the most recent data provided by the County. Their work focuses on four specific areas:

- *Mental Health* which provides assessment, case management, and treatment services to eligible children, adults, and families in need of mental health assistance.
- *Intellectual Disabilities*, which helps determine program eligibility and assists with enrollment in appropriate services for individuals with developmental disabilities
- *Early Intervention*, which focuses on children ages 0-3 who are at risk for or have developmental disabilities.
- *Drug and Alcohol*, which offers screening, assessment, and referral services for drug and alcohol abuse care.

The **Behavioral Health** Department also oversees the **Health Choices** program, which is Pennsylvania's managed care program for Medical Assistance (or Medicaid) recipients. Health Choices operates both behavioral health and physical health managed care organizations. According to the most recent data provided by the County, there were four positions in **Health Choices** as of January 2017.

Children and Youth Services is Beaver County's social service agency focused on children and youth in the child welfare and juvenile justice systems. It is responsible for providing services to children and families through placement, in-home, or preventative care. The Department had 72 employees who serve in administrative, clerical, and case worker positions according to the most recent data provided by the County.

The Office on Aging offers programs and services for Beaver County's older population, which range from care management to information and assistance. The Office also operates several senior centers located throughout the County that offer opportunities for exercise and engagement for individuals over the age of 60. According to the most recent data provided by the County, there were 33 positions in the Office of Aging as of January 2017.

The **Community Development** Department oversees two sets of services, most of which are funded by the Community Development Block Grant or other federal grant programs:

- *Community Development:* Re-development of properties, improvement of public spaces, expansion of affordable housing, and support for homeless families. The Department also oversees the Housing Finance Agency, the Continuum of Care program, and a support program for veteran families.
- *Community Services:* Job training, homelessness services, and other programs that are supported by the Community Services Advisory Board.

According to the most recent data provided by the County, there were nine positions in the **Community Development Department** as of January 2017.

These programs are mostly funded by the federal and Commonwealth government, but the County is also responsible to provide a local match or cover any shortfall between the cost of service and the intragovernmental and program revenues available to fund them. These contributions appear in the General Fund budget as "subsidies" or "matches."

We analyzed the financial activity in these separate funds (except for the Office of Aging) to evaluate whether these departments would require a larger contribution from the County's General Fund during the projection period. PFM's assumptions regarding the County's projected local match and subsidy requirements are discussed in the Fiscal Condition Analysis Chapter, and the detailed projections for the other major funds are available upon request.

Mission Review

Strengthening the financial position of Beaver County government is the primary goal for this multi-year plan. The Plan begins by describing County government's revenues and expenditures; explaining how they compare to each other historically and in a forward-looking *status quo* scenario; and assessing the government's financial condition overall.

Strengthening County government's financial position should not be the only goal for Beaver County's leaders. The County should strengthen its financial position so that it has the money and resources it needs to fulfill its mission. For that to be true, there first has to be a mission that's broad enough to apply to all parts of County government, but specific enough to be meaningful.

We started this engagement by discussing a potential mission statement for Beaver County government with the three Commissioners. Each Commissioner emphasized the concept of fiscal responsibility and that Beaver County government should be a responsible steward of the resources entrusted to it by its tax payers. A fiscally responsible government should manage its money well and live within its means, with total recurring expenditures balanced against total recurring revenues in the annual budget. At least one Commissioner emphasized that this should occur while also keeping tax rates low and stable.

A fiscally responsible government should also manage its physical resources well. One Commissioner emphasized the need to maintain the facilities, equipment and infrastructure that County government uses every day to deliver services to Beaver County residents and businesses. A fiscally responsible government has a realistic plan to repair and replace its own infrastructure.

One Commissioner mentioned the importance of enabling County government to make strategic investments that improve quality of life for residents, particularly where those investments facilitate economic development and make Beaver County a more attractive place to live and work. The anticipated ethane cracker plant raises hopes for an expanded petrochemical industry within Beaver County and spin off growth in the residential, commercial, and manufacturing sectors. Beaver County needs infrastructure in place and attractive development-ready sites to ensure that new businesses and housing development locate in Beaver County.

Based on our discussions with the Commissioners and the financial condition assessment presented earlier, we recommend the following mission statement as a starting point for Beaver County government.

We strive to be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.

This mission statement covers basic elements of fiscal responsibility, like balancing the budget and maintaining infrastructure. It also incorporates the more subjective elements emphasized by the Commissioners, like County government's role in facilitating economic development and keeping tax rates low.

This mission statement is narrowly focused on County government’s financial performance. It says very little about what County government operations – what County government should *do* – especially regarding the services that the majority of County government employees deliver every day.

This is partly a reflection of Beaver County government’s current structure which has multiple independently elected row officers, each whom manages their office separate from the Commissioners. Each official might describe the mission of County government differently, in terms of the services that particular office provides, and they have the discretion to do so as independently elected officials. But the row officers are constrained in their ability to execute that mission by the Commissioners’ authority over budget allocations. So a financial-focused mission is relevant across those departmental boundaries.

The finance-focused mission is also partly a reflection of the wide range of mandated, specialized functions assigned to Pennsylvania county governments. Beaver County spends large portions of its total budget on health and human services (Children and Youth, Mental Health); criminal justice; and public safety. There isn’t a question as to whether Beaver County is going to provide those services – that is a statutory given – but there is a question how those functions can contribute to broader financial goals.

The mission statement is not a static, unchanging decree. It should and will change over time as the County’s priorities, circumstances and performance do. But it provides an important starting point for the rest of the recommendations in this Plan.

With the mission statement in hand, Beaver County’s leaders can identify the largest obstacles to fulfilling that mission. Then government leaders can set a limited number of goals intentionally chosen to overcome those obstacles. The goals then inform the strategies, which are the actions that specific units of County government will take to achieve these goals and advance the mission.

Having a strategy does not guarantee that it will be successfully executed, or even that successful execution will advance the mission as intended. So, whenever possible, the County should have measures so leaders can gauge whether a strategy is working. The combination of goals, strategies, and performance measures provides a framework for evaluating what works and deciding how to allocate the County’s limited resources accordingly.



The Financial Condition Assessment describes a baseline *status quo* scenario in which the County government will not be able to achieve the stated mission or any other the Commissioners may choose. If Beaver County runs a multi-million dollar deficit, it will not just fail the part of its mission related to balancing its budget. It will eventually exhaust its resources to maintain its infrastructure; will have none to make strategic investments to facilitate economic growth; and will be forced into a series of dramatic tax increases, just to cover its obligations.

The Financial Condition Assessment identifies some of the primary financial obstacles that the County has to address to achieve its mission.

- **Flat tax base, flat tax revenues:** The County cannot keep its budget in balance, let alone make any meaningful investment in its own infrastructure or economic development, if the real estate tax revenues do not grow. Short of repeated tax rate increases, tax revenue will not grow unless the assessed value of taxable property does. Beaver County government cannot control the timing or volume of real estate development within the County’s borders, but it should focus its efforts on attracting real estate development and collecting tax revenue when it is due.
- **Reliance on the real estate tax:** Pennsylvania county governments depend heavily on the real estate tax to fund operations. Commonwealth law does not allow Beaver County to levy a sales or income tax. There are still steps that the County can take to increase its non-tax revenues so it can marginally reduce its dependence on one slow-growing revenue source and achieve cost recovery for services that are expected to “pay for themselves.”
- **Compensation growth outpacing revenue growth:** Employee compensation accounts for the majority of Beaver County’s budget. That is not unusual since County government services are labor intensive. Because Beaver County depends on one source of revenue that does not grow rapidly from year to year without tax increases, the County has to monitor its total headcount and spending on employee compensation closely, particularly the volatile costs of health insurance and pensions.
- **High debt burden:** Beaver County’s spending on debt per capita was much higher than its peer Counties of the Fourth Class in 2015. The County restructured its debt to lower scheduled payments in 2016, 2017 and 2018 but, starting in 2019, the County’s scheduled debt payments will rise higher than they were before the restructuring. This debt problem is compounded by the County’s relatively low credit rating, which was downgraded twice between April 2016 and September 2017, and the potential for new debt to fund Court-ordered reassessment.
- **Lack of resources for capital projects:** All elected and appointed officials interviewed during this process understand the importance of investing in the infrastructure, facilities, hardware and software and vehicles that County government and County residents use every day. The answer to the question, “How much should the County invest in these assets” is subjective¹, but it is certainly more than the \$700,000 allocated in the 2018 budget.

It is unlikely the County will be able to afford a lot of debt-supported capital projects in the next couple years. So, if the County is serious about investing in its infrastructure – even just to maintain and replace the facilities and vehicles already in service – it will have to find room in its operating budget for some amount of “pay-as-you-go” capital projects. Since the County’s budget is narrowly balanced for 2018, with flat revenues and rising expenditures, that means that the County is going to have to change what services it provides, as much as statutory requirements will allow, and how it provides them to create room in its budget for infrastructure.

¹ Please see our analysis in the Debt and Capital chapter for one estimate for what the County should spend on capital improvements and its shortfall relative to that target in 2016.

The five chapters following this one each address one of the five obstacles described above. These are structural problems that carry short- and long-term consequences. The County has used a mix of short- and long-term fixes to address them on a year-to-year basis in its annual budget. The County needs to extend its perspective beyond the one-year budget cycle and focus on solutions that have a recurring benefit, either increasing revenues or decreasing expenditures for more than a year or two. Otherwise the baseline projection shows a deficit that will paralyze County government.

The charts at the end of this section show how the specific recommendations described throughout this Plan tie back to the mission statement. It is certainly possible to expand the list presented here, though we do encourage County leaders to focus on a limited number of obstacles, goals and strategies that they can realistically address over the next five years. That list can and should change over time. It is better to focus on a small number of priorities than to scatter resources too broadly across many. Scarcity of resources – money, staff, time, attention – will always be a constraining factor for what the County can accomplish.

These chart implies siloes, but this is only for ease of presentation. In reality obstacles are often related to each other, some goals will address more than one obstacles and some strategies require more than one department. Goals that cut across departmental boundaries are more than acceptable – they are **necessary** to find effective solutions to complex problems. Strategies should be assigned to specific department(s) to ensure accountability, but communication and coordination across departments is imperative.

Finally, these recommendations provide a starting point for addressing Beaver County's near- and long-term financial challenge. They are not a comprehensive road map for eliminating the substantial projected deficits and finding funds for capital projects. Given the size of the projected deficits and uncertainty about the scale of capital needs, it is better for the County to focus on the steps it can take now, assess its financial position as it hopefully improves and then move on to the next set of recommendations, instead of trying to fill the large deficits and fund an unknown level of capital needs all at once.

Summary Strategic Framework (Page 1 of 2)

Mission	We strive to be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.			
Obstacles (What stops us from achieving mission)	Flat tax base, flat revenues	Real estate tax reliant	Compensation costs growing faster than revenues	
Goals (Guiding principles to overcome obstacles)	Boost real estate tax revenues without tax increases	Achieve cost recovery where possible	Keep cash compensation growth at inflation	Stabilize growth in fringe benefit costs
Strategies (Translating principles to action at department level)	<p>Prioritize economic development activities that increase the County's real estate tax base</p> <p>Review assessment appeals based on the accuracy of the assessment</p> <p>Improve current year real estate tax collection rates</p>	<p>Periodically review and update fees</p> <p>Institute inspection service charge for Weights and Measures</p> <p>Increase grants management capacity for Waste Management</p> <p>Improve cash management</p>	<p>Evaluate cost of proposals during collective bargaining</p> <p>Manage total head count to achieve savings from 2016 early retirement incentive</p> <p>Moderate wage growth</p> <p>Monitor overtime and salary expenditures for EMS, Jail and Sheriff's Office</p>	<p>Cost control measures for employee health insurance</p> <p>Build and maintain reserve in medical internal service fund</p> <p>Build and maintain reserve in workers' compensation internal service fund</p>

Summary Strategic Framework (Page 2 of 2)

Mission	We strive to be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.			
Obstacles (What stops us from achieving mission)	Very high debt burden	Lack of money in budget for capital improvements		
Goals (Guiding principles to overcome obstacles)	Rely on pay-as-you-go funding in the near term and improve County's borrowing profile in the long term	Reduce operating expenditures to create room for "pay-as-you-go" capital projects		
Strategies (Translating principles to action at department level)	<p>Improve the County's credit rating</p> <p>Monitor debt levels and debt refinancing opportunities</p> <p>Develop a capital improvement plan</p>	<p>Discretionary services</p> <p>Review options to close the deficit associated with parks and recreation</p> <p>Improve cost recovery at Brady's Run Park Ice Arena</p> <p>Evaluate the County Detectives Bureau</p> <p>Review subsidies and contributions to external organizations for potential reductions</p>	<p>Practically necessary services</p> <p>Evaluate in-house versus external service options for DPW functions</p> <p>Shared pool of front desk and administrative staff for deployment across County government</p>	<p>Process efficiencies</p> <p>Digitization for record filing, processing and retention</p> <p>Energy efficiency and space utilization</p> <p>Purchasing and procurement coordination</p>

Two key recommendations for managing through the difficulties ahead

BC01 Enhanced financial reporting

Responsible parties	Finance, Controller
Target date for next step	First version of cash flow and quarterly budget-to-actual reports should be issued beginning with the mid-2018 results
Progress measures	See below

Without a shared understanding of the County's current financial position and its financial performance throughout the year, it will be very difficult to build consensus to make difficult decisions to overcome the challenges ahead.

The County Commissioners, department directors, row officers, employees and the public at large need relevant, timely and accurate financial information. We recommend that the County develop and distribute two reports as soon as practical and a third in conjunction with the 2019 budget:

- **Monthly cash flow:** The most basic measure of a government's financial position is whether it can pay its obligations to employees, creditors, vendors and others when they are due throughout the year. Governments monitor their cash position throughout the year by issuing brief cash flow reports that show the beginning cash balance, the actual or projected revenues and expenditures and the ending cash balance for each month and year-to-date.

The strength of Beaver County's cash position in recent years depends on the document reviewed. When the County refunded debt in 2017, Standard and Poor's described the County's liquidity as "very strong, with total government available cash at 14.7% of total governmental fund expenditures and 5.7 times governmental debt service in 2016²."

The County's audits suggest a weakening cash position. The 2014 audit notes that the County borrowed \$6 million at the beginning of that year to pay its obligations during the early part of the year before real estate tax revenues to arrive. In 2015 the County borrowed \$5 million in January and another \$7 million in November. In 2016 the County borrowed \$13 million at the beginning of the year. It is common for Pennsylvania governments to issue these types of tax revenue anticipation notes (TRAN) and the County has repaid each of the short-term borrowings in full and on time. But, if the County's cash flow borrowings are getting larger, as appears to be the case, that could be a sign of a weakening cash position.

- **Quarterly reports:** The County should issue quarterly reports that show the revenues collected and expenditures incurred relative to budget throughout the year. These periodic progress reports should be presented in a summary format, with detail on key topics as needed.

² S&P Global Ratings. Beaver County, Pennsylvania; General Obligation. Issued September 25, 2017

While the cash flow reports should be issued on a cash basis of accounting, these quarterly reports can should use the modified accrual basis since that is what the County uses for its annual budget. The reports should be released within 60 days of the end of each quarter so the information is complete, accurate and timely³. The reports should clearly answer these questions:

- Is the County collecting revenue as anticipated in the budget, overall and for major categories? What are the major variances from budget? What are the areas where County anticipates a significant shortfall or surplus?
- Is the County making expenditures as anticipated in the budget, overall and for major categories? What are the major variances from budget? What are the areas where the County anticipates higher spending than budget and what are the areas where it anticipates lower spending than budget?
- Comparing revenues to expenditures, does the County project a surplus or a deficit at the end of the year?

Throughout this Plan we suggest key performance measures that the County should track throughout the year, such as the number of filled positions relative to budget. Those measures should be integrated into the quarterly reports.

- **Multi-year projections:** This third type of report will be also be useful, though it can be produced less regularly. The County should take the multi-year projections described in the Financial Condition Assessment and update them to track how recent decisions and financial performance change the longer term trajectory. Two natural points for updating the figures are when the prior year's audit is released and when the next year's budget is released. The multi-year projections should also be updated before the County issues new debt to keep the long-term affordability of that in view before it is incurred.

Accurate accounting will provide the building blocks for these reports, but these reports are not purely accounting exercises. Good financial reports are accessible and meaningful to people who are not accounting professionals and still need to understand the County's financial position to manage their offices, departments and the County government overall.

Normally County finance would produce, present and explain these reports. The vacancy in the Financial Administrator position and the need to bring the next Administrator up to speed means the County will need to lean on its Controller, use an outside firm or both on a temporary basis until that vacancy is filled.

We recommend that the Commissioners first discuss the cash flow report with the Controller to see if his office can produce that report since he likely already has the data related to cash inflows and outflows⁴.

³ The fourth quarter reports may need to be released later depending on the County's schedule for making year end accrual adjustments and closing its books.

⁴ The Controller did not respond to requests to meet during our interview process so we cannot speak to his office's ability or willingness to provide this report.

Because of the vacancy in the Financial Administrator position, the County may need some external support to develop the initial quarterly report. If the County seeks external support, the contractor should work with the County's CAO on those reports as soon as the vacancy is filled so the County develops this core capacity internally. The County should discuss potentially using part of a likely second phase of the EIP grant with DCED to bridge this gap in capacity, though the ultimate goal is to build this capacity internally.

BC02 Hire a Chief Administrative Officer

Responsible parties	Commissioners
Target date for next step	As soon as a qualified candidate can be hired ⁵
Progress measures	See below

Beaver County previously had a Chief of Staff position that reported to the Commissioners and helped administer the different departments that report to them. Row officers did not report to the Chief of Staff but they mentioned that the position served as a liaison between their offices and the Commissioners. The County eliminated the position in October 2016 with cost reduction cited as one of the primary reasons for doing so.

Pennsylvania counties commonly have a chief administrative officer position that reports to the Commissioners and oversees several departments, though the specific title and duties vary. In fact, Beaver is the only nearby County of the Fourth Class that does not have this position:

- **Washington County** has a Director of Administration who “oversees all County Departments, excluding row offices... ensures sound financial management of county departments and [coordinates] activities between the Directors and the Board of Commissioners⁶.”
- **Fayette County** has a Chief Clerk position with a wide range of responsibilities that range from executive level (developing budgets, monitoring expenses, making recommendations to the Commissioners to resolve administrative problems) to interdepartmental (acting as a liaison between the Commissioners and elected officials, department heads and the public) to clerical (preparing agendas and making arrangements for hearings and meetings).
- **Cambria County** has a Chief Clerk who has been described in media accounts as the Chief Operating Officer for County government.
- **Butler County** has a Chief Clerk/Director of Administration.

Throughout our department interviews, a common refrain from row officers and department heads is that they have had little communication with the Commissioners on priorities for their departments. Court personnel indicated there was some progress in bridging the gap between

⁵ The County is currently interview candidates for this position.

⁶ FY2017 Washington County Budget.

the Board of Commissioners and the County judiciary because of efforts by the former Financial Administrator, but that position is also vacant.

We also noticed the absence of an administrative leader during the FY2018 budget process. The County budget process is decentralized with department directors proposing their budget and the Financial Administrator mostly working to consolidate and organize the requests. This is a reasonable dynamic for the separately elected row officers, but there did not appear to be anyone responsible for prioritizing the different requests from the departments that report to the Commissioners or reviewing them to see how they contribute as a whole toward financial or policy goals. While final decisions are and should be made by the Board of Commissioners in their capacity as the County government's executive leadership, the County needs a stronger hand to force prioritization decisions, occasionally choosing one department's requests and needs over another, to manage through the financial challenges ahead. That work should ideally happen before the budget is presented publicly.

It is always difficult to recommend that a government spend *more* money when the financial projections show a deficit, but this is a worthwhile investment. Large complicated organizations cannot function well without administrative leadership. The County Commissioners, while committed and knowledgeable, should not be expected to understand the intricacies of departmental operations and manage the administrative functions of a large organization in addition to their duties as elected officials.

Fayette and Cambria County offer one model that Beaver County should consider. Those counties have a chief administrator and two assistants who report to the Commissioners at the top of the organization. Beaver County has three assistants⁷ within the Commissioners' office but no one that fills the key CAO role.

The County could potentially combine the CAO and Financial Administrator positions and then add a Deputy Director for Finance to focus just on financial issues, many of which require technical knowledge. In that scenario the Deputy Director for Finance would be the new position and it would have a lower salary than the new CAO position.

The CAO could also manage the administrative and internally focused functions, like information technology, human resources and central services (i.e. purchasing and printing). Those units are small and their subject matter specialized so we do not anticipate that giving the CAO direct management of these functions would result in fewer positions, at least among the non-union personnel. Furthermore, the purpose of the CAO is to oversee and coordinate the work across *all* departments that report to the Commissioners, not to create a position that just manages a small subset of them.

The financial road ahead will be very challenging for Beaver County government. Beaver County's leaders need reliable, timely information in hand and managers in place to navigate that road. Filling that need is critical to successfully executing the rest of this Plan.

⁷ Please see initiative RD03 within the Revenue Diversification chapter for one idea on how to redeploy one of the three assistants to meet another need within County government.

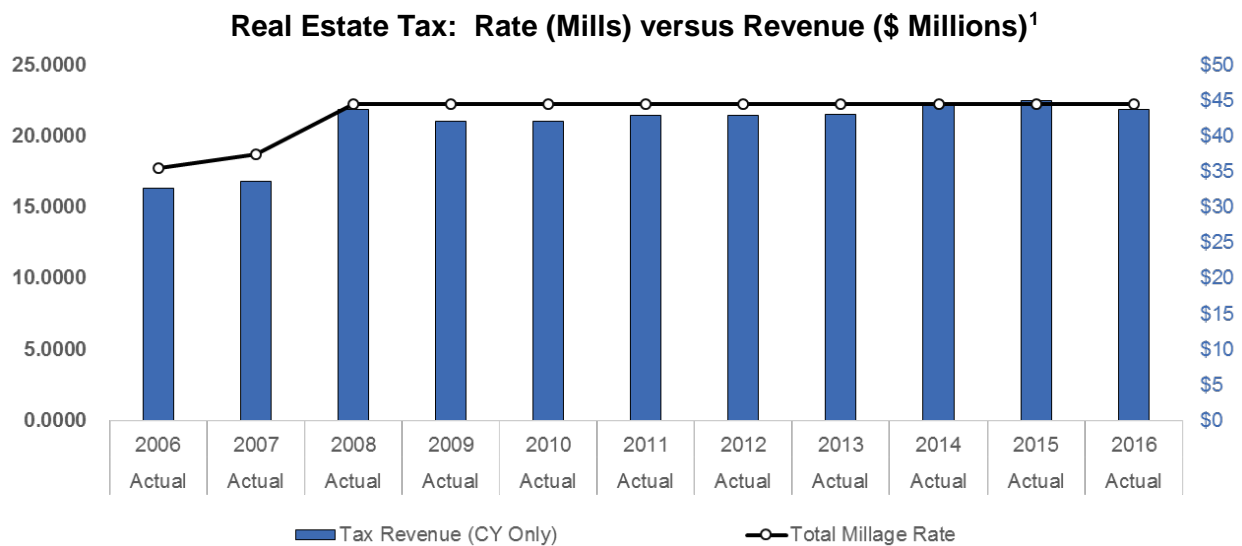
Boosting Tax Revenues

The real estate tax is Beaver County's largest source of General Fund revenue, accounting for over 75 percent of the 2018 budget. That revenue is largely the byproduct of two variables:

- **Real estate tax rate:** Beaver County residents pay 26 mills (or \$26 for every \$1,000 of assessed value) to County government, plus additional amounts to their municipal government and school district.
- **Assessed value of taxable property:** The tax rate is applied to the assessed value of taxable property in Beaver County. Beaver County currently assesses property at 50 percent of its base year in 1982.

The total assessed value of taxable property has been essentially flat for the last decade, growing from \$2.0 billion in 2006 to \$2.2 billion in 2016. That translates to 1.0 percent annual growth and just 0.6 percent since 2011.

Since the total assessed value of taxable property in Beaver County is not growing, the County's real estate tax revenues generally only increase when tax rates do. Current year real estate tax revenue grew by 3.0 percent when the millage rate was increased in 2007 and 30.3 percent in 2008 when the millage rate was increased further. Tax revenues grew in 2017 when the County increased the tax rate again. Other than those years with tax rate increases, the County's real estate tax revenues have been relatively flat since 2008.



It is difficult to envision a path to financial sustainability if this trend continues. It essentially leaves County government on a fixed income where the majority of revenue is flat, without growth to fund salary increases or pay the rising cost of employee benefits, unless the County also cuts positions and eventually services. A flat revenue trend doesn't provide enough money to fund capital improvements, like replacing or renovating County facilities, since the budget is already tight with a modest \$700,000 allocation for capital projects in 2018.

¹ Revenue data comes from the County's audits with 2016 being the most recent completed at the time of publication. The tax rate and revenue should be higher in 2017.

The County has a couple options to change this stagnant trend. The most obvious is increasing the tax rate, as Beaver County did in 2007, 2008 and 2017. Beaver County currently levies a 26 mill real estate tax with 25 mills for general purposes and 1 mill for debt repayment.

Pennsylvania law caps the general purpose millage rate at 25 for counties of the Fourth Class like Beaver. To exceed that cap, the Beaver County Board of Commissioners would have to approve a resolution to petition the County Court of Common Pleas to allow an additional tax levy. The Court can authorize another 5 mills for general purpose, up to a total of 30 mills. Cambria County is currently using this process to levy a 27.5 mill general purpose real estate tax.

Pennsylvania law allows Counties to exceed the 25-mill limit without court approval if the money is used to pay for debt. The current 1-mill debt tax generates less than the County needs to cover its debt service costs so there appears to be room to increase this tax². Pennsylvania law also allows counties to levy 10 mills above the 25-mill limit for “payment of rentals to any municipal authority.”

Other counties have real estate taxes designated for specific purposes. For example, Butler County has a 27.6 mill tax rate in 2018 with 21.6 for general purposes, 3.1 for debt and 2.9 for its community college. Cambria County has a 33.5 mill real estate tax with 27.5 mills for general operations, 4 mills for debt, 1 mill for the community college and 0.5 mill each for the library and parks and playground.

Whatever approach these counties have taken, the net effect of these moves is higher taxes³. When discussing the ideal path for Beaver County government, the Commissioners expressed their preference to keep tax rates low. Financial realities may require tax increases during the projection period, though when and how much depends on whether the County successfully takes other corrective actions.

This section describes initiatives to help the County increase the real estate tax *base* so that tax revenues grow “naturally,” without increasing the tax rate itself. It also raises the possibility of increasing the tax *collection rate* so the County gets a higher percentage of tax payments when they are due.

² The County's assessed valuation for taxable property in 2016 was \$2.2 billion. Applying the 1-mill debt service levy to that tax base yields \$2.2 million, assuming 100 percent collection. In comparison the County's debt service payment from the General Fund is \$9.3 million in 2018.

³ If the County conducts reassessment, it is very likely the general purpose tax rate would drop below 25 mills when the assessed value of taxable property increases. As an example, Washington County's millage rate dropped from 24.9 to 2.4 mills after reassessment.

Mission to Measurement: Boosting Real Estate Tax Revenues

Mission	To be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.
Obstacles	Flat tax base, flat tax revenues
Goal	Boost real estate tax revenues without tax increases
Strategies (Assigned Dept)	<p>Prioritize economic development activities that increase the County's real estate tax base (Planning Commission, Redevelopment Authority, Finance)</p> <p>Review assessment appeals and use of tax incentives (Assessment, Auxiliary Appeals Board)</p> <p>Improve current year real estate tax collection rates (Treasurer)</p>
Measures	<p>Assessed value added to tax rolls</p> <p>Changes in assessment via the appeals process</p> <p>Revenue forgone/added by projects benefiting from tax incentives</p> <p>Current year/total real estate tax collection rates</p>

TR01 Prioritize economic development activities that increase the real estate tax base

Responsible parties	Planning Commission; Redevelopment Authority; Finance
Target date for next step	Estimates described below should be completed in 2018 to inform ongoing activities
Progress measures	Assessed value added to tax rolls; Revenue foregone/added through projects benefiting from tax incentives

Beaver County's Planning Commission is a relatively small unit with an ambitious range of duties. The varied responsibilities for that five-person unit include reviewing municipal zoning amendments and land use plans; updating the County's own comprehensive land use plan; working with municipalities on storm water management plans; overseeing the Geographic Information System (GIS) functions; helping the federal government prepare for the 2020 census and working with the Beaver County Agriculture Land Preservation Board on easements. The Planning Commission Director also oversees the Redevelopment Authority.

Planning staff also work on several projects related to economic development including managing a US Environmental Protection Agency grant for brownfield remediation; participating in the Appalachian Regional Commission and Ohio River Regional Partnership; and creating a new program for blight remediation funded by a new fee levied by the Recorder of Deeds.

There is a large number of individual projects, potential programs and procedural duties where the Planning Commission staff could (and in some cases must) spend their time. Plan review work is mandatory and driven by whatever development activity occurs throughout Beaver County. The Commission produces a helpful annual report that summarizes its work and construction activity within the County each year⁴.

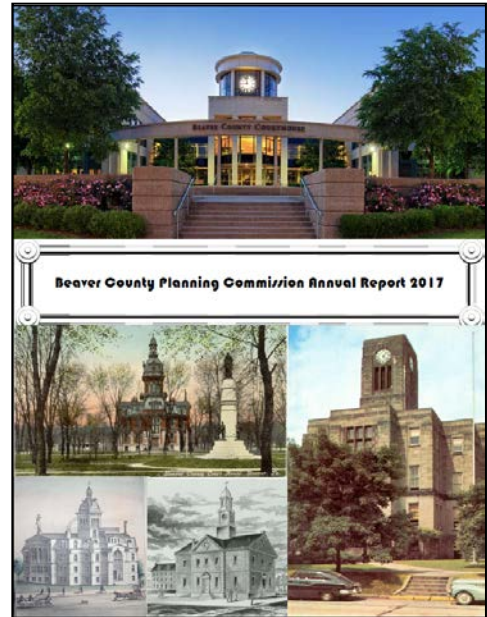
Not all of the discretionary projects are equally valuable from the perspective of the County government's own financial performance. County government draws most of its revenue from the real estate tax so it benefits most from projects that have a measurable impact on assessed value of taxable property, even if that impact is farther in the future.

Projects that focus more on job creation, improving quality-of-life or increasing economic activity are meaningful and there is certainly a connection between those factors, the real estate market and Beaver County's economy as a whole. But the benefit to County government itself is less direct because the County does not tax income, sales or business activity⁵.

Setting the Commission's mandatory functions aside, the Commission should use the County's financial condition and the need for real estate tax revenue growth as a factor in deciding how to allocate its limited resources, including staff time, among the many potential discretionary projects vying for their attention.

Working with the Finance Department and the Assessment Office, which does the actual assessment work, Planning staff should estimate how much assessed taxable value a particular project will add to the County's tax rolls, how much it will increase the County's real estate tax revenues and when that growth will occur. These estimates will change as the project progresses and may start as a range of potential increases (i.e. a project will increase the assessed taxable value by \$XXX,000 - \$XXX,000). Even the preliminary estimates will help the Commissioners and County at-large better understand which types of development will impact County government's own financial performance, by how much and when.

Some worthy projects may not immediately translate to additional real estate tax revenue for County government, such as those covered by a Tax Increment Finance (TIF) district. In those cases incremental tax revenue gained is designated to pay for the public improvements within the



⁴ The Planning Commission's annual reports and land use planning documents are available here -- <http://www.beavercountypa.gov/Depts/Planning/Pages/Reports.aspx>

⁵ The County has a hotel tax, which is a 5 percent levy on hotel room rentals, similar to a sales tax. Pennsylvania law restricts the use of that tax revenue for recreation and tourism purposes so it cannot be used to close the projected deficit in the General Fund.

TIF. In other cases the assessed value and revenue growth may be the eventual result of a longer process, like a blight remediation program that does not immediately increase assessed value but facilitates real estate development that will.

The estimates for tax base and revenue growth can have a longer horizon than the five-year period in this Plan, but including that time frame in the estimate will help the County avoid overstating the impact of a particular project. If the answers to the “how much” and “when” question are very tenuous or unknown, then that can guide the County’s resource allocation decisions.

Tax incentives

In 1977 Pennsylvania enacted the Local Economic Revitalization Tax Assistance (LERTA) Act which enables local taxing bodies to provide tax exemptions to property owners on the value of improvements made to deteriorated industrial, commercial and other business property. In 1987 Beaver County passed a LERTA resolution establishing a five-year exemption for improvements to any deteriorated properties in the County. The exemption gives the property owner a 100 percent credit against their tax liability for the improvements on that property for the first two years, 75 percent in the third year, 50 percent in the fourth year and 25 percent in the fifth year.

Twenty-one years have passed since the County established this program so it is ripe for review in terms of its effectiveness and its potential applicability throughout Beaver County. [We encourage the County leaders to evaluate the LERTA and other discretionary tax incentive programs within the context of whether, how much and when the project will boost the County’s real estate tax revenues.](#)

This does not mean that the County should never offer tax incentives simply because exemptions by definition result in less real estate tax revenue in the short term. Some incentives can spur development that would not otherwise occur and result in tax revenue growth as the exemptions expire. Economic development projects where a tax incentive leads to spinoff growth on other properties that do not receive the tax incentive are better for the County government’s finances than one-off incentives that result in isolated bursts of job growth or quality-of-life improvements. The County should estimate the cost (forgone tax revenue in the near term) against the benefits (additional revenue in the long term and from spinoff growth) and use that information in its decision making process.

Infrastructure inventory

Leaders in the Planning Commission and other County departments rightly noted that, just because the ethane cracker plant is likely to spur economic growth in the region does not mean that growth will occur in Beaver County itself. Some expressed concerns that other counties are better positioned to land the spinoff growth and reap the benefits from the cracker plant.

The presence and quality of infrastructure (e.g. electricity, water, sewer, telecommunications, gas, roads) is one factor in where development activity occurs. The Planning Commission recommends creating an infrastructure inventory that lists and describes the existing capacity so the County and other economic development partners, including the Pennsylvania Department of Community and Economic Development, can use that information in business recruitment efforts. The inventory should also show gaps where a targeted investment will improve the potential for economic development in that area.

The County should consider using part of a likely second phase of its EIP grant to develop this inventory. If that process is too expensive to cover the whole County, the inventory can start with priority areas, like the river towns.

The County should also consider updating its own comprehensive plan, which was largely written before the cracker plant development began. The Planning Director noted this document is due for an update in 2020 and the Commonwealth has traditionally offered funding to help cover these costs.

TR02 Review assessment appeals based on the accuracy of the assessment

Responsible parties	Assessment; Auxiliary Appeals Board
Target date for next step	Ongoing as appeals are heard
Progress measures	Changes in assessment via the appeals process

In addition to prioritizing actions that add to the tax base, the County should be careful to manage the appeals process that detracts from it. Property owners have the right to challenge their property assessment by filing an appeal with the Assessor’s Office which is then heard by an Auxiliary Appeal Board appointed by the Board of Commissioners. There are 300 to 400 appeals per year -- a small percentage in comparison to the 96,000 parcel total – and most of them challenge the assessed value of residential properties.

The rules governing the County’s appeals process give the Board wide discretion in the materials they can consider.

The Board will not be bound by the strict rules of evidence normally applied in the Courts. The Board may in its discretion, hear any and all evidence which it considers probative and helpful in deciding the appeal.

That said, the appeal decision should focus on the question whether the assessment is incorrect, not whether the tax bill is too high or the taxpayers can pay the tax bill. The rules governing appeals state:

*...the appellant shall have the burden of proving by a preponderance of the evidence that **the property is improperly assessed or inequitably assessed** (emphasis added)*

The Assessment Office prepares information for the Board that includes assessments for comparable properties. The Board should use this information, in addition to relevant information provided by the appellant, in making its decisions. The Pennsylvania General Assembly is also considering a bill (SB1007) that would require six hours of training for Auxiliary Appeal Board members, other than those who are Certified Property Evaluators.

TR03 Improve current year real estate tax collection rates

Responsible parties	Treasurer's Office
Target date for next step	Analysis can occur in 2018 to inform 2019 process
Progress measures	Current year/total real estate tax collection rates

While the tax base and tax rate are the primary variables that drive real estate tax revenues, the County's collection rate also matters. The Treasurer's Office collects current year tax revenues and the Tax Claim Office collects prior year tax revenues⁷ when delinquent accounts are turned over for collection.

The County's annual financial statements show the current year collection rate and total collection rate, which includes delinquent collections. Beaver County's current year collection rate hovered around 91 percent from 2007 through 2016, which is the last year for which information is available at this time⁸. The total collection rate ranged from 91.7 to 99.1 percent over this period, with the delinquent collection process adding an average of 5.3 percent to the current year collection rate most years.

	Current Year Collection	Head Count (FTEs) ⁶
2007	86.92%	13.0
2008	94.81%	12.0
2009	90.41%	11.5
2010	89.73%	13.5
2011	91.13%	10.5
2012	90.54%	9.5
2013	90.62%	13.0
2014	92.76%	12.5
2015	92.98%	11.5
2016	89.15%	11.5
<i>Average</i>	<i>90.91%</i>	<i>11.9</i>

Based on publicly available information, Beaver County's current year collection rate is low relative to nearby counties of the Fourth or Fifth class. The table below compares Beaver's collection rates from 2010 through 2016 to those of Blair, Butler, Cambria and Lawrence Counties⁹. While complete information is not available for all five counties, Beaver has the lowest collection rate, not just on average but in most individual years.

Current Year Real Estate Collection Rate

	Beaver	Blair	Butler	Cambria	Lawrence
2010	89.73%	N/A	96.83%	93.13%	N/A
2011	91.13%	N/A	97.05%	92.82%	91.35%
2012	90.54%	93.30%	97.09%	92.80%	91.00%

⁶ Full-time equivalent positions (FTEs) as reported by Beaver County Payroll in the County's 2016 comprehensive annual financial report, page 199. Each full-time employee is counted as 1 FTE and each part-time as 0.5 FTE. Please note that these are the counts on December 31st of each date. Initiative CC02 of the Compensation Cost Growth chapter discusses the importance of having more robust headcount reports.

⁷ This discussion focuses only on the County collecting its own real estate tax, not the delinquent real estate tax revenue that the County collects on behalf of local governments or school districts.

⁸ 2016 Comprehensive Annual Financial Report. Page 193.

⁹ Public information was sought but not available for Fayette, Mercer and Washington Counties.

	Beaver	Blair	Butler	Cambria	Lawrence
2013	90.62%	93.30%	97.15%	92.81%	91.23%
2014	92.76%	93.70%	97.34%	91.87%	91.05%
2015	92.98%	94.30%	97.48%	93.62%	94.11%
2016	89.15%	93.60%	97.59%	92.90%	N/A
Average	90.99%	93.64%	97.22%	92.85%	91.35%

Beaver County’s total collection rate was also lower than its peers, but the spread between current year and total collection rates in Beaver County was similar to those in Blair and Cambria Counties. In all three cases the delinquent collection process added 5-6 percentage points to current year collection rates¹⁰. So the difference in total collection rates was primarily due to lower current year collections in Beaver County.

The Beaver County Treasurer cited the wide range of duties her office has other than tax collection as one factor in the low collection rate. The Treasurer’s Office serves as an agent of the Commonwealth with responsibility for issuing dog licenses, bingo licenses and hunting licenses. The Office also has administrative duties related to the pension fund and reconciles over 100 bank accounts manually¹¹.

She also explained that staff reductions hurt the Office’s ability to collect taxes. The table on the prior page shows that fluctuations in total head count did not correlate with fluctuations in current year collection rates, though the Treasurer could be referencing cuts that occurred before 2007. It is also possible that the number of staff who are familiar with real estate tax collection has dropped more than the changes in total head count show.

We understand how the variety of duties assigned to the Treasurer’s Office could impact its ability to focus on tax collection. Similar to any mandates that require the Treasurer to handle certain activities, Pennsylvania law sets the parameters for how the County collects real estate taxes. But other Pennsylvania counties are operating under the same restrictions and routinely collect a higher percentage of the total levy due than Beaver County, particularly in the current year.

During our departmental interview with the Treasurer’s Office, we also discussed variables routinely cited as factors in collection rates, such as:

- Where property owners pay their bills: Online, County office, lock boxes at local banks
- Who has responsibility for different stages in the process: Does the office use external vendors for bill preparation, mailing or payment collections or do everything in house?

The Treasurer noted the difference in collection duties between her office, which collects current year real estate taxes for the entire County, and Butler County where the individual municipalities collect taxes on behalf of the County.

¹⁰ Butler County’s delinquent tax collection process only added 2.2 percent, but the current year collection rate was already 97 percent. Lawrence County’s delinquent tax collection process added 8.3 percent over this period.

¹¹ The potential for automating this process is addressed later in the chapter.

These differences could account for some of the variance in collection performance and we do not advocate following Butler County's approach and disbursing tax collection duties to Beaver County municipalities without much more analysis. But Beaver County's process is also partly shaped by the County's own decisions.

The Treasurer previously reviewed whether it is more effective to use a bank lockbox to receive tax payments versus receiving all payments through her office, as is currently the case. Similarly she considered using a private vendor to handle some parts of the tax billing process. In both cases she decided to keep or bring the functions in house to save money and improve quality of service, which are worthy goals. But the low collection performance relative to other Counties indicates the County should do that analysis again to see if leaning so heavily on the Office's staff is a good approach, particularly since the Treasurer noted that staff shortages are a problem and the County's financial situation will make it hard to increase headcount there.

Revisiting the cost of external support is also important because small increases to the collection rate can have a large impact on revenue. If Beaver County improved its total collection rate by 1.0 percent in 2016, that would have added \$490,000¹². If the County improved its total collection rate by 2.5 percent in 2016 – bringing it close to the average for the other four counties reviewed – that would have added \$1.2 million.

We recommend that the County move beyond this anecdotal level of analysis and let the available data guide its next step. The Treasurer's Office should have information on the delinquent tax accounts turned over to Tax Claim for collection in recent years. The County should review that information to answer questions such as the following:

- How often do property owners not pay their tax bill for the same property in consecutive years?
- Are delinquent accounts primarily from commercial properties or residential properties?
- Which municipalities have the highest concentration of delinquent accounts? Are the current year collection rates for municipal and school district taxes also low in those areas?
- Is there a small number of accounts with relatively large delinquencies? Or are the delinquencies spread across a large number of small accounts?

We conducted similar analysis for a nearby City where anecdotal analysis suggested low collection rates were the result of a few large property owners and out-of-town landlords not paying their taxes. Looking at the delinquent tax accounts showed that neither was a significant factor in the City's low collections. The largest delinquent accounts comprised a small portion of the total amount due and most delinquent accounts were owner-occupied residences.

Data also showed that many delinquent accounts had been that way for years because a property owner (usually a City resident) would ignore the tax bill when it was received and wait for the delinquent tax process to run its course, which can take up to three years in Pennsylvania. So the City focused on strengthening its delinquent collection process, rather than trying to write

¹² Please note that we are referring to increasing the total collection rate. Increasing the current year collection rate without increasing the total collection rate will improve cash flow and result in the County getting its money sooner, but not increase the total amount collected.

local ordinances targeting landlords, and the City's current and total collection rate increased within a year. This experience shows the value of using data instead of conventional knowledge or anecdotes to guide action.

While the analysis will differ for a County and there are elements of the process set by Pennsylvania law, Beaver County should do a similar analysis this year with the goal of boosting its collection rate. If the data-driven conclusion is that the Treasurer's Office needs more support to improve collections, the County should first discuss whether it is more cost effective to use an external vendor or qualified part-time staff before adding full-time staff.

Boosting tax collection performance without adding costs that exacerbate the projected deficit should be the ultimate goal.

What about reassessment?

As noted earlier, the County does not tax the current market value of land or buildings in Beaver County. It taxes the assessed value of property and the County assesses properties at 50 percent of the base year in 1982, which is the last time there was a complete reassessment of property values throughout Beaver County.

In 2015 a developer filed a complaint in mandamus with the Beaver County Court of Common Pleas claiming that the 1982 base year methodology violates the Pennsylvania constitution by not uniformly and accurately reflecting assessed value for all parcels in the County. In December 2017 two judges ruled in favor of the developer's complaint and issued a ruling requiring Beaver County to complete the reassessment by June 2020. The ruling requires Beaver County to contract with an outside company that would conduct the reassessment. In January 2018 the County filed an appeal with the Commonwealth Court.

Litigation has spurred reassessment in Allegheny County, Washington County and Delaware County. In Western Pennsylvania, Blair and Indiana Counties also completed reassessments in 2016. One of the primary objections to conducting reassessment is the cost of the process. In one news account Washington County's controller estimated that the entire process costed \$8.75 million over seven-plus years. The argument in favor of reassessment is usually presented in terms of equity or fairness – that the value of properties change over time and, if assessments are not updated to reflect that, then property owners pay more or less in taxes than they otherwise would.

One of the common misconceptions about reassessment is that the process is another type of tax increase designed to generate more revenue for the County. Reassessment on its own does not result in higher tax bills across all property owners. Some property owners will pay more and some should pay less after reassessment. Reassessment takes the total amount of tax revenue that the County bills and reallocates that amount between all the property owners in the County. A common analogy is that reassessment does not increase the size of the tax revenue pie, but it changes the size of the slices within that pie.

Usually the tax rate *drops* after reassessment because the County needs a lower tax rate to generate the same amount of revenue once assessments increases. In Washington County the tax rate dropped from 24.9 to 2.43 mills. Again, the County's revenue did not drop since the lower tax rate was levied against a larger base. Some counties have coupled a tax increase with the

reassessment process, but those are two separate actions – reassessment does not automatically trigger a tax increase across all property owners.

That said reassessment in Beaver County would have two practical impacts on County government finances:

- Reassessment is a costly, lengthy and technically complicated process. Like other Pennsylvania counties, Beaver County does not have the resources on hand to conduct reassessment on its own and there is no allocation for the process in the 2018 budget¹³. The County will need to contract with an outside firm, purchase new software to replace the 1982 legacy system and work through the public education and appeal process that usually follows reassessment. Some of these costs are the result of the County not conducting reassessment for 35 years.

Beaver County will likely have to issue debt to pay for reassessment, particularly given the projected baseline deficits described earlier in this Plan. Since the County will have to repay the debt issued to pay for reassessment and the County gets most of its revenue from the real estate tax increase, it follows that reassessment will create additional pressure to increase taxes, just as any other multi-million dollar expenditure would.

- Reassessment will provide an opportunity to modernize the assessment and tax collection process, which could also improve the efficiency of the Treasurer's Office, Assessment and Tax Claim Office. In addition to the assessments being 35 years old, the computer system used to do the assessments is also 35 years old.

That system was created long before there was any potential for Wi-Fi enabled field assessments. The Assessor notes that some of his staff are assigned solely to manual data entry because the 1982 system is too old to allow anything more automated. Whichever software the County picks, the Treasurer's Office should consider migrating to the same one. The Treasurer currently uses a different system than Assessment/Tax Claim, which creates a lag in the related processes¹⁴. Whenever it occurs, reassessment will give Beaver County the opportunity to improve one of its oldest, least efficient and most critical pieces of software.

Other initiatives

Here are additional opportunities to improve the efficiency of processes described in this chapter. In many cases the improvements would help the County complete its work faster or with less manual effort, but not translate to a larger tax base.

- The Assessment Office is responsible for the process that results in real estate development being added to Beaver County's tax rolls. Office staff record the attributes of the new or improved property, map any new parcels (i.e. parcels created through subdivisions) and enter them into the computer system that generates an assessed value. The County depends heavily on individual municipalities to report development, which

¹³ Because the baseline projection described in the Financial Condition Assessment starts with the 2018 budget, the cost of reassessment is also not included in that analysis. The timing of any reassessment is also unknown at this point, particularly given the County's appeal to Commonwealth Court.

¹⁴ The potential value of consolidating systems into one integrated product is discussed more fully in the Prioritization and Process chapter.

may not happen quickly, especially when development occurs in small municipalities with very few staff and rural areas where construction work is harder to spot.

In 2018 the County decided to use **pictometry** where a company creates a high resolution aerial image of the County. The image could serve several purposes, like improving emergency response planning, but the primary financial benefit would be capturing property improvements that have not been identified so they can be added to the tax rolls.

Other Western Pennsylvania counties have used pictometry to capture property improvements, so it is a worthwhile investment for Beaver County. Even if the value of property improvements added to the tax rolls does not cover the cost of pictometry this year, that value and the resulting tax revenue will recur in the future. The County should look at the revenue gained from using pictometry and determine whether it is worth repeating the process at some point in the future.

- Technology can also enable field inspectors to **record and report information while they are in the field**, instead of writing reports on paper and then entering them into the system when they return. The Assessor's Office is aware of this potential and notes that it needs new assessment software to replace the one in use since 1982 to do this kind of field reporting. Better software would also alleviate the need for manual data entry, which is time consuming and more prone to errors than a more automated process. Assessment has one full-time position and another part-time assigned to data entry that could potentially be eliminated at some point after the new software is in place.
- According to the Assessment Office, the number of **field assessors** has dropped from six to two and then increased back to three in 2018. There is a significant learning curve before a new field assessor can function at full capacity. The Assessor noted that staffing is adequate for now and he will continue to monitor their workload.

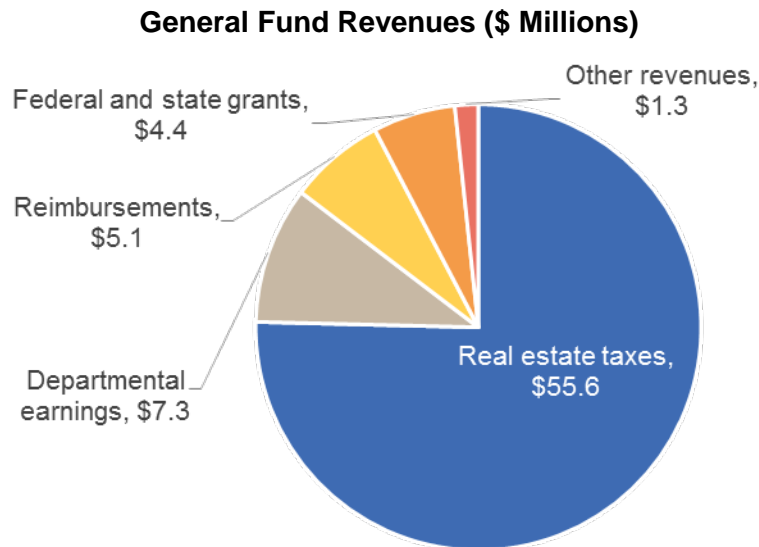
Similarly the Assessment Office has a **mapper** position to maintain the statutorily required tax map of all parcels in Beaver County, including those created through the subdivision process. The Assessor again notes that one mapper is adequate for now but the Office may need to add staff or external support if there is a lot of new development or subdevelopment activity following the cracker plant.

The County is not in a strong enough financial position to add staff to these units to get ahead of increased workload, nor is it clear when or how much workload will change because of spinoff development from the cracker plant. The County should keep monitoring its workload to inform its staffing decisions.

- In addition to its tax collection duties, the Treasurer's Office is responsible for **balancing and reconciling the County's 100-plus separate bank accounts**. The large number of bank accounts is partially a result of requirements that certain revenues, such as those related to the criminal justice process, be held separately. That said, the Treasurer's Office is open to using technology that would eliminate some of the manual parts of the bank reconciliation process and allow them to spend their time elsewhere.

Revenue Diversification

Like other Pennsylvania counties, Beaver County is heavily reliant on real estate tax revenue. As shown in the table below, the real estate tax accounts for over 75 percent of the County's General Fund revenues in the 2018 budget. This is common since Pennsylvania law prohibits most Pennsylvania counties from charging an income or sales tax, and they are the other primary sources for local government tax revenue, besides the real estate tax.



Although the real estate tax is a stable source of revenue, it has been relatively flat absent changes in the millage rate. The prior chapter discusses strategies to boost real estate tax revenue and this one focuses on non-tax revenues. The largest categories of non-tax revenues in the General Fund are:

- **Departmental earnings** generate the second largest amount of revenue for the County's General Fund, budgeted at \$7.3 million (or 9.8 percent) for 2018. These revenues come from a variety of service charges collected by the County's row officers and departments. As described in the Financial Condition Assessment, total revenue from departmental earnings dropped by 0.9 percent per year from 2012 to 2016 as increases in some department's earnings (Tax Claim, Recreation) were offset by reductions in others (Jail, District Courts).
- Beaver County is able to charge the cost of some General Fund supported services to other funds. Those funds repay the General Fund through **reimbursements**, which account for \$5.1 million (or 7.0 percent) in the 2018 budget. For example, the County uses some of the phone surcharge revenue collected in the separate Emergency 911 Center Fund to reimburse the General Fund for personnel and other expenditures related to the E911 dispatch center.
- **Federal and state grants** account for \$4.4 million (or 6.0 percent) in the 2018 General Fund budget. Most of these revenues fund non-recurring projects or cover the cost of designated services. The single largest grant comes from the federal medical

assistance program, which the County receives in the General Fund and passes through to the Beaver County Transit Authority to fund medical transports for Medicaid patients (\$0.9 million in 2018).

Based on our review, the County is already doing a good job maximizing its reimbursements to the General Fund. The County Commissioners use surcharge revenue in the Emergency 911 Center Fund to purchase communications equipment and software that benefits more than just the Emergency Services department. The Court of Common Pleas has used the Court Improvement Fund to purchase technology and other minor equipment to support its operations, rather than relying on the General Fund. We reviewed the County’s use of possible Commonwealth reimbursements for work related to the Beaver County Children and Youth Services department and did not detect any major opportunities for improvement.

The County’s approach to grants management is decentralized with individual departments pursuing grants on their own. That is understandable considering the specialized nature of many grants. However, we encourage the department heads and the Board of Commissioners to be thoughtful and strategic about which grants they pursue. A grant that pays for new equipment or an expansion of service in the short term carries a long-term expense when that grant expires and the cost of maintaining the equipment or service remains.

Dozens of individual charges, fines and fees combine to generate the \$7.3 million target for departmental earnings in 2018. Some of those fees are set by external statutes and cannot be increased unilaterally by the Commissioners. So the potential for increasing revenue from departmental earnings is limited.

That said, it is still worthwhile for the County to boost its non-tax revenues wherever it is allowed and feasible. If departmental earnings continue to slip, as was the case from 2012 through 2016, the County will become even more dependent on the real estate tax, which has its own limitations¹. The County should think about these departmental earnings in terms of cost recovery because every lost dollar in non-tax revenue will have to come from taxes or expenditure reductions.

Mission to Measurement: Revenue Diversification

Mission	To be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.
Obstacles	Real estate tax reliant
Goal	Achieve cost recovery wherever possible
Strategies (Assigned Dept)	Periodically review and update fees (Multiple)

¹ Please see the Boosting Tax Revenue chapter for more discussion of the County tax limitations.

	Provide administrative support to Waste Management Director to increase capacity to apply for and manage new grants (Waste Management) Institute service charge to cover cost of Weights and Measures activities or have the State provide this service (Weights and Measures) Improve cash management through auditing process (Controller, Treasurer, Others)
Measures	Additional revenues relative to baseline projection Cost recovery (revenues divided by expenditures) for certain services Increased interest earnings Number of findings related to cash management in Controller's audits

RD01 Periodically review and update fees and service charges

Responsible parties	Multiple departments
Target date for next step	Inflationary increases should be used during 2019 budget process where possible; Further analysis should be conducted on an ongoing basis
Progress measures	Additional revenues relative to baseline projection

As noted above, many County departments and row offices levy fees or service charges to cover at least a portion of their costs. The revenue generated from individual fees is often small, but the items combine to generate \$7.3 million in the 2018 budget.

One common complaint about fees is that they are “just another name for a tax.” While some fees impact individual residents the same way that a tax does, there is an important difference between the two.

Governments use taxes to pay for services where the benefit that each individual receives from a particular service cannot be easily quantified or charged to that individual. For example, all residents benefit from having safe, secure, well-maintained public spaces and facilities. But it is difficult to determine how much one resident benefits from that service relative to another. So the County relies mostly on its real estate tax to fund those services, distributing the cost across all individuals and organizations that own taxable properties.

In other cases it is much easier to determine which individual or group benefits from a service and then charge the cost of providing that service to them. For example, the people who benefits most from the County Planning Commission producing a GIS map is the person who receives that map. The County could charge the cost of map production to the individual, but currently does not, instead letting the tax base at-large pay for the service. That potential fee would not generate a lot of revenue, but it illustrates the larger point.

Fees are sometimes described as being “fairer” than taxes since the person who uses the service pays for it, or at least pays a higher share of the total cost than someone who doesn’t use the service. Fees are also considered more “efficient” because residents can theoretically adjust how much they use a service as the price changes, unlike a real estate tax where a person cannot use more or less “public safety” or “public works” if the tax rate changes.

Practically speaking, Beaver County does not have the power to adjust all of its service charges, even in some cases where it is clear who benefits most from a service. There are external and practical limitations, like Pennsylvania laws that limit how much Beaver County can charge for certain court related functions. Even if the County *could* charge the full cost of service to the individual benefiting from it, there may be good policy reasons not to do so, such as providing access to important services for low income families.

That said, the County should be more organized and deliberate in how it manages its service charges. The Government Finance Officers Association (GFOA) has a “best practice” that will help Beaver County to translate these general principles into tangible decisions². In short the GFOA recommends the following:

- ***Sort the list of service charges into those where the County has discretion over fee levels and those where it does not.*** In some cases the County President Judge or a row officer has discretion over the fee level, not the County Commissioners.
- ***Identify those where the County wants to recover most or all of its cost of service.*** As noted above, there may be good reasons for the County to subsidize the cost of service, but those reasons should be explicit and the level of subsidy transparent. Common reasons for not attempting full cost recovery include market competition and the difficulty of collecting some fees.
- ***Calculate the total cost of providing a service.*** This includes the cost of labor associated with the service (employee salaries and fringe benefits), supplies and materials and any overhead (or indirect) costs, such as information technology, human resources or the price of fee collection.
- ***Periodically review and update these service charges.*** The County should increase its fees for service as the cost of providing that service rises. In some cases the County could build an automatic inflation or cost adjustment factor into the fee so that it doesn’t have to be adjusted every year by the Board of Commissioners.

Some County departments like Recreation have recently adjusted their fees³ and others, particularly the row officers, noted during department interviews that they intend to do so. Once the County fills its Finance Director vacancy, that person should meet with all County departments, the Court administrator and row offices to compile a list of fees and set a schedule to review the largest items.

² The document is available online at <http://gfoa.org/establishing-government-charges-and-fees>

³ Please see initiative PP01 in the Prioritization and Process Improvement chapter for more discussion of cost recovery within the parks and recreation system.

RD02 Institute inspection service charge for Weights and Measures

Responsible parties	Commissioners; Weights and Measures
Target date for next step	Enact fee as soon as practical
Progress measures	Cost recovery for operation (revenues divided by total cost of operations)

The Weights and Measures Department inspects gas station pumps, scales, and other measurement devices at delis, supermarkets, and hospitals. The County currently has one employee in the Department who completes approximately 1,500 inspections each year. Total costs for the Department were \$64,000 in the 2018 budget, and there were no revenues generated by the Department.

This is not a mandated service for Pennsylvania counties. Counties may use their own employees to conduct these inspections, or they may rely on inspectors from the Commonwealth's Department of Agriculture (DOA). Butler, Lawrence, Fayette and Washington counties rely on the DOA while Allegheny, Greene and Westmoreland counties have their own staff.

The Department of Agriculture has two general inspectors and one special inspector for the 10-county region that includes Beaver County. Currently, the Commonwealth conducts some inspections in Beaver County for technically complex devices. In Spring 2018 we contacted the DOA representative to discuss the viability of shifting all inspections to DOA. At that point the representative expressed concern whether his small staff would be able to handle the additional workload. At that point the DOA would not have been able to provide the same level of coverage that the County does on its own.

Based on that information, we recommend that the County focus on recovering its costs for these services in the near term and revisit a potential shift to the Commonwealth in a year or two.

Pennsylvania counties may charge a fee for inspections to cover the operating costs of their departments. Westmoreland County currently charges fees for inspection of devices ranging from \$14 to \$89 depending on the device. Beaver County's Weights and Measures inspector mentioned that he previously developed a proposal to begin charging fees for inspections. We recommend that the Commissioners review the proposed fee schedule, amend it where needed and adopt it to begin recovering its costs.

The County should contact the DOA again in late 2019 or 2020 to see if DOA has enough capacity to handle this function.

RD03 Increase grants management capacity for Waste Management

Responsible parties	Commissioners; Waste Management
Target date for next step	Discuss potential reassignment of staff in 2018
Progress measures	Additional grant revenues relative to baseline projection

The Waste Management Department generates revenues from four main sources:

- Grants from the Pennsylvania Department of Environmental Protection (DEP)
- Fees from the County’s composting facility for incoming yard waste materials and sale of the finished product
- Sale of recyclable materials to private companies for further processing
- Sustainability fees negotiated with participating landfills in Beaver County

The amount of revenue the Department generates depends in part on its ability to track recyclable tonnage figures that the Commonwealth uses to make grant awards. The County’s Waste Management Department currently has four positions (Director and three staff who manage operations). Previously the Department had an assistant director and an administrative position. The County eliminated those positions and now many of the administrative tasks fall to the Director.

As shown in the table below, grant revenues have increased between 2012 and 2016 due to the implementation of new programs under the current Director, who was appointed in 2013. The variation in revenues between each year is partially driven by the structure of each grant. Section 901 and 902 grants are awarded for the development of a discrete plan or program, and the revenues are not intended to fund ongoing operating costs. Section 903 grants are tied to the allowable costs for the County’s designated recycling coordinator. The grants cover 50 percent of the wages and benefit as well as 90 percent of education and travel expenses. Section 904 grants depend on the County’s recycling rates for materials.

Total Grant Revenues

Grant	Purpose	2012	2013	2014	2015	2016	2017	2018
		Actual	Actual	Actual	Actual	Actual	Budget	Budget
Section 901	Waste management planning and educational activities	93,344	63,664	0	0	0	90,000	90,000
Section 902	Program development and implementation	0	51,552	0	217,932	0	230,000	0
Section 903	50% of County recycling coordinator expenses	0	35,243	34,745	36,958	43,897	34,000	38,000
Section 904	Performance grants	0	52,857	44,269	52,110	85,770	80,000	160,000
Total Revenues		93,344	203,317	79,014	307,000	129,667	434,000	288,000

Comparing the budget to the estimated amounts for 2017 illustrates how available cash and staff capacity of the Department can impact the timing of when the County receives the revenues. The Section 901 and 902 grants included in the 2017 budget cover a two-year period, and the County will most likely receive the money in 2018. The County must make expenditures for grant-funded activity and then submit them to DEP for reimbursement. The Director cannot control cash flow issues that impact the timing of grant spending; however, if the County reduces her administrative duties, she will have more time to complete the grant reports for DEP.

2017 Grant Revenues

Grant	2017 Budget	2017 Estimated	Difference
Section 901	90,000	44,113	(45,887)
Section 902	230,000	0	(230,000)
Section 903	34,000	42,929	8,929
Section 904	80,000	128,889	48,889
Total Revenues	434,000	215,931	(218,069)

The grant estimates for 2017 also show the impact of new programs that the Director has established. The Director was able to secure an additional \$44,000 for an open Section 901 grant to support the development of a waste management plan. The estimated Section 904 grant revenue in 2017 was higher than it had been in prior years. Revenue from this grant program is driven by recycling volumes reported to DEP, and each additional ton of material generates \$10 for the County.

If the County can give the Director some administrative support, the Department will have more capacity to potentially secure larger grant awards by developing new recycling programs and gathering sufficient data for grant reporting. The administrative support would also free the Director to identify other projects for potential grant funding. As an example of these types of projects, Beaver County recently used grant sources to establish an educational program for paint recycling. Finally, the staff support would give the Director more time to submit grant reports and minimize the lag between the County's expenditures and reimbursement from DEP.

Given the challenges outlined in the Financial Condition Assessment, the County is not able to increase staffing in many departments. Instead the County should consider re-assigning staff from another department to Waste Management or splitting their duties between their current office and Waste Management. One possibility that the Board should consider is assigning one of the three administrative staff in the Commissioner's Office to support Waste Management.

RD04 Improve cash management through the auditing process

Responsible parties	Controller; Treasurer; Multiple departments
Target date for next step	See below
Progress measures	Increased interest earnings; reduce the number of audit findings related to cash management

In August 2017, the County Controller released an audit of the County Recreation Department's internal financial controls for 2015 and 2016. The Controller's recommendations included:

- Replacing the outdated cash registers
- Keeping current day receipts separate from prior days' receipts
- Securing cash receipts during employee breaks
- Depositing cash to the bank on a daily basis, instead of bringing it to the Treasurer's Office

The Recreation Department is unique since it is located at Brady's Run Park, not at the County Office Building in Beaver Borough. That Department's process for depositing cash receipts at the bank will naturally be slower so long as someone carries the actual cash to the Treasurer's Office and then that office prepares the deposits. Even so, that process should not take 15-20 days as the Controller noted with the Recreation Department holding the cash until it is transferred to the Treasurer and the Treasurer holding it until they do their deposit.

The Recreation Department should improve its cash management as recommended by the Controller, and the County should use this process as a template for improving its cash management throughout the organization. Many departments receive cash payments for taxes, fines and service charges and they may have similar issues to those that the Controller identified in Recreation. The County has a fragmented system for receiving cash payments, with different departments and row officers collecting different types of payments, and the County does not use one platform to manage all transactions⁴.

The Controller's webpage has similar audits for some other County departments and row officers, but we do not know how often audits are conducted or whether there is a regular cycle for reviewing all departments⁵. We did not find an audit of the Treasurer's Office, which seems like a natural priority given its role in cash management. We encourage the Controller to continue this work, prioritizing the departments or row offices with the highest volume of cash transactions, like the Treasurer's Office, and cycling through all of them over a period of time, then starting over.

We also recommend that the Controller, Treasurer and Commissioners do a broader review of the County's cash management and investment processes and policies. The Controller's finding that the Treasurer's Office "can take up to a week to process the deposits when they are busy" suggests the County may be missing opportunities to increase its interest earnings, whether that is through more timely deposits, concentrating its investments in higher yield accounts as much as the law allows or other strategies.

Another initiative: Market Based Revenue Opportunities

Some governments have entered into marketing, concessions, advertising and sponsorship agreements -- known as market based revenue opportunities (MBROs) -- to generate additional non-tax revenues. While it is important for MBRO programs to operate within locally established policy guidelines to avoid excessive commercialization and remain consistent with community values, these initiatives can provide another source of revenue or improvements that the

⁴ Please see the Prioritization and Process Efficiency chapter for more discussion of consolidating financial management functions into one integrated platform.

⁵ The Controller did not participate in our Management Review process. The audits posted online are available at <http://www.beavercountypa.gov/Depts/Controllers/Pages/CurrentAudits.aspx>

government cannot afford on its own. Efforts elsewhere have included “street furniture” programs subsidized by limited advertisement, naming rights for major facilities and events, pouring or concessions rights in public facilities and other types of indoor and outdoor advertising.

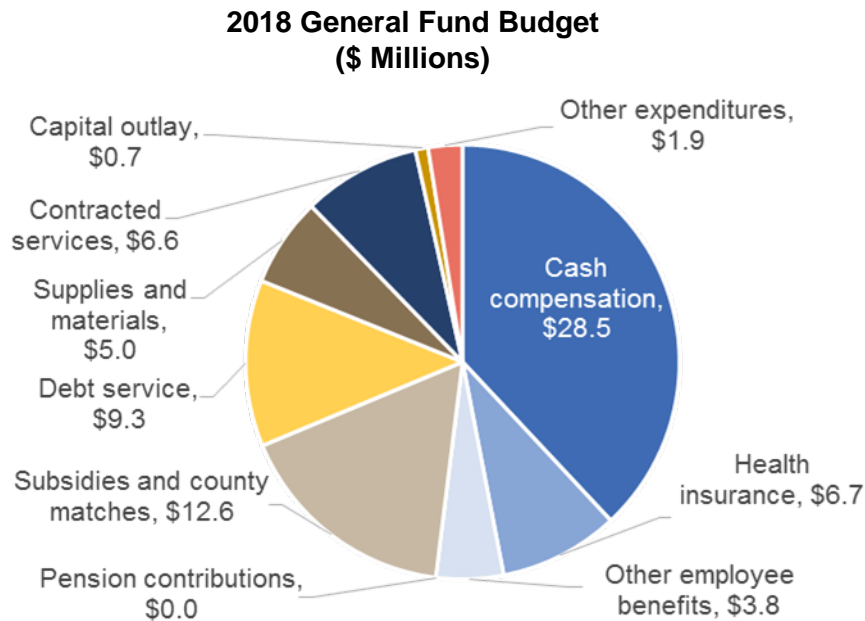
If the County is interested in pursuing this idea, it would ideally do so holistically, starting with an inventory of all of its assets and revenue generating opportunities, then establishing a policy that defines what is acceptable, and then using an external subject matter expert to secure sponsorships and manage the program. That would give the County oversight of the program to ensure it adheres to community standards, minimize administrative oversight, and maximize the expertise that others outside County government have for running these programs.

At the time of this report’s publication, the County does not have the administrative or the financial management capacity at the top organization to launch that kind of comprehensive effort. So the County may wish instead to pursue a more limited program focused on its parks and recreation assets with the guidance of the Recreation and Tourism Director who is familiar with this concept until such time that a more extensive program can be launched.

Compensation Cost Control

The prior two chapters outlined strategies for increasing Beaver County's revenues. Now we turn our attention to the County government's expenditures, most of which relate to employee compensation.

The County's 2018 General Fund budget is \$75.1 million and more than half of that amount is directly related to employee compensation. The blue-shaded portions in the pie chart below show the County's allocation for cash compensation, health insurance and other employee benefits¹. That 52 percent share understates the County's commitments in two ways. It does not include any contribution toward employee pension plans, which was zeroed out in the 2018 budget. It also does account for the money that the County transfers from its General Fund to other funds, which then pay the costs of employee compensation. That transfer payment is part of the \$12.6 million allocated for subsidies and county matches.



As described in the Financial Condition Assessment, the County's spending on cash compensation (e.g. salaries, overtime, premium payments) was expected to flatten in 2017 after growing around 2.0 percent annually from 2012 to 2015. Spending on health insurance grew faster (6.4 percent from 2012 to 2016) and the County's spending on its pension obligations has been volatile, though the dollar amount for the pension contribution (\$2.1 million budgeted in 2017) has been relatively small in comparison to spending on cash compensation and employee benefits. Overall the County's General Fund expenditures on employee compensation grew by 3.6 percent per year from 2012 through 2016.

Coupled with the flat growth in County revenues, these trends leave Beaver County with a structural deficit. The 2018 budget balances revenues against expenditures, albeit it partially with the use of short-term fixes like zeroing out the pension contribution. If the County's largest

¹ Please see the Financial Condition Assessment for analysis of these expenditure categories, including discussion of historical trends and projections in a baseline *status quo* scenario.

source of revenues (real estate tax) barely grows at all absent tax increases and compensation costs grow at the historical 3.6 percent, then the County's budget will fall out of balance. Even if the County could get its real estate tax revenues to grow 2.3 percent per year, in line with inflation, that would not be enough to balance its budget on an ongoing basis.

We recommend two broad goals in response to this obstacle – keeping future growth in cash compensation at inflationary levels for those employed by County government throughout this projection period and stabilizing growth in their employee benefits costs. The rest of this chapter outlines strategies in support of those goals. The next chapter outlines strategies to reduce the total size of the County government workforce so that Beaver County government has more money to invest in its own infrastructure.

Mission to Measurement: Compensation Cost Growth

Mission	To be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.	
Obstacles	Compensation costs growing faster than revenues	
Goals	Keep cash compensation growth at inflation	Stabilize growth in fringe benefit costs
Strategies (Assigned Dept)	Evaluate cost of proposals during collective bargaining (Finance, HR, Law)	
	Manage total head count (Commissioners, HR, Salary Board)	Cost control measures for employee health insurance (Finance, HR, Law)
	Moderate wage growth (Finance, HR, Law)	Build and maintain reserve in medical ISF (Finance, HR)
	Monitor overtime and salary expenditures for EMS, Jail and Sheriff's Office (Finance, Departments)	Build and maintain reserve in workers' compensation ISF (Finance, HR)
Measures	Savings relative to baseline	Sum of salaries plus overtime relative to budget for EMS, Jail and Sheriff
	Actual FTEs relative to current budget	Medical ISF cash balance relative to prior year's claim expenditures
	Actual FTEs relative to 2016 budget	Workers' Comp ISF cash balance relative to prior year's claim expenditures
	Sum of salaries plus overtime relative to prior year for EMS, Jail and Sheriff	

CC01 Evaluate the cost of proposals to calculate savings achieved during collective bargaining

Responsible parties	Finance, Human Resources, Law
Target date for next step	Immediately to inform ongoing negotiations
Progress measures	Savings relative to baseline

Beaver County has a unique opportunity and critical responsibility in the current round of collective bargaining. Eight of the nine collective bargaining agreements that govern employee compensation expire at the end of 2018 or 2019. The County recently finished negotiations with the Corrections Officers unit.

The County needs to achieve savings during these negotiations relative to the baseline projection described in the Financial Condition Assessment chapter of this report. Employee compensation accounts for too much of the General Fund budget and the implications for filling the projected deficit solely through tax increases and position cuts are too negative for that to be a viable strategy.

The County's Finance, Human Resources and Law Department should work together to evaluate the cost of the County's salary, health insurance and other compensation proposals; evaluate those from the collective bargaining units; and track the savings relative to the baseline projection.

The baseline projection uses several key assumptions about how employee compensation grows, such as assumed 3.0 percent annual base wage increases. **It is possible for the County to save money and close a portion of the projected deficit while still granting some base wage increases, but the County has to know how the wage proposals compare to the baseline².**

More generally the County needs to know what portion of the projected deficit it is filling through collective bargaining, otherwise it will be more dependent on tax increases or service reductions to fill the same hole. In some governments this costing analysis is handled by Finance staff. In others it is provided by external contractors. In all cases it is critical to successful negotiations.

CC02 Carefully manage headcount to realize savings from 2016 early retirement incentive

Responsible parties	Commissioners, Human Resources, Salary Board
Target date for next step	Throughout year as vacancies occur and during annual budget process
Progress measures	Actual FTEs relative to current year budget; Actual FTEs relative to 2016 Budget

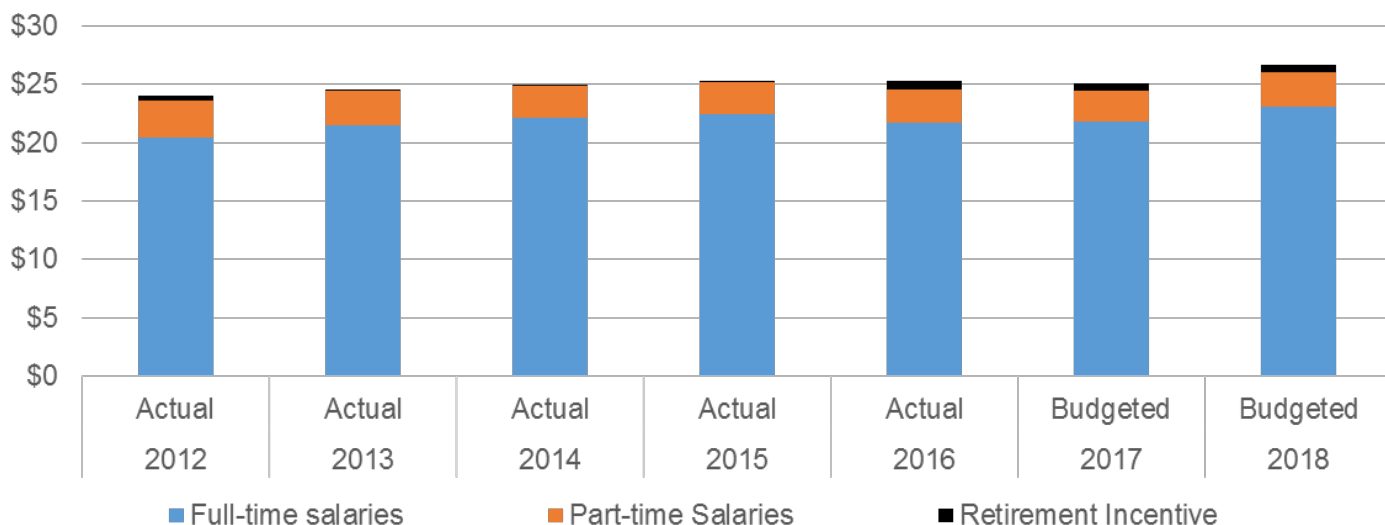
² Please see the Financial Condition Assessment for more discussion on these assumptions.

In 2016 Beaver County offered an early retirement incentive to employees whose age plus years of service equaled at least 75 (i.e. 50 years old with 25 years of service, 55 years old with 20 years of service). The County eliminated or kept vacant positions held by the employees who participated in the program and the County's spending on full-time employee salaries dropped by \$0.7 million in 2016.

The County also had offsetting costs related to the program. Payouts to program participants started at \$727,000 in 2016. Some employees who left full-time positions then took part-time positions so the County's total spending on part-time employee wages increased by \$95,000 over 2015 levels. In 2016 the reduction in full-time salary spending was offset by higher spending on part-time wages and the incentive payouts³. So the immediate short-term effect of the program was to zero out growth in these cash compensation categories, as opposed to the 1 – 2 percent growth experienced beforehand.

There is an opportunity for the program to generate more savings in cash compensation in the years ahead. The payouts for the 2016 early retirement incentive program dropped to \$658,000 in 2017, then to \$576,000 in 2018 and 2019 and then to zero. Meanwhile the County's salary spending should stay lower **if the County manages its head count carefully going forward**. If the County adds new positions to the budget, replacing the ones that were eliminated in the 2016 program, then the program has less of an impact.

Spending on Full-time Salaries, Part-time Wages and Retirement Incentive (\$ Millions)



We do not know how many new positions are included in the 2018 budget because the budget document itself does not list the number of positions. But the 2018 budget adds \$1.3 million (or 6.0 percent) to full-time salaries relative to the 2017 budget⁴ and some of that increase is likely due to new positions.

³ The County also should have received some savings from reduced expenditures on employee health insurance as the roster of full-time employees dropped. For reasons described later in this section, the County's General Fund expenditure figures do not provide enough information to calculate those savings.

⁴ The 6.0 percent growth cited here compares one budgeted year to another. The County generally budgets a full year of salary for each full-time position so it is likely that actual spending will be lower than budget because of turnover and position vacancies.

Going forward the County should monitor its total number of FTEs relative to the current year budget and relative to the number of FTEs when the County offered the early retirement incentive in 2016. The Commissioners and Salary Board should continue to carefully review any requests for new positions. This is especially important for 2018 and 2019 while the County is still paying \$0.5 million a year toward the 2016 early retirement incentive.

To our knowledge there is not a standard report on the number of filled positions relative to budget within Beaver Government during the year. Working with information technology as necessary, Human Resources should generate this report at least on a quarterly basis for the Commissioners. The report should also show the number of filled and vacant positions by fund so that it is clear how vacancies are affecting the County's spending.

CC03 Moderate wage growth in future collective bargaining agreements

Responsible parties	Finance, Human Resources, Law
Target date for next step	Immediately to inform ongoing negotiations
Progress measures	Savings relative to baseline

The County spends most of its General Fund budget on employee compensation and the largest piece of that total goes to employees' salaries and wages. In recent years Beaver County employees have negotiated or received through interest arbitration base wage increases ranging from 1.5 percent to 4.5 percent⁵. Employees who are not represented by a bargaining unit received a 3.0 percent base wage increase in 2018 after three years of base wage freezes in 2015, 2016 and 2017. Some employees are also eligible for a second tenure based "step increase" during their career.

The baseline projection assumes 3.0 percent annual base salary increases for all employees each year after the current collective bargaining agreement or arbitration award expires. This is not a recommendation for the ongoing collective bargaining negotiations. The baseline projection shows a multi-million dollar deficit each year after 2018 so, absent other corrective actions, the County will not be able to afford the assumed wage increases in the baseline. In line with the overall projection methodology the baseline reflects the impact of recent trends continuing into the future.

The most straightforward strategy for achieving savings is to negotiate wage increases that are less than the 3.0 percent in the baseline assumption. Other changes to salary scale, like freezing advancement through stepped schedules to avoid the double wage increase references above, are also possible and may achieve similar savings depending on the bargaining unit.

To demonstrate the magnitude of focusing on this one aspect of employee compensation, the table below shows the aggregate savings achieved across all bargaining units⁶ by offering

⁵ Please see the Financial Condition Assessment for detail on how base wage increases vary by bargaining unit.

⁶ These savings calculations assume each of the following scenarios applies to a bargaining unit when its collective bargaining agreement expires. For court appointed clerical workers (contract expired in 2015), it assumes a 2018 start date. For non-represented employees it assumes a 2019 start date. For corrections officers it assumes a 2018

different levels of base salary increases. These estimates include additional savings from other elements of compensation indexed to base salaries, like overtime or the County's share of federal payroll taxes. There would be additional savings not shown below for the County's General Fund match to other funds such as Children & Youth Services and Domestic Relations.

Base Salary Savings Relative to Baseline Assumption (\$ Millions)

	2019	2020	2021	2022	2023
Baseline: 3 percent annual base wage increases	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Scenario 1: 2 percent annual base wage increases	\$0.1	\$0.1	\$0.5	\$0.8	\$1.2
Scenario 2: Wage freeze in Year 1 followed by 3% increases	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
Scenario 3: Wage freeze in Year 1 followed by 2% increases	\$0.2	\$0.2	\$0.6	\$0.9	\$1.3
Scenario 4: Wage increase of 1% in Year 1, 2% in Year 2 and 3% thereafter	\$0.1	\$0.2	\$0.2	\$0.2	\$0.2

CC04 Monitor overtime and salary expenditures for Emergency Services, the Jail and the Sheriff's Office

Responsible parties	Finance, Emergency Services, Jail, Sheriff's Office
Target date for next step	Beginning with mid-year 2018 results and then quarterly or semi-annually ⁷
Progress measures	Sum of salaries plus overtime relative to budget; Sum of salaries plus overtime relative to prior year

The County allocated \$1.4 million for overtime in its 2018 General Fund budget with most of it allocated to the Jail (\$716,000), Sheriff's Office (\$265,000) and Emergency Services (\$130,000). These public safety operations require some amount of staffing 24 hours a day so overtime may be used to cover vacancies or handle critical tasks occurring after regularly scheduled shifts.

Sheriff overtime

If a government uses overtime to consistently fill vacant shifts, the increase in overtime may be offset by a reduction in salary spending. So the County should review the total spending across these categories (salaries and overtime) to see if trends in one offset the other.

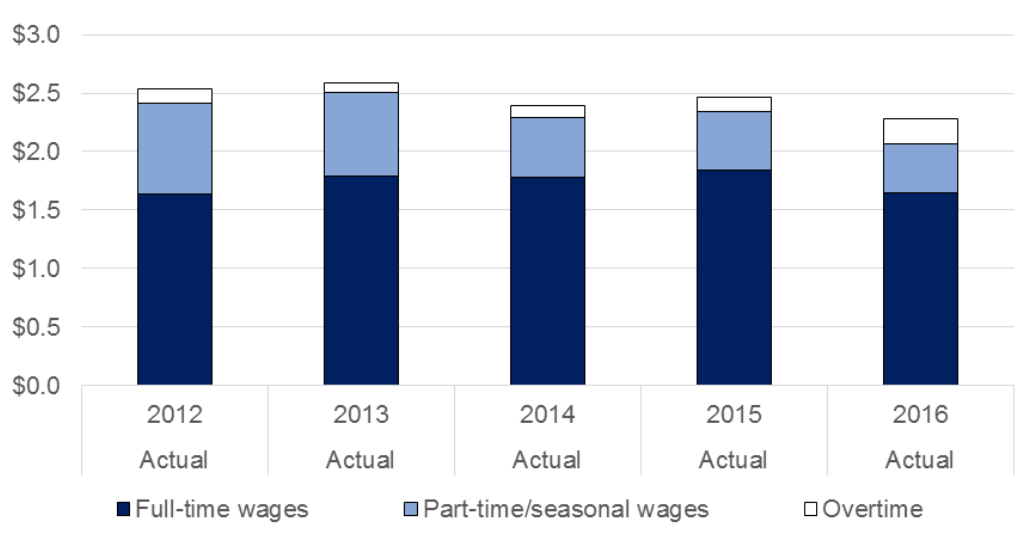
That was the case for the Sheriff's Office where overtime increased by \$92,000 over the five-year period shown below (and most of that in 2016) while spending on salaries for full-time and part-time employees dropped by \$347,000. Headcount in the Sheriff's Office also decreased

start date, though the County subsequently negotiated a new contract with the corrections officers that covers 2018 through 2020. So the soonest the pattern could be applied for that group is 2021.

⁷ This should be part of the quarterly budget-to-actual reports described in initiative BC01 of the Mission Review chapter.

over this period from 46 full-time equivalents (FTEs) to 36 according to the position counts presented in the County’s comprehensive annual financial report.

Sheriff’s Office – Salaries, Wages and Overtime (\$ Millions)



The Sheriff noted that a portion of his overtime expenditures is driven by his responsibility for prisoner transport and security. He cited a case where the Office had to station a deputy sheriff at a hospital in Pittsburgh during a prisoner’s medical stay. The Sheriff noted that he does not control the number or length of these transports. That is largely a byproduct of the judicial process and the fact that the County Courthouse in Beaver Borough is eight miles away from the County Jail in Aliquippa.

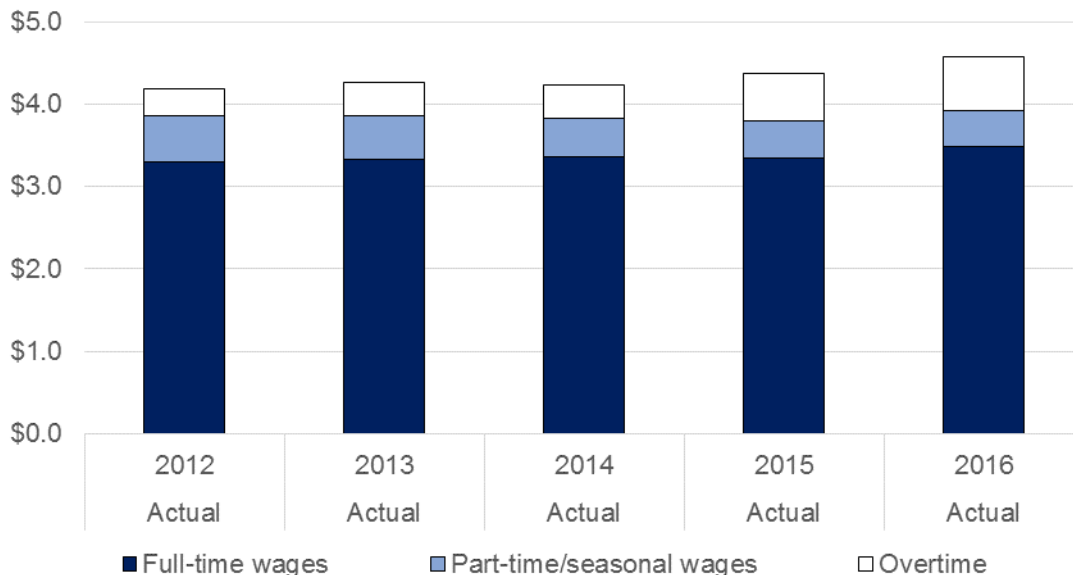
The Sheriff does have guidelines for how he staffs prisoner transport. We encourage the Commissioners to meet with the Sheriff and Court Administrator⁸ about the number and types of prisoner transports, if they have not already done so, and the County to track overtime related to prisoner transport to get a better handle on how much aberrations like the Pittsburgh hospital stay drive overtime spending.

Jail overtime

The trend at the Jail over this period is different. Salary spending there was flat for four years and then increased by 3.6 percent in 2016. Overtime spending increased in three of the five years shown below so total spending across both categories also increased.

⁸ For its part the Court has taken steps to use technology, video arraignment, to reduce some of the need for prisoner transport. Please see the Prioritization and Process Efficiency chapter for more information.

Jail – Salaries, Wages and Overtime (\$ Millions)



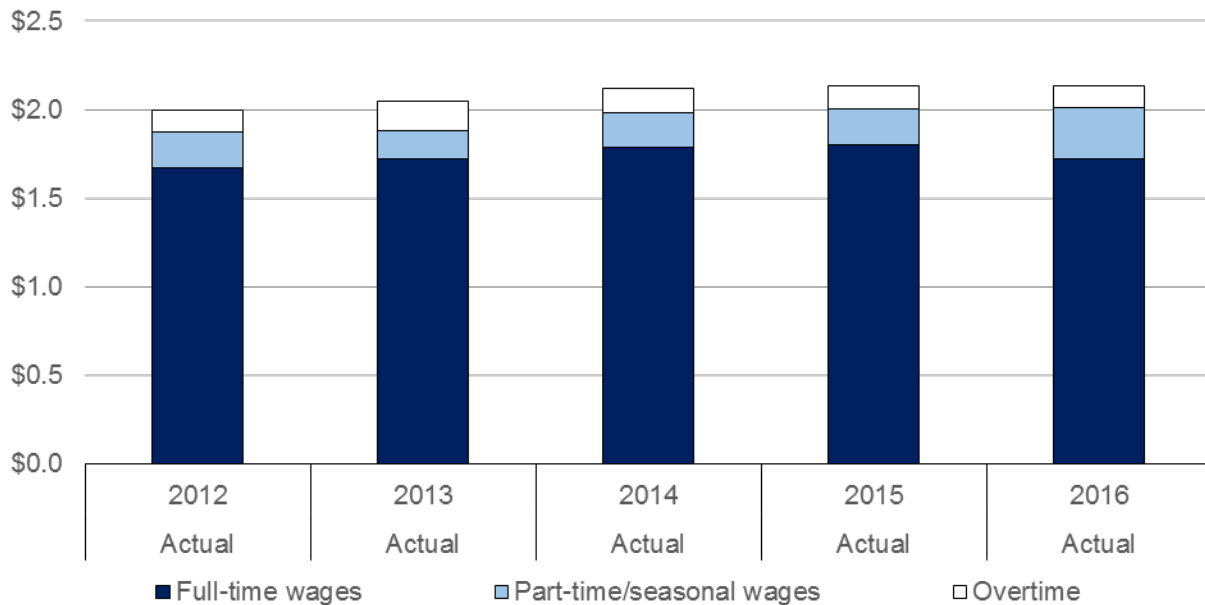
During the departmental interview with the Jail, the Warden attributed the growth in overtime to the difficulty in filling part-time correctional officer positions which leads to lower staffing levels and higher overtime usage. The County and the bargaining unit representing part-time corrections have discussed increasing the hourly rates for part-time corrections officers to make the County's vacant positions easier to fill.

While this is a logical approach, it also involves a risk on the County's side that the wages will increase and overtime will not drop if there are other factors driving overtime usage. For example, there may be other reasons besides hourly wages that make the part-time corrections officer positions hard to fill or other drivers of overtime unrelated to the level of part-time employees. Overtime is often not a direct function simply of staffing levels. Tracking overtime usage and headcount for part-time and full-time employees will allow the County to monitor whether its investment in higher part-time wages would pay off in reduced overtime.

Emergency Services overtime

This same approach should be applied to Emergency Services, where overtime increased by \$38,000 from 2012 to 2013 and then dropped back to 2012 levels. Total spending on overtime, full-time salaries and part-time wages increased by 1.7 percent per year and less than one percent in 2015 and 2016. In this case the County should monitor its staffing levels for the supervisor position to ensure adequate coverage.

Emergency Services – Salaries, Wages and Overtime (\$ Millions)



CC05 Manage growth in employee health insurance expenditures

Responsible parties	Finance, Human Resources, Law
Target date for next step	Immediately to inform ongoing negotiations
Progress measures	Savings relative to baseline

Beaver County provides its employees with medical and prescription drug insurance through an Exclusive Provider Organization (EPO) plan provided by UPMC. As of late 2017 all employee groups had the same insurance plan, but they make different levels of monthly contributions toward the cost of that plan, have different deductibles and have different copayments depending on their bargaining unit status.

Beaver County is self-insured for medical and prescription drug insurance, meaning the County pays the actual cost of claims as they are incurred, up to a certain amount at which point the County’s “stop loss coverage” kicks in. This differs from a “fully insured” arrangement where the County would pay an insurance company a monthly premium amount per employee, regardless of the level of medical care actually used during that month⁹. In the self-insurance arrangement, the County accepts the risk that the cost of claims may be higher than monthly premiums would be in exchange for savings whenever the cost of claims is lower than those premiums.

While the County does not pay a premium, it is common for there to be a premium equivalency rate that shows the estimated cost of the insurance provided. According to the County’s third

⁹ Beaver County is fully insured for dental and vision coverage. There is no employee contribution toward the cost of premiums.

party administrator, the forecasted cost for the County's plan (medical plus prescription) in 2018 is \$7,597 for single coverage and \$22,016 for family coverage¹⁰. In comparison the national average premium for all plans across all types of employers in 2017 was \$6,690 for single coverage and \$18,764 for family coverage¹¹. The national average premium cost for insurance plans provided by state and local government employers in 2017 was \$7,090 for single coverage and \$18,581 for family coverage¹².

One option for Beaver County to control the growth in its health insurance costs is to change the plan offered to employees or offer more than one plan with different employee contribution levels. Butler County offers its employees a Preferred Provider Organization (PPO) Plan and a lower cost Community Blue Flex Plan. Employees can choose either plan, but they have to pay a higher share of the premium costs for the more expensive plan. Other governments offer a high deductible health plan that has lower premium costs and a higher deductible, the cost of which can be partially offset through a health savings account funded in part by the employer.

Employee cost sharing measures

Beaver County employees contribute to the cost of their health insurance in two ways. First, employees contribute a portion of their base salary each paycheck to the County fund that pays medical claims. Employees make these contributions regardless of how much they use the insurance coverage. In 2017 employees contributed 2.0 percent to 3.0 percent of their base salary toward the cost of health insurance. Those percentage contributions increased to 2.25 to 3.5 percent of base salary for 2018, depending on the bargaining unit.

Nationally and regionally it is more common for employees to make monthly premium contributions tied to the cost of their health insurance instead of their wages.

- The national average for employee premium contributions, across all types of health plans and all types of employers, was 18 percent (or \$1,213) for single coverage and 30 percent (or \$5,712) for family coverage in 2017¹³.
- Regionally Butler County employees pay 5 to 6 percent of premium for the lower cost plan and 10 to 12 percent for the higher cost plan.
- Washington County employees pay 10 to 12.5 percent of premium, depending on the bargaining unit.
- Franklin County employees pay 11 to 17 percent, depending on the level of coverage (i.e. single, dual, family).

Given the range of plan types, contribution structures, labor agreement provisions and other variables, it is difficult to succinctly compare Beaver County's employee contribution structure to

¹⁰ This is UPMC's forecast for Administrative Services Only (self-insured) premium rates. If the County were to get the same level of coverage with a fully insured plan in 2018, the rates would be \$9,238 for single coverage and \$26,771 for family coverage. These rates do not include rebates that the County receives related to prescription drug coverage.

¹¹ 2017 Kaiser Family Foundation Annual Survey on Employer Health Benefits, pages 25-26.

¹² Ibid, page 29. Please note this is a national average for all state and local government employers across all types of health insurance plans.

¹³ Ibid, page 77.

other Pennsylvania County governments. As noted above employee contributions in Beaver are tied to base salary, so they vary according to the employee's position and tenure. Beaver County also does not differentiate between the cost of single and family coverage, though the latter is certainly more expensive. A quick review of the lowest and highest base salaries for five collective bargaining units indicates annual employee contributions ranged from \$700 to \$2,600 per year in 2017. The highest salaried employees in Beaver County may have contributed more than the national average for single coverage in 2017 (\$1,213), but Beaver County employees at any salary level almost certainly contributed much less than the national average for family coverage (\$5,712), which is the most common type of coverage among County employees.

The second way that Beaver County employees contribute toward the cost of health insurance is through the deductibles and copayments they make when they receive care. Most employee groups had a \$500 single/\$1,000 family deductible in 2017, though it was possible to have the deductible waived through participation in an employee wellness program. Copayments for Beaver County employees generally range from \$10 to \$150 depending on the type of care received (primary care, specialist or emergency room visit) and the collective bargaining unit.

Another option for controlling the growth in employee health insurance costs is to increase these employee contributions or change how they are structured (i.e. tied to cost of insurance instead of employee salaries). At a minimum employees using more expensive levels of coverage (parent/child, family) ought to contribute a higher amount to the cost of their insurance than employees using single coverage.

The County will have to pursue these types of changes through the ongoing collective bargaining process for most employees, which means the County will have to know the value and cost of the proposals discussed in negotiation. As a starting point the County should discuss the cost of its current health plan with its third party administrator and how total costs would change under different plan offerings. Once the County has this information, it can also determine which changes to the employee contribution structure have the most impact.

This will give the County a more informed approach to controlling the cost of its employee health insurance than simply asking unions for marginally higher employee contributions as a percentage of base salary and hoping those increases generate meaningful savings.

CC06 Build and maintain a reserve in the medical insurance fund

Responsible parties	Finance, Human Resources
Target date for next step	Reserve levels should be reviewed during annual budget process
Progress measures	Internal service fund cash balance relative to prior year's claim expenditures

Beaver County uses an accounting mechanism called an Internal Service Fund (ISF) to manage its costs for employee medical, prescription drug and other types of insurance coverage. Each year during the budget process the County calculates a dollar amount per employee that represents a portion of the County's total estimated cost for insurance the next

year¹⁴. The County takes the number of positions in each fund, multiplies that number by employee figure and then charges each fund an amount based on that calculation. The medical insurance numbers that appear in the General Fund budget are not the actual cost of insurance claims, but an estimate of what they will be. This is a common mechanism for ensuring that different departments, including those for whom employee medical insurance is a reimbursable expense, are charged a portion of the total costs.

The Medical ISF takes the contributions from other funds, contributions from employees as described above and other miscellaneous revenue on one side of the ledger and pays the actual cost of insurance claims, administrative costs and miscellaneous expenditures on the other. The table to the right shows the Medical ISF budget for 2018.

If the County spends more on insurance claims than it puts into the Medical ISF, then the County has a deficit in that fund, which eventually gets repaid by increasing the contributions from all other funds. That was the case in years leading up to 2016. And if the County spends less on insurance claims than it puts into the Medical ISF, as projected for 2018, then the Medical ISF builds a cash balance.

There is no guarantee that the County will actually spend \$580,000 less on health insurance than it puts into the Medical ISF – that’s the risk inherent in being self-insured. If the County has a higher than expected volume of claims or more expensive claims, then the County could have a deficit in the medical ISF and higher contributions from all other funds going forward.

In recent years the County has been trying to balance the needs of the General Fund (which contributes to the Medical ISF) and the needs of the Medical ISF (which pays medical care providers). In 2017 the County increased the employee monthly charge from \$1,200 to \$1,600 to retire the aforementioned deficit in the Medical ISF. In 2018 the County lowered that charge from \$1,600 to \$1,400 – not because the cost of health insurance was expected to drop by 12.5 percent, but because the Medical ISF deficit had been retired.

Because the County is self-insured and generally has low cash reserves, we recommend that the County maintain a balance in its Medical ISF of at least \$2 million, which is close to two months’ worth of medical claim costs. This is an important contingency so that, in a year where insurance claim costs do outpace projections, the County does not have to go back to the other funds midway through the year and try to “find the money” so medical bills are paid on time.

	FY2018 Budget
Interest	\$50
COBRA Health Monthly	\$100,000
Employee contributions	\$800,000
Employer contributions	\$9,500,000
Rebates	\$200,000
Medical ISF Revenues	\$10,600,050
Misc. contracted services	\$120,000
Other insurance	\$0
Admin expense	\$900,000
Medical claims	\$6,000,000
Pharmacy claims	\$3,000,000
Medical ISF Expenditures	\$10,020,000
Medical ISF Annual Result	\$580,050

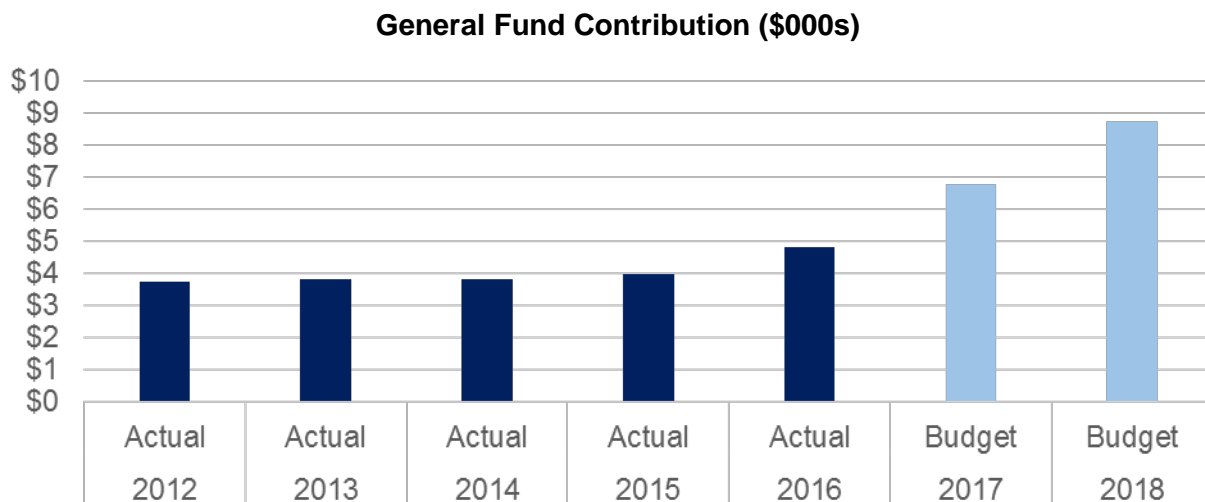
¹⁴ This is a flat dollar amount, irrespective of what level of coverage employees have. So an employee with single coverage costs the same amount as an employee with family coverage in this calculation.

This recommendation is already factored into the baseline projection that assumes the County will increase its contribution to the Medical ISF by 4.0 percent in 2019, 4.5 percent in 2020, 5.0 percent in 2021, 6.0 percent in 2022 and 7.0 percent in 2023. The County's contributions are lower on a percentage basis than the projected growth in the insurance claim costs to prevent building an excessively large balance in the Medical ISF. The County should revisit these assumptions each year during the budget process and adjust the monthly contributions accordingly.

CC07 Build and maintain a reserve in the workers' compensation insurance fund

Responsible parties	Finance, Human Resources
Target date for next step	Reserve levels should be reviewed during annual budget process
Progress measures	Internal service fund cash balance relative to prior year's claims expenditures

The County uses a similar structure to cover its workers' compensation claims. Several funds, including the General Fund, contribute money to a separate Workers' Compensation Internal Service Fund which in turns pays the cost of those claims. The County is mostly self-insured for workers' compensation with an insurance policy that takes effect after an individual claim costs more than \$200,000. In recent years the County has significantly increased the General Fund contribution to the Workers' Compensation ISF. The historical and budgeted General Fund contribution toward this fund is shown below.



The County explained that the contributions in 2015 and 2016 were too low because the employee salaries used to calculate the level of coverage needed were underreported. The County also needs to avoid running a deficit in its workers' compensation ISF since the County would have to "find money" midway through the year to cover any deficit in that fund.

Similar to the medical insurance ISF, we recommend that the County build a cash balance up to a specific amount in the workers' compensation ISF as a contingency against higher-than-anticipated claims activity and then manage the contributions from other funds to avoid building an unnecessarily large balance in the ISF. The FY2018 General Fund budget is 81.5 percent (or \$392,000) higher than the actual contributions in 2016 and 28.9 percent (or \$196,000) higher than it was in the 2017 budget. As part of the annual budget process, the County should review the outstanding workers' compensation claim liabilities, review the cash balance in the ISF and determine whether these contributions can be scaled back.

We have not assumed any reduction in these contributions to the workers' compensation ISF during the projection period but the 2018 reductions to the medical ISF contributions raises the question whether that is possible here, too.

We also recommend that the County monitor injury related absences, claim levels and spending throughout the year for the handful of departments that likely generate most of these claims. The 2018 budget allocates most of the General Fund's workers' compensation contributions to the Jail (\$308,000); Public Works (\$159,000) and Sheriff's office (\$137,000). Claim activity levels in those departments will likely determine how much of a cash balance the County needs to maintain in the workers' compensation ISF and to what extent other funds' contributions to that ISF can be reduced. Injury related absences at the Jail and in the Sheriff's Office can also be a factor in those units' overtime usage.

Other initiatives

We recommend the initiatives described above as priorities given their potential financial impact and the urgency of making changes during the current collective bargaining process. As resources allow, here are other initiatives related to controlling employee compensation cost growth.

- **Update job descriptions:** The Human Resources staff note that the County needs to update its job positions to reflect changes in duties, technology and other developments since some of the descriptions were last written more than a decade ago. Updated job descriptions provide clarity on employee duties, eliminate confusion where the same position is referenced by different titles in different places and create efficiency where rigid readings of old job descriptions limit managers from deploying their workers to get work done. Central Services noted that rigid position descriptions make it difficult to shift workers from purchasing to mail processing, both functions of that small unit. As a result Central Services potentially has more positions than it needs to function efficiently, but *less* capacity since employees can't back fill for each other during absences or workload surges.
- **Update employee policies:** HR staff cited the need to update the policies that guide employee behavior in areas like social media or a drug-free workplace. With a large and diffuse workforce distributed across different sites and ten different employee groups¹⁵, it is useful to have clearly written, easily accessible policies to provide uniform professional standards across the organization. There may also be instances where a new or updated policy helps the County reduce or manage the costs of its general liability insurance coverage (\$555,000 budgeted for FY2018).

¹⁵ Beaver County has nine unions plus non-represented employees, who can be further separated by duties (i.e. elected officials, court system employees)

Debt and Capital

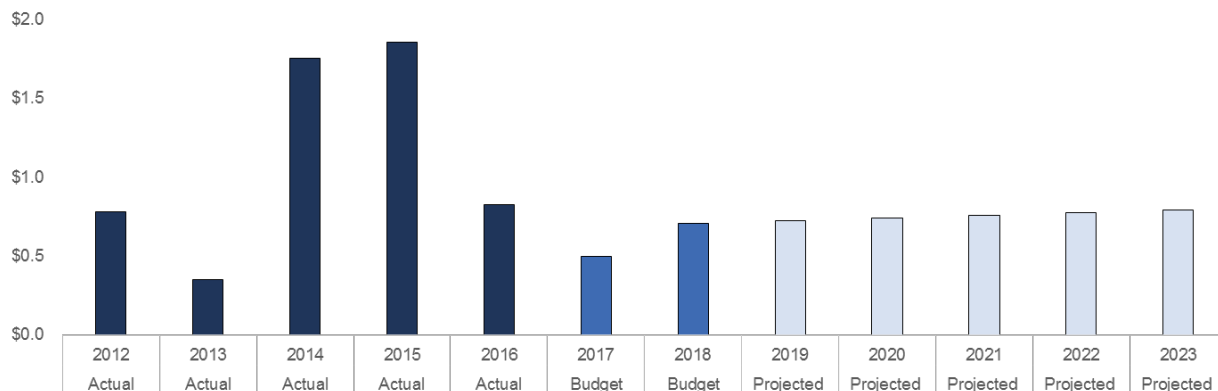
There is consensus among Beaver County’s elected and appointed officials that the County needs to invest in the buildings, facilities and other capital assets that are essential to County government’s work, including the following:

- County Courthouse and Parking Garage in Beaver Borough
- Human Services Building in Beaver Falls
- Beaver County Jail in Aliquippa
- Other smaller facilities for the District Magistrates, Emergency Services and other units of County government
- Seven parks and recreation facilities located throughout the County
- County-owned bridges and roads throughout the County

Other items like the vehicles used by Emergency Services and Public Works; equipment used by Waste Management; voting machines maintained by the Election Bureau; or computer hardware used by multiple departments straddle the line that distinguishes capital assets from operating equipment. Wherever they are categorized, those items have to be repaired and eventually replaced to keep County government running.

The County’s spending on capital improvements has been volatile and relatively small in recent years as shown in the chart below. Expenditures were highest in 2014 and 2015 when the County completed renovations at Brady’s Run Park. The other major expenditures during this period included new computer hardware and software and new equipment for Public Works and Waste Management.

General Fund Capital Outlays (\$ Millions)



There are two primary means to finance capital improvements – issuing debt and using currently available resources to “pay-as-you-go” (pay-go). Pay-go funding can come from a government’s reserves or annual allocations of current year revenue within the budget. A healthy government with a robust capital improvement plan will use debt and pay-go funding, matching the financing tool to the useful life of the asset. Debt is generally used to fund projects with a long useful life, like a new building, and pay-go to fund those with a shorter useful life, like most vehicle replacement.

Compared to other nearby Fourth Class Counties, Beaver County has a high debt burden. In 2015 the County had \$719.63 in total debt and capitalized leases per capita¹, which was 78.3 percent more than the next closest county and more than twice the average for Butler, Cambria, Fayette and Washington counties.

	Beaver County	Butler County	Cambria County	Fayette County	Washington County	Average
Population (2015 ACS 5-Year)	170,124	185,034	140,835	135,376	208,157	167,351
FY2015 Total Debt Outstanding And Capitalized Lease Obligations	\$122,426,626	\$46,720,653	\$56,850,245	\$23,697,769	\$49,646,402	\$44,228,767
Debt per capita	\$719.63	\$252.50	\$403.67	\$175.05	\$238.50	\$267.43

Beaver County did not spend an unusually high amount on capital in 2015. Beaver’s capital outlay was \$4.3 million (or \$25.19 per capita), which was less than half of what Butler County spent (\$51.68 per capita) and less than two-thirds what Washington County spent (\$40.76)².

It is hard to quantify exactly how much money the County should spend on capital improvements without first having a facility and asset condition assessment (a critical concept addressed later). But the information in the County’s annual audit provides the basis for one estimate:

- The 2016 audit shows \$187.9 million in capital assets across all of the County’s governmental funds. Most of that value is concentrated in buildings and improvements (\$89.8 million) or infrastructure (\$69.9 million) and the figures listed are based on the cost of those assets at the time of acquisition or construction. The budgetary cost to replace buildings and infrastructure built years ago is much higher now because of inflation.
- The value of the County’s assets depreciates over time according to their estimated useful life. The actual length of time that the County can use an asset without making major repairs or renovations will depend on factors such as how it is used, quality of construction, etc. But depreciation is a useful estimate of what the County needs to spend across all funds to keep the total value of its assets stable.
- The County can offset depreciation and increase the value of its capital assets by renovating or replacing existing assets or acquiring new ones. Minor repairs and regular maintenance do not count in this calculation.

The table below brings these elements together and shows Beaver County would’ve needed to invest \$7.4 million in 2016 to break even, and it instead invested about half of that target.

¹ The data presented here comes from DCED’s online database of municipal statistics. The 2015 results were the most recent available as of May 2018.

² Fayette County reported \$1.0 million in capital outlay or \$7.13 per capita. Cambria County did not report any capital outlay.

Value of Capital Assets and Target Investment Levels (\$ Millions)³

<i>Column</i>	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>
Category	Useful Life (Years)	Balance 1/1/2016	Additions 2016	Breakeven Target	% of Target
				<i>B/A</i>	<i>C/D</i>
Infrastructure	50	\$67.8	\$2.1	\$1.4	151%
Buildings and improvements	40	\$88.5	\$0.9	\$2.2	40%
Furniture and equipment ⁴	5-10	\$21.4	\$0.9	\$2.9	33%
Vehicles	5	\$4.9	\$0.1	\$1.0	11%
Total		\$182.7	\$4.0	\$7.4	54%

In the near term Beaver County will likely have to rely on pay-go funding to fund its critical capital improvements. The next chapter describes options for reducing the County’s operating expenditures to create room for that purpose. The rest of this chapter outlines three longer term initiatives so the County can eventually issue and use new debt to finance capital projects.

**Mission to Measurement:
Debt and Capital**

Mission	To be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.
Obstacles	Very high debt burden
Goal	Rely on pay-as-you-go funding in the near term and improve the County’s debt position in the long term
Strategies (Assigned Dept)	<p>Improve the County’s credit rating (Commissioners, Finance)</p> <p>Monitor debt levels and review opportunities for refunding which generate interest rate Savings (Finance)</p> <p>Develop a capital improvement plan (Finance, DPW, Liquid Fuels, IT)</p>

³ This does not include \$1.8 million in land and \$0.5 million in construction-in-progress since those assets do not depreciate from an accounting perspective.

⁴ The estimated useful life is five years for furniture and 10 for equipment. The audit does not separate the value of furniture from the value of equipment so we are using the 7.5 midpoint for the breakeven target calculation.

Measures	Credit rating
	Debt service as a percentage of operating expenditures
	Completion of a capital improvement plan

DC01 Improve the County’s credit rating

Responsible parties Commissioners, Finance

Target date for next step Analysis described below should occur this year with ongoing efforts to improve the rating

Progress measures Credit rating

When the County issued its Series 2017 refunding bonds in September 2017, Standard and Poor’s (S&P) issued a report evaluating the County’s credit rating, which measures the likelihood that the County will be able to pay its debt in full when due.

S&P downgraded the County’s credit rating from A- to BBB+, which is the equivalent rank of eighth highest out of ten on their scale of investment grade credits. Credits that fall below the tenth slot are considered non-investment grade or “junk bonds”. Beaver County’s drop from A- to BBB+ was the second downgrade in an 18-month span. S&P downgraded the County from A to A- in April 2016 when the County issued another series of bonds.

Credit rating downgrades are a troubling sign with a tangible cost.

Lower credit ratings translate to higher borrowing costs, which means Beaver County now has to spend more money to get the same amount of funding that it would’ve received with a higher credit rating. Of the 38 Pennsylvania counties that have received credit rating scores from Standard & Poor’s, Beaver County has the third lowest score. The table to the right shows the most

S&P Credit Ratings as of April 2018			
Grade	Rating	PA Counties	
High	AAA		
	AA+		
	AA	Centre, Franklin, Washington	
	AA-	Allegheny, Butler, Westmoreland	
Upper Medium	A+	Lawrence, Schuylkill	
	A		<i>Beaver (Pre-2016)</i>
	A-		<i>Beaver (2016)</i>
Lower Medium	BBB+		Beaver (Now)
	BBB	Cambria	
	BBB-		
	Non-investment Grade		

recent credit rating for the neighboring counties and the other Counties of the Fourth Class⁵.

S&P's 2017 credit rating report⁶ provides an explanation for Beaver County's ranking. S&P cited Beaver County's "adequate economy" and "very strong liquidity" as positive factors and then highlighted three sets of problems.

Weak management

S&P scored the County's financial management as "weak" and noted the "ongoing structural imbalance with insufficient steps taken to correct the underlying financial pressures." S&P cited the lack of formal tools to manage the financial challenges, including the absence of a long-term financial plan and a capital improvement plan. Other minor factors included a lack of formal policies for debt management and establishment of reserves.

Weak budgetary performance

S&P scored the County's budgetary performance as "weak" and cited some of the same factors described in our Fiscal Condition Assessment. S&P acknowledged the "temporary budgetary relief measures", such as the bond refunding moves in 2016 and 2017. From S&P's perspective, the 2017 real estate tax rate increase and 2016 early retirement incentive were positive steps, but they "do not expect that these measures will be sufficient to correct the imbalance."

Weak budgetary flexibility

Standard & Poor's noted the County's limited fund balance, which is a common measure for a government's reserves. The Government Finance Officers Association (GFOA) recommends "at a minimum, that general purpose governments, regardless of size maintain unrestricted fund balance in their general fund of no less than two months [or 16.7 percent] of regular general fund operating revenues or regular general operating expenditures." Compared to the GFOA's 16.7 percent minimum fund balance target, Beaver County's unrestricted General Fund balance was just 1.0 percent of expenditures.

During the EIP process, some participants questioned whether the County's problems were really serious or whether they were any worse than the problems other Pennsylvania counties face.

S&P's rating and report gives an important and sobering answer to those questions.

From the perspective of an agency that evaluates many governments around the country and throughout Pennsylvania, Beaver County's financial performance has been "weak." While many Pennsylvania counties face financial challenges, few are rated as low right now in terms of creditworthiness as Beaver County.

⁵ Fayette County's most recent credit rating is an A2 from Moody's, which is the equivalent of an A on S&P's scale. Monroe County's most recent credit rating is an Aa3 from Moody's, which is the equivalent of an AA- minus on S&P's scale.

⁶ Standard & Poor's, "Summary: Beaver County, Pennsylvania; General Obligation," September 2017.

Even if local officials want to dispute S&P's perspective, they should recognize the weight that it carries. S&P's credit rating ultimately impacts what Beaver County residents pay when the County borrows money.

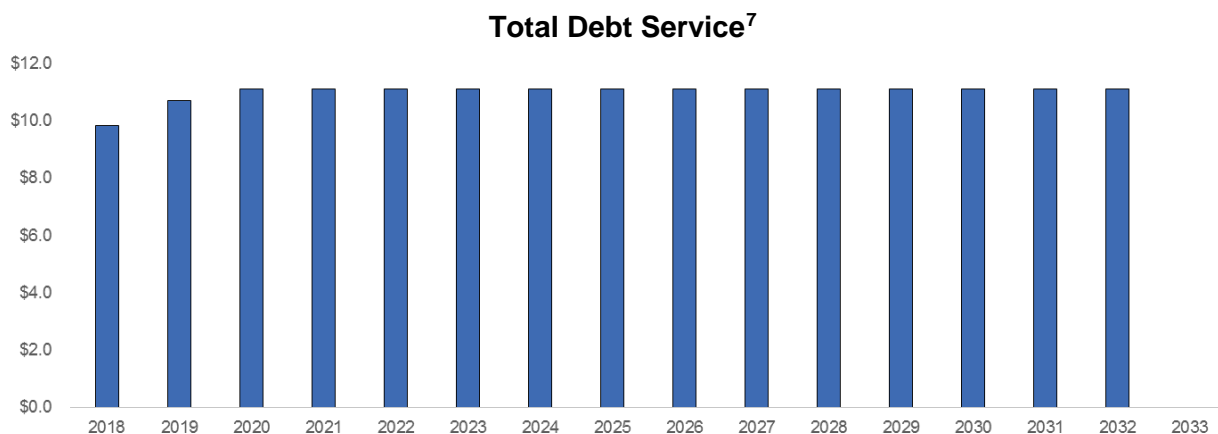
The Board of Commissioners should establish an ongoing dialog with the rating agencies through its financial advisor, if there isn't one already. The County should communicate its progress in implementing parts of this Plan and any other actions it takes to bring its finances into balance. Rating agencies consider participation in the EIP program as a positive factor in the rating process. S&P's 2017 report specifically acknowledges that factor, stating "We expect that the county will benefit from the planning and recommendations made as part of their participation in the EIP." The Board should consider this an invitation to communicate its progress during Plan implementation.

The Commissioners will also benefit from hearing the rating agency's take on which types of actions have the most impact on the County's fiscal condition. Similar to the multi-year projections, the ratings agency's perspective will emphasize the importance of actions that have a recurring benefit over those that only have a temporary benefit. There may also be some relatively simple steps the Board can take now to improve its credit rating, like adopting formal polices on investment, fund balance reserves and post-bond issuance compliance.

DC02 Monitor debt levels and review opportunities for refunding for savings

Responsible parties	Finance
Target date for next step	Analysis should be conducted on an ongoing basis
Progress measures	Debt service as a percentage of operating expenditures

When the County restructured its debt in 2017, the County took all of the savings in 2017 and 2018. Scheduled debt payments will increase by \$0.9 million in 2019, another \$403,000 in 2020 and then stay at that \$11.1 million level through 2032.



⁷ Total debt service is shown as of May 2018. Figures include all of the County's debt service payments for all funds. The County's Series 2012 issuance is allocated to the General Fund and the County's human services funds including Mental Health / Intellectual Disabilities, Children & Youth Services, and the Office of Aging.

Debt service as a percentage of operating expenditures is another useful way to measure a government's debt burden. It highlights a government's budgetary flexibility to meet its other obligations and fund operations while still making its debt service payments. In general, anything above 10 percent indicates a reduced level of flexibility, meaning adding debt will make it harder to maintain existing programs and levels of service.

In the baseline *status quo* projection, Beaver County's debt service payments as a percentage of total General Fund expenditures are projected to remain between 12.0 and 13.0 percent through 2023. As the County begins to address the structural deficit identified in the baseline budget projections, the Commissioners and Finance Administrator should focus on paying down the outstanding debt service. The County should work with its financial advisor to identify any opportunities to reduce the debt burden through refundings and evaluate those opportunities from the perspective of how much they save over at least a five-year period.

What about reassessment?

As described in the Boosting Tax Revenue chapter, Beaver County is currently involved in litigation regarding its property assessment methodology. The County currently assesses property at 50 percent of the base year in 1982, which was the last time there was a County wide reassessment. A developer challenged the legality of that method and the County has appealed an initial ruling in favor of the developer's position to the Commonwealth Court.

Depending on how this litigation is resolved, Beaver County government may be required to do a full reassessment of all properties in the County. That process is costly, lengthy and technically complicated. Like other Pennsylvania counties, Beaver County does not have the resources on hand to conduct reassessment on its own and there is no allocation for the process in the 2018 budget⁸. The County will need to contract with an outside firm, purchase new software to replace the 1982 legacy system and work through the public education and appeal process that usually follows reassessment. In Washington County, the Controller estimated the costs for their recent reassessment to be \$8.75 million over a seven-year period.

Beaver County will likely have to issue debt to pay for reassessment, particularly given the projected baseline deficits described earlier in this Plan. Under Pennsylvania's Local Government Debt Act, the County is able to issue debt for this purpose and Blair County and Luzerne County have recently done so. While there are some benefits to reassessment discussed earlier in this report, the likely immediate impact will be a higher debt burden than described above.

⁸ Because the baseline projection described in the Financial Condition Assessment starts with the 2018 budget, the cost of reassessment is also not included in that analysis. The timing of any reassessment is also unknown at this point, particularly given the County's appeal to Commonwealth Court.

DC03 Develop a capital improvement plan

Responsible parties	Finance; Public Works; Liquid Fuels; Recreation; Information Technology
Target date for next step	Complete asset inventory and project ranking criteria in 2018; conduct facility condition assessment and compile initial capital improvement plan in 2019
Progress measures	See above

S&P cited Beaver County's lack of a capital improvement plan as one of the reasons for the 2017 credit rating downgrade. Financially distressed governments often curtail their capital investments so they can focus their limited resources on maintaining day-to-day operations and meeting existing obligations.

This is not sustainable over the long term. Repeatedly deferred maintenance projects eventually turn into larger, more costly renovation or replacement projects. In some cases urgent facility or infrastructure needs will force the County's hand to spend money to address a problem, even if there isn't an allocation to do so in the annual budget. This reactive approach to capital planning increases the financial risk to the County at a time when its financial position is already strained.

The County is not in a position to do a large scale debt-financed capital plan but the County can still take some basic steps to improve capital planning and ensure its limited investments are strategic and effective. Beaver County's Financial Administrator should work with the Public Works department to develop a capital improvement plan that has the following elements

1. *Asset inventory and condition assessment*

The County cannot prioritize its needs if it doesn't have a better handle on what all its needs are. There are pieces of a comprehensive asset inventory already in place. Public Works has a list of the vehicles and equipment it maintains. Finance has an insurance appraisal report that lists all of the County owned facilities. Recreation has a lot of information on the assets in the parks and recreation system already. Adding a list of road and bridges compiled by the Liquid Fuels Manager and the list of major hardware/software maintained by Information Technology will provide two more pieces of the puzzle.

The County should also contract with an external engineering firm to conduct a condition assessment for each of the facilities and major types of infrastructure. Subject matter experts within Public Works and IT can probably assess the condition of the roads and computer hardware/software.

2. *Project prioritization criteria and committee*

The County should have an established approach for ranking and prioritizing potential capital improvement projects. Governments often place public safety and compliance with federal or state statutes at the top of the list of ranking criteria, and then follow that with more strategic objectives like the potential to spur economic development or impact

on residents' quality of life. The County should solicit capital improvement project ideas from all department heads and then use an interdepartmental committee to score and rank those projects. Setting the ranking criteria up front will help department heads know which types of projects they should emphasize.

3. Match the projects to the potential funding sources and chart them over a multi-year period

The list of potential projects will far surpass the County's very limited ability to fund them over a five- or 10-year period, especially in the near term, and that is okay. This is the case even for financially strong governments that regularly issue new bonds to fund capital projects.

It is still important to plan to execute the projects where there is funding available so taxpayers, department directors and others know what work to expect and when. Hopefully there will also be unanticipated opportunities to fund additional projects along the way, perhaps through federal or state grants or one-time windfalls. Having a ready-made list of priorities will help the County capitalize on those opportunities as they arise and, in some cases, having a plan is requisite to apply for funding.

Given the current vacancies in the Chief Administrator and Financial Administrator positions, the County should focus on compiling the asset inventory and putting together an RFP for a condition assessment, which can be handled largely by department directors who report to the Commissioner. When those senior vacancies are filled later this year, the County should create the project prioritization and ranking criteria.

Then the County should set aside some amount in its 2019 budget to complete the facility and infrastructure condition assessment so the County can use that information, the project ideas submitted by department heads and the ranking criteria to schedule capital projects over a multi-year period beginning in 2020. That will provide Beaver County with an initial capital improvement plan that it can update by going through the second and third steps above each year.

Other initiatives

Here are two more opportunities to improve the County's management of its capital assets

- The County provided a list of 129 vehicles maintained by the Department of Public Works. The departments with the largest number of vehicles were the Sheriff's office (30), Public Works itself (27) and the District Attorney's Detectives Bureau. In conjunction with the development of a capital improvement plan, the County should review of its fleet to see if there are opportunities to reduce the number of vehicles. Wherever possible, the County should consider opportunities to share vehicles across departments to achieve savings. In addition, the County should review its policy for managing any take-home vehicles to determine if there are instances where a different arrangement (like a personal mileage reimbursement policy) would cost less while still meeting the department's operating needs⁹.

⁹ The list provided does not specify which of the 129 vehicles are assigned to employees who take them home after work hours.

- The County should continue to monitor changes in Commonwealth and federal funding streams for infrastructure projects that are financed by the Liquid Fuels Fund. In our department interviews, the manager of the Liquid Fuels projects discussed the potential for increased requirements for the County's local share of funding for bridge and road projects. She described options to plan for these changes in advance, and to identify funding sources to provide the County's share of these projects. The County should evaluate these changes as more information becomes available to determine if there will be increased requirements for funding from General Fund sources.

Prioritization and Process Efficiency

While strengthening the financial position of Beaver County government is the primary goal for this multi-year plan, we started with much broader, more aspirational questions – What is the mission of Beaver County government? What services should County government provide and how? What do County leaders want to do differently and better in the future?

We started with this aspirational focus because the hard decisions that will bring the County's finances into balance should be guided and motivated by a mission that looks beyond purely financial considerations. Based on our conversations with the County Commissioners and the financial condition assessment presented earlier, we recommend the following mission statement:

We strive to be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.

At first glance this mission may sound bland or generic. There are not many elected or appointed leaders to argue against balanced budgets, stable tax rates, infrastructure maintenance or financial flexibility. But the mission statement is meaningful because it elevates them as high priorities, which by definition means that other goals are lesser priorities.

Right now those priorities do not align with financial reality.

The first chapter of this plan provides a baseline projection in which the County's General Fund expenditures grow faster than the revenues available to fund them, resulting in multi-million dollar deficits as soon as 2019 absent corrective action.

All elected and appointed officials interviewed during this process understood the importance of investing in the facilities, equipment and vehicles that County government uses every day, but the County cannot spend money it doesn't have. Because of the County's relatively weak financial position, it is unlikely that the County can issue much new debt to fund these projects¹.

So, if the County is serious about investing in its infrastructure – even just to maintain and replace the facilities and equipment already in service – it will have to find room in its operating budget for some amount of “pay-as-you-go” capital projects. Since the County's budget is narrowly balanced for 2018, with flat revenues and rising expenditures, that means that the County is going to have to change what services it provides, as much as statutory requirements will allow, and how it provides them to create room in its budget for infrastructure.

This chapter translates those general principles into specific initiatives for the County's consideration. The initiatives are grouped into three categories:

- Non-mandatory services
- Mandatory or practically necessary services that can potentially be provided at a lower cost

¹ Please see the Debt and Capital chapter for more information.

- Services that can be provided more efficiently, often through better use of technology

This chapter is not a comprehensive list of every possible initiative in these three categories, but rather a manageable starting point for hard conversations about how to prioritize limited resources.

Mission to Measurement: Prioritization and Process Efficiency

Mission	To be responsible stewards of County government's resources, using them to serve our residents by balancing the budget, keeping tax rates low, responsibly managing County-owned assets and gaining flexibility to make strategic investments that spur economic growth for our communities.		
Obstacles	Lack of money in budget for capital improvements		
Goal	Reduce operating expenditures to create room for "pay-as-you-go" capital projects		
Strategies (Assigned Dept)	<p>Discretionary services</p> <p>Review options to close the deficit associated with parks and recreation (Recreation, DPW)</p> <p>Improve cost recovery at Brady's Run Park Ice Arena (Commissioners, Recreation)</p> <p>Evaluate the County Detectives Bureau (Commissioners, District Attorney)</p> <p>Review subsidies and contributions to external organizations for potential reductions (Commissioners, Law)</p>	<p>Practically necessary services</p> <p>Evaluate in-house vs external service options for DPW functions (Finance, DPW)</p> <p>Shared pool of front desk and administrative staff for deployment across County government (multiple)</p>	<p>Process efficiencies</p> <p>Digitization for record filing, processing and retention (Multiple)</p> <p>Energy efficiency and space utilization (Public Works)</p> <p>Purchasing and procurement coordination (Multiple, Information Technology)</p>
Measures	Allocation for capital projects on a "pay-as-you-go" basis (\$700,000 baseline in 2018 budget)		
	<p>Cost recovery rate for Tennis, Swimming Pool; all-in expenditures for parks maintenance</p> <p>Ice Arena financial result (revenues minus expenditures)</p> <p>Savings relative to baseline projection</p>	<p>Annual review of cost/benefits of internal vs external service providers</p> <p>Savings relative to baseline projection</p>	<p>Savings relative to baseline projection</p>

Non-mandatory services

Pennsylvania county governments allocate most of their budgets to services that are required by Pennsylvania law. For example, the Commonwealth sets the mandates that govern most services provided by the County's health and human service agencies, the Court system and the associated departments, like adult and juvenile probation.

Other services may not be statutorily mandated, but are practically necessary for any large organization. For example, any organization the size of Beaver County government will have some facility management, human resources and information technology responsibilities, even if the day-to-day work is done by contractors. In many cases the County has more flexibility in

terms of *how* it provides a service, as opposed to *whether* it provides a service, and that is discussed later in this chapter.

Acknowledging those common constraints, most discussions about discretionary services came back to a small set of topics. Three functions provided by row officers were commonly raised as services the County could potentially eliminate to save money:

- The Treasurer's Office issues **hunting and fishing licenses** to Beaver County residents, but is not the sole entity authorized to do so². Residents can obtain hunting and fishing licenses from sporting goods or retail stores instead of getting them from the Treasurer's office. The Treasurer explained that she is required to offer these licenses as an agent of the Commonwealth, even if residents choose to get these licenses elsewhere.
- The Prothonotary's Office helps residents obtain **passports for international travel or other needs**. This is provided as a courtesy to County residents, not to fulfill a mandated requirement. Residents can also attain passports at four post offices throughout the County, including the Beaver Borough post office located within a mile of the County Courthouse³.

The County charges a fee for the passport service and the revenue defrays at least part of the cost of providing that service. The County's financial information is not detailed enough to determine whether the fee revenues fully cover the cost of service. The County budget does not differentiate between the materials or supplies that are used to issue passports and those used for other functions. The Prothonotary described this work as sporadic so eliminating the function likely would not directly result in a headcount reduction.

- The Sheriff's Office has a **K-9 unit** with one dog with one K-9 handler who receives a stipend of approximately \$4,000 per year to care for the dog. The K-9 unit supports the Sheriff's Office in serving warrants and court orders, particularly in high risk situations where the Office has to confiscate weapons. The K-9 unit was paid for and is owned by a regional counter terrorism task force and can be deployed regionally for tasks like detecting explosives, though that infrequently occurs.

The County's financial commitment for the K-9 unit is minimal. The dog itself was funded by a regional counter terrorism task force and a grant funds expenses related to veterinary services. The stipend paid to deputy sheriffs for animal care is very small relative to the Office's overall budget. The savings gained by eliminating the K-9 unit would be minimal and it is more efficient to provide K-9 services at the regional or county level than to have multiple underutilized K-9 units in individual municipalities.

Setting aside these specific functions, there are a few departments where a significant share of the total workload is not mandated by federal or Pennsylvania law. This is usually the case for departments focused on quality-of-life issues as opposed to those with criminal justice or human services duties. Recreation and the functions associated with parks maintenance are

² There are some exceptions, such as the Disabled War Veteran Free Hunting and Fur Taker License that is only available through the County Treasurer's Office.

³ One website lists four locations besides the Beaver County Courthouse where residents can receive this service – the Aliquippa Post Office; Baden Post Office; Beaver Borough Post Office and Beaver Falls Post Office.

discretionary because the County is not statutorily required to have parks or recreation facilities and programs. The Detectives Bureau within the District Attorney’s Office is not mandatory and some of the subsidies that the County provides to other organizations are likely not required by Pennsylvania law, though they may be governed by local agreements or a byproduct of practical necessity. We review those services in the following four initiatives⁴.

PP01 Review options to close the deficit associated with the parks and recreation system

Responsible parties	Commissioners, Recreation, Public Works
Target date for next step	2018 for cost recovery discussion; 2019 budget process for adjusted parks expenditures
Progress measures	Cost recovery rate (pool, tennis facility); all-in expenditures on parks maintenance

Beaver County has five parks and two recreation facilities described briefly in the table below.

Park/Facility	Location	Features
Brady's Run Park	Brighton/Patterson	2,000 acres of parkland; 500-person Lodge; Four-season Pavilion; outdoor recreation facility; athletic fields; playground; spaces for walking, jogging, fishing and horse riding
Brady's Run Park Ice Arena	Brighton/Patterson	Ice arena for skating and hockey
Brady's Run Tennis Facility	Brighton/Patterson	Indoor tennis courts and walking track
Bridgewater Crossing	Bridgewater	2.5 acres of parkland along the Ohio Riverfront, including a public dock
Brush Creek County Park	North Sewickley	640 acres of parkland; Picnic areas; athletic fields; outdoor tennis courts; playgrounds; spaces for walking, jogging, fishing and horse riding
Buttermilk Falls Park	Homewood	Nine acres of parkland including a 40-foot scenic sandstone formation and waterfall
Old Economy County Park	Economy	340 acres of parkland; Barn for rental; tennis courts; swimming pool

The Recreation and Tourism Department runs and maintains the Ice Arena, Tennis Facility and outdoor athletic space (i.e. Action Park) at Brady’s Run Park. It also runs the swimming pool at Old Economy County Park and books facility rentals at the other parks. Recreation programming is generally provided by local organizations outside County government, such as youth sports leagues or the Beaver Valley Tennis Association.

The Director of Recreation and Tourism splits his time and salary between those two functions, and only the recreation portion of his salary is covered by the General Fund⁵. He is supported by a Facility/Business Manager; four full-time and one part-time maintenance staff; four part-time clerical staff and seasonal skate guards.

⁴ The one-person Weights and Measures unit and some functions handled by Waste Management are also discretionary, and we address them in the Revenue Diversification chapter.

⁵ The separate Tourism Promotion Fund covers the portion of his salary related to tourism duties.

The Department of Public Works maintains the parks except for the Brady’s Run Park Ice Arena. DPW has one foreman who oversees the parks work and four staff apiece stationed at Brush Creek and Old Economy County Park year round. DPW uses these staff for non-parks functions during the year. For example, one of the employees at Economy Park also oversees bridge maintenance throughout the County.

Beaver County has a more extensive parks system than its neighboring Fourth Class counties. The table below gives a high-level comparison of Beaver County’s system to those in four other counties. While this summary does not account for differences in the number or quality of facilities in each category, it shows that Beaver County provides a wider range of amenities than others.

Parks and Recreation Offerings by County Governments

	Beaver	Butler	Cambria	Fayette	Washington
Athletic fields	Yes	No	Yes	Yes	No
Playgrounds	Yes	Yes	Yes	Yes	Yes
Facilities for rental	Yes	Yes	Yes	No	Yes
Ice arena	Yes	No	No	No	No
Tennis facility	Yes	No	No	No	No
Swimming pool	Yes	Yes	No	No	No

The County’s budget has some information on the parks and recreation system’s financial performance scattered throughout the document:

- The Pool generated \$52,000 in revenue and had \$88,000 in expenditures for 2016, yielding an initial cost recovery rate of 59 percent. The 2018 budget anticipates \$58,000 in revenue to partially offset \$104,000 in expenditures.
- The Brady’s Run Park Ice Arena generated \$617,000 in revenue in 2016, mostly from renting the facility to outside organizations (\$362,000) or general admission fees (\$125,000). The County spent \$766,000 on the Arena in 2016, mostly on employee compensation or utilities, yielding an initial cost recovery rate of 81 percent. The 2018 budget anticipates similar performance -- \$620,000 in revenue to partially offset \$766,000 in expenditures.
- The other parks generated \$104,000 in facility rental revenue and had \$177,000 in expenditures for 2016. But those expenditures only cover utilities, repairs and equipment associated with the parks, without any personnel costs charged to the budget. As noted above DPW has nine full-time employees who work in the parks. The cost of their salaries and benefits is budgeted elsewhere so the actual difference between parks system revenues and expenditures is much larger than the budget itself suggests.

Throughout our department interviews we heard different perspectives on the parks system. On the one hand, Beaver County parks and recreation provides quality-of-life amenities, which are important for attracting new residents, improving community engagement, improving public

health and preserving green space. On the other, the parks system is one of a small number of significant functions that are not mandatory and the projected deficit for County government overall is substantial.

Resolving the question whether Beaver County should cut its parks and recreation system to help close the deficit, and if so how much, lies beyond the reach of this report. There is no objectively “right answer” to that question and the people who should participate in the deliberations extend beyond the relatively small list of people interviewed during our process.

However, County’s financial challenges are large enough that the County should review the parks system for changes. We recommend the Commissioners, Recreation and DPW staff and other stakeholders work through the following questions that provide objective guidance for a conversation that is likely to be emotional.

Cost recovery questions: Which services should be expected to cover all or most of their costs? Do they? What can the County do to improve cost recovery?

Recreation offerings like those at the swimming pool, tennis facility and ice rink are traditionally funded by service charges, as is the case in Beaver County. It is easier to determine specifically who benefits from these services and then charge them cost of service, creating a match between the people benefiting from the service and those paying for it.

That said, it is also common for recreation programs to recover less than 100 percent of their costs. There may be a social policy reason to charge less than the full cost of service, like providing low cost recreation opportunities to disadvantaged families. The County should have a candid, focused conversation about what level of cost recovery is appropriate at the swimming pool and tennis facility⁶. The Recreation Director has already done good preliminary analysis on cost recovery at the tennis facility, which shows it covering 62 percent of its costs and operating at a \$49,000 loss in 2017⁷. Eliminating the subsidy related to recreation programming is not going to close the County’s deficit, but this is an appropriate place to start having difficult conversations.

The County recently increased some of its facility rental fees for the first time since 2009. The County should adjust these and other fees periodically to reflect the rising cost of service⁸. In some cases the County may be able to improve the cost recovery rate by reducing expenditures or improving how those facilities are marketed.

⁶ The Ice Rink is addressed separately below.

⁷ Please note that this does not mean that the County would save \$49,000 by simply shutting down the tennis program. Some of the expenditures are sunk costs that the County will incur even if no one uses the facility.

⁸ Please see initiative RD01 in the Revenue Diversification chapter for a more information.



Staffing questions: What are DPW true costs to operate the parks? Can they be reduced?

Amenities with minimal or no admission fees are obviously not expected to recover their costs, but they can still be reviewed from a financial perspective. As a starting point the County should budget the personnel costs associated with parks maintenance within the Parks Division so the cost of operations is easier to track.

DPW management noted that the County reduced its parks maintenance staff when foremen left via the 2016 early retirement incentive program and the County eliminated their positions. The County should review the mix of full-time and seasonal or part-time staff who maintain the parks and whether the County needs eight full-time employees assigned to two parks. As noted earlier, it is likely these employees have duties other than parks maintenance, particularly during the winter when parks usage is low, but the County should calculate the number of full-time equivalent positions used by DPW for park maintenance.

Scheduling is another potential area for savings. The Recreation Director noted that he schedules his employees at the Ice Arena in a way that minimizes overtime, even though the facility is open on nights and weekends. The financial data does not show how much overtime is spent specifically on park maintenance, but a similar scheduling approach would save money there as opposed to scheduling parks staff on a traditional Monday through Friday 9-to-5 schedule that does not align with parks usage.

Opportunity cost questions: Should the County reduce the number of parks or the amount of County-maintained parkland? What are the alternative uses for some of the parks?

During department interviews, people outside Recreation and Parks asked whether the County could divest itself of any parks and recreation facilities (or parts of them) to generate revenue, reduce operating expenditures or both. Given Beaver County's financial situation, the concentration of mandatory services within county government, and Beaver County's wider range of parks and recreation properties than comparable counties, this is worth further discussion.

The financial perspective is important, but not the only one to consider. Other Western Pennsylvania communities have found that land used for parks and recreation was deeded to the government years ago with restrictions on how the land can be used. There are also practical questions related to revenue generation (i.e. is there a market for selling this property?) and quality of life. The best option may not be an outright sale, but rather leasing the land to another entity so that Beaver County still retains ownership and can set some restrictions on how the land is used.

Recreation and DPW staff should also give their input on whether it would be better to concentrate their limited resources on improving and maintaining fewer properties. The Recreation Director notes that many of the properties and facilities need improvements, which is also true of other facilities and infrastructure outside the parks system. The County is not in a situation where it can issue debt for a large capital improvement plan so it may be better to reduce the number of County-owned facilities where improvements are needed.

Prioritization question: If the County levied a designated tax to support the parks and recreation system, would a majority of residents support it?

The underlying question in reviewing the parks and recreation system – or any other non-mandatory service – is not whether the service is valuable, but whether it is valuable *enough* to fund instead of funding something else. County officials have that discussion within the context of the annual budget, and residents have it within the context of their own personal finances.

If residents or interest group advocate in favor of the parks and recreation system as it stands now, they should also consider whether they personally value it enough to pay more in taxes to support it. Three Pennsylvania counties make that support explicit through a real estate tax designated for parks and playgrounds⁹. Cambria County is noteworthy because it levies a 0.5 mill tax for parks and playgrounds despite exceeding the maximum 25-mill general purpose tax allowed by Pennsylvania law¹⁰. Beaver is currently at the 25-mill limit for its general purpose real estate tax.

Even if the County cannot or does not pursue a tax at this time to fund the parks and recreation system, residents can show how they much they value County parks by talking about whether they would support this tax and, if so, at what level.

PP02 Improve cost recovery at the Brady’s Run Park Ice Arena

Responsible parties	Commissioners, Recreation
Target date for next step	Schedule meeting with ice rink consultant as soon as practical
Progress measures	Ice Arena Financial Result (revenues minus expenditures)

The Brady’s Run Park Ice Arena was raised frequently during department interviews so we are addressing it separately from the other parks and recreation facilities.

The Recreation Department commissioned a study of the Ice Arena in 2016 which reviewed the facility from an engineering perspective in terms of its condition and from a business perspective in terms of its revenue generating capacity. The study evaluated whether there is sufficient demand in the area to support the Ice Arena and how the County can improve the Arena’s financial performance. It concluded that the demand for ice time in the area exceeded the supply. That imbalance is likely larger since two competing facilities in the region have

⁹ Blair, Cambria and Chester Counties have real estate taxes designated for parks and playground.

¹⁰ Cambria County’s total tax rate in 2018 is 33.5 mills with 27.5 mills for general purpose, 4.0 for debt, 1.0 for the community college, 0.5 for the library and 0.5 for parks and playgrounds. Please see the Tax Revenue Chapter for information on Beaver County’s options for increasing taxes above the 25-mill limit.

closed since 2016. The study also describes improvements that the County could make to boost revenues, reduce expenditures and erase the facility's deficit including the following:

- Tighter scheduling to maximize revenue generated by organizations renting the ice for hockey practice;
- Reducing the number of hours the facility is open to avoid personnel and operating costs when demand for service (and revenue generation) is very low; and
- Improving how the facility is marketed.

The consultant recommended some facility improvements that would not rise to the level of a debt-funded capital project, but would still improve the Arena's appearance and marketability¹¹. The crux of the consultant's recommendation is that the Arena is a good enough facility to sustain itself *if* there's an effective action plan in place to boost revenues and lower expenditures.

Beaver County government does not have the capacity to write that plan or enact it. As the Recreation Director noted, the County largely defers to external organizations for recreation programming. But the County could lease the facility to an external rink management company while retaining ownership of it and ensuring that the facility is not converted to another purpose without the County government participating in that discussion.

We recommend the County Commissioners take the following steps through the guidance of the Recreation Director:

- Schedule a meeting with the consultant who conducted the demand analysis and business performance review. His work has more information that responds directly to the question whether the Arena itself is viable.
- Contract with an external entity to manage the Arena. If the County wants to improve the Arena's business performance for the 2018 – 2019 season, there is urgency to work through this process now so there is someone in place before it opens in August.
- Inventory the Arena's capital needs to guide decisions on whether the County should retain ownership of it in the long term. The consultant's perspective is that the Arena is viable, though it could use relatively low-cost improvements. In the long term the Arena will inevitably need more extensive repairs and it is unclear how the County would afford them, particularly in light of the needs at other facilities¹².

Once the County understands the Arena's needs, the Board may want to consider public-private partnership options where an outside entity funds improvements at the Arena in exchange for a long-term lease of it. The lease can be structured so that the County retains ownership and sets parameters for how it is used.

Some County officials note that operating an Ice Arena is not a core function of County government and the County's financial challenges should preclude continuing to run the Arena

¹¹ The study describes a more extensive facility renovation where the County would close the tennis facility and add a second sheet of ice, but the consultant does not advocate pursuing that option at this time.

¹² Please see the Debt and Capital chapter for more discussion of the asset condition assessment concept.

at a loss. Others note that the Arena provides a valuable quality-of-life amenity and should not be abandoned for the sake of short-term financial gain.

Those positions are not mutually exclusive. There may be an option to eliminate the financial loss and get County government out of the business of running the Arena, while also ensuring that it stays available to the community. We encourage the Commissioners to meet with the consultant who can explain this path forward.

PP03 Evaluate the County Detectives Bureau

Responsible parties	Commissioners, District Attorney
Target date for next step	Conversations with State should begin as soon as possible to learn more about the workload and response time implications if the County eliminated the Detectives Bureau
Progress measures	See below

Beaver County's Detectives Bureau is organized under the District Attorney's Office. There are a total of eight employees in the Bureau including one Chief of Detectives, one Detective Captain, two Detective Lieutenants, and four Detectives. The General Fund covers most of the Bureau's expenditures except for the Anti-Drug Taskforce (funded through State grants and asset forfeitures from drug seizures) and the Emergency Services Unit (funded partly by asset forfeitures).

Detectives oversee criminal investigations in Beaver County and act as a liaison for investigations involving law enforcement officers from local, State, and federal agencies. Detectives tend to specialize in one area of investigation, such as child homicide or domestic violence, although all detectives are able to provide support for different types of cases. One Detective Lieutenant coordinates the County's Anti-Drug Taskforce that conducts drug investigations and interacts with State and federal agencies for these cases. One detective serves as the commander for the Emergency Services Unit, which provides specialized support for high-risk events such as hostage negotiations or barricades. Several detectives have further training in conducting examinations of cell phone data and preparing consent wire taps.

Exact figures for the Detectives Bureau's total expenditures were not available through the level of detail provided for our analysis. The Bureau's costs are mostly incorporated within the District Attorney's \$2.7 million General Fund budget. Based on our review of salaries and employee benefits, we estimate that the County allocates \$1.3 million for the Bureau. That includes \$840,000 within the District Attorney budget, another \$38,000 allocated separately within the General Fund for the ESU and \$389,000 in the Anti-Drug Task Force Fund.

Please note that the General Fund allocation is less than \$1.3 million. The Anti-Drug Task Force Fund is separate from the General Fund. The revenues in that fund are primarily a grant from the State Attorney General and asset forfeiture receipts. The Fund expenditures are mostly non-personnel items related to drug investigations and wages and overtime paid to the detectives working on these cases. In 2016 the County spent \$380,000 from that fund and collected \$237,000 in revenue. In 2015 the Anti-Drug Task Force Fund had a \$28,000 deficit. The Fund has a small reserve that assumedly covered the difference both years. If the County eliminated

the Detectives Bureau, the revenues and expenditures in the Anti-Drug Task Force would also be eliminated.

During department interviews, the District Attorney acknowledged that the Detectives Bureau is not a mandatory function for County government. He also emphasized the importance of keeping this function because of the support it provides to law enforcement agencies at the local state and federal level.

Our frame of reference is primarily financial and the County has very few discretionary services that cost as much as the Detectives Bureau. Given the projected size of the deficits in the County's baseline projections, we recommend that the County review the Detectives Bureau and determine whether the cost of service outweighs the benefits that County residents receive.

The answer to that question extends beyond the financial costs that are the primary focus of our report. The County's review of this function should include the Commonwealth, federal, and local law enforcement agencies that would be affected by it. One particular concern that the County has to address is whether the State Police could handle the additional workload with their current staffing levels and how response times would change.

The District Attorney's Office reported that detectives handled 355 investigations in 2017. Assuming all detectives except the Chief participate in investigations, the average caseload was around 50 per detective last year.

Forensic investigations would shift to the State Police in Troop D, which covers a five-county region¹³. The State Police Barracks in Brighton Township would provide most of the officers for investigations in Beaver County, and these troopers would be supported by personnel from other barracks in the region if needed. The State Police could add staff to support the increase in caseloads, but the County does not have discretion over whether or how that happens and should not assume it will.

The County should meet with the State Police, State Attorney General, local police departments and any affected federal law enforcement agencies to get a better understanding how shifting the investigative work to the State police would impact the responsiveness and effectiveness of the public safety system as a whole.

It may be possible to shift a portion of the County's caseload to the State without eliminating the entire Detectives Bureau, though that also reduces any savings, which is the primary reason for considering this move¹⁴. It is not efficient or realistic for each local department to have its own detectives unit, particularly for the very small municipalities using part-time police officers. But those departments will be impacted by changes in response time and should be included in the discussion.

We recommend the County convene these discussions as soon as possible if the majority of the Board is interested in learning more about this potential move. Waiting until the fall for the annual budget process will not give law enforcement agencies enough time to react to a change

¹³ Troop D covers Armstrong, Beaver, Butler, Lawrence and Mercer counties.

¹⁴ The current collective bargaining agreement has a provision stating "For the duration of this Agreement, it is agreed that a complement of eight (8) full time Detectives (inclusive of the Chief, Captain and Lieutenant(s) I and II) shall be maintained." That agreement expires at the end of 2018.

taking effect on January 1, particularly for State agencies who have a July 1 – June 30 fiscal year.

PP04 Review subsidies and contributions to external organizations for potential reductions

Responsible parties Commissioners, Law

Target date for next step See below

Progress measures Savings relative to baseline projection

Beaver County allocates part of its General Fund budget to support other organizations related to County government. The table below shows those allocations over \$100,000 in the 2018 budget¹⁵.

Recipient	2016 Actual	2017 Budget	2018 Budget
Community College of Beaver County	\$3,531,875	\$5,253,125	\$4,242,500
Beaver County Transit Authority	\$2,627,372	\$2,653,878	\$2,530,000
Agriculture Extension	\$187,856	\$187,856	\$187,856
Conservation District	\$162,500	\$142,500	\$132,525
Agriculture Preservation Board	\$105,000	\$100,000	\$125,000

The question was raised during the departmental interviews whether Beaver County could reduce its contributions to these organizations, at least until its own financial condition is more stable. The answer depends on the arrangement between the County and the recipient and whether the organization uses the County dollars as a match to secure funding from another organization, usually the federal or state government.

The County’s largest contribution goes to the Community College of Beaver County (CCBC). Pennsylvania law requires that each community college have a local sponsor, which is usually County government itself. Beaver County assumed that role in 2002, taking it over from the local school districts that previously served as sponsors. Beaver County has “articles of agreement” with CCBC that govern its sponsorship contribution through 2042. That document was not available during our review.

Pennsylvania law requires that the Community College Board of Trustees set tuition at a level where enrolled students will pay “not more than 1/3 of the budgeted annual operating costs of the college¹⁶.” Theoretically the Commonwealth and County government each cover one-third for an even split between the College’s students, County government and the Commonwealth. Actual contribution shares often differ from this standard.

¹⁵ Smaller allocations go to three non-profits that provide veterans benefit services (\$45,000), a food program (\$26,000) and the Humane Society (\$10,000).

¹⁶ There is a separate standard for sharing the cost of capital projects.

CCBC's 2015-16 audit cites Beaver County as contributing 16 percent of total operating and non-operating revenues¹⁷, which was more on a percentage basis than fellow fourth class counties Butler County (14 percent), Luzerne County (11 percent) and Cambria County (9 percent) in that academic year.

Without the agreement itself, we cannot comment on whether there is any flexibility for Beaver County government to reduce its subsidy. The County deferred a portion of its contribution in 2016, but that just postponed the expenditures and did not reduce them.

The County's next largest contribution goes to the Beaver County Transit Authority. Close to three quarters of the contribution is a pass-through where the County receives money from the federal or Commonwealth government and routes it to the Authority. Beaver County also has a \$650,000 contribution to the Authority for 2018, which had been \$850,000 until 2016.

The other subsidies listed in the table above are smaller and connected to agriculture and preservation programs that are common, though usually not mandatory, for county governments.

- The County allocates \$188,000 to the Penn State Beaver **Agriculture Extension**, which is run cooperatively by the County government and Penn State University to provide training, education and similar resources for farming, gardening, water quality and related topics.
- The County allocates \$133,000 to the **Beaver County Conservation District** that runs a variety of educational and technical assistance programs for resource management and land preservation.
- Created by the County Board of Commissioners in 1995, the **Agricultural Land Preservation Board** runs the easement program that the County uses to acquire and preserve farmland. The County allocates \$125,000 to the Board in 2018.

We do not recommend that the County unilaterally cut any of these contributions. Given the projected deficit, the County should review these funding arrangements and meet with the associated organizations before the 2019 budget process to discuss the following:

- What is the arrangement that sets the County's contribution? Is there a formal agreement between the parties, such as with CCBC? Is the County's contribution amount discretionary?
- How does the associated organization use the County's contribution, both in terms of programs funded and as a match to leverage funding from other organizations?
- Is there a way to measure the County's return on investment? What do those measures show?

¹⁷ This calculation may differ from the one-third standard referenced in the prior paragraph. So Beaver County's 16 percent should not be interpreted as evidence that the County contributed 17 percent less than the Pennsylvania legal standard. We calculated these percentages by taking the County contribution as listed in each community college's 2015-16 audit and dividing that figure by the total operating and non-operating revenues.

In addition to the larger subsidies listed above, we recommend the County review its \$15,000 annual contributions to three non-profit agencies providing similar services to those provided by the County Veterans Affairs Office. Located in Aliquippa, Ambridge and New Brighton, these offices provide another location besides the County Courthouse for veterans to access federal, state and county benefits. The County requested activity reports from the grant recipients to better understand how the money is used and one of the three recipients reportedly responded by saying its activity level is too low to justify a report. If that is the case, then it is fair to question whether the activity level justifies a subsidy.

The County should gather this information and meet with the organization leaders before the 2019 budget process begins and then use it to guide discussions on whether to reduce the subsidies starting in 2019.

Providing mandatory services differently

PP05 Evaluate in-house versus external service options for Public Works functions

Responsible parties	Finance, Public Works
Target date for next step	Begin cycle of analysis in 2019
Progress measures	Annual reports on the cost/benefits of using internal or external service providers

The Beaver County Department of Public Works maintains, repairs and improves County-owned equipment, facilities, infrastructure, properties and vehicles. The Department Director and two foremen oversee 22 full-time employees classified as M3s (skilled laborers) or M4s (tradespeople like electricians, carpenters, etc.)¹⁸.

DPW uses its own staff for most of this work. DPW employees maintain properties like the Human Services Building and magisterial district justice offices. They cut grass and maintain the grounds around County facilities. They do repairs and trades work for the jail, E911 center and County Office Building. Two mechanics maintain the vehicles used by multiple County departments. The major exceptions to this in-house approach are custodial work, where the County uses a private company, and major repair projects like roof replacement.

These services are practically necessary, but there is not a state or federal mandate that the County use its own staff to do the work. Many large organizations use private sector providers for building, grounds and fleet maintenance work, just as the County does for custodial work.

Using a private contractor instead of government employees is not an inherently “good” or “bad” approach. It is a tool that should be used thoughtfully to advance financial or operational objectives. We have not done a full evaluation of the County’s options for outsourcing any specific service so we are not recommending that the County make that decision for any service at this time, except running the Ice Arena¹⁹.

¹⁸ These 22 employees include the eight parks maintenance staff addressed in initiative PP01.

¹⁹ See initiative PP02 above for more on the Ice Arena.

While financial factors are often cited as the primary reason for shifting work from the public to the private sector, there is not a guarantee that the private sector can deliver the same level of service at a lower price than government itself. Savings will depend in part on the availability of other providers in the local market. The cost of using a private contractor also depends on how well the County manages the associated contract.

With those important caveats noted, we again return to the fundamental trends driving Beaver County's structural deficit. The County receives most of its revenue from the real estate tax and that revenue have been basically stagnant absent tax increases for years. The County makes most of its expenditures on employee compensation, including base wage increases and growing health insurance costs. There are ways to control the growth in employee compensation costs through collective bargaining but the County cannot unilaterally dictate the terms of compensation to its employees. So it has to use other tools available to manage total costs.

County spending on all forms of DPW employee compensation grew from \$2.1 million in 2012 to \$2.6 million in 2015, or the equivalent of 7.3 percent per year²⁰. That spending dropped in 2016 when employees left via the County's early retirement incentive program. There is a limit to how often the County can reduce its headcount without also changing which services its staff provide.

The County should review the financial cost and operational benefits of using its own staff for these services, versus using other providers. The County should also periodically conduct the same analysis in reverse for those services where it relies on an external contractor, like custodial work.

There may be instances where expenditure savings from outsourcing are offset by the operational benefit of having in-house capacity that can be deployed quickly and flexibly, but the County will not know without doing this review. Since the cost of employee compensation including fringe benefits rises faster than inflation, the County should periodically update this analysis. DPW can stage this analysis over a period of time so that the process is manageable (e.g. review one service in 2019, another in 2020, a third in 2021).

PP06 Create a shared pool of front desk and administrative support staff who can be deployed across departmental boundaries

Responsible parties See below

Target date for next step See below

Progress measures Savings relative to baseline projection; changes in headcount relative to FY2018 budget

Pennsylvania county governments are often fragmented with multiple separately elected officials overseeing their own departments and staff distributed across multiple locations. In Beaver County that fragmentation is exacerbated by the layout of the courthouse itself.

²⁰ Please note this is the total spending across all employees and does not account for changes in headcount during this period.

Visitors who enter the building via Third Street pass through the security checkpoint and stand in front of an often-vacant welcome desk. Signage is lacking in some places and excessive and confusing in others. When visitors do find their way to the appropriate office, there are different “front desk” or customer service staff in each office, who are walled off from and appear to work separately from the staff in other offices. In our own experience, we were always greeted courteously and quickly but each meeting felt like an introduction to a completely separate organization.

We are not the only ones to notice the inefficient layout and staff deployment. We heard multiple times during department interviews some variation on the theme “that office must not be very busy because we always see people just sitting around.” Some managers were eager to explain how busy their staff are and emphasized the number of calls or walk-ins as evidence of their staffing needs, before we could raise the question of workload.

We cannot judge an office’s productivity or workload simply by observing how active the front desk staff are. One unit may have a flurry of customer service requests because of the seasonal nature of their workload while another unit is quiet, and then the opposite is true later in the year. The number of calls received or walk-ins visitors is also not a useful measure of workload since some questions take several hours and others a few words to resolve. Furthermore, a department that has successfully routed some of its walk-in traffic to other resources, like its website, should not be punished or deemed less productive because its foot traffic is lower.



Instead of recommending cuts to specific offices based on the limited and often anecdotal information available, we encourage the County to rethink how it handles the wide range of customer service, front desk and administrative support functions. The County should specifically consider the following:

- Cross train staff so that they can be flexibly deployed to different offices as customer service, front desk or administrative support needs fluctuate throughout the year. If some offices do have significant down time, the staff can be deployed to units that need the support. The County cannot afford to staff each individual office at the level needed to handle peak activity levels.
- Use meaningful workload and customer service indicators in deciding whether to fill vacancies or create new positions. In light of the deficit projected in the first part of this plan, the County needs to be deliberate and strategic in its staffing decisions²¹. The private sector “return on investment” concept cannot be neatly applied in all cases to all

²¹ It is also important to manage headcount carefully to maximize the benefit of the 2016 early retirement incentive. Please see initiative CC02 in the Compensation Cost Growth chapter.

government hiring decisions, but the County needs to allocate its limited resources where there is a clear benefit to doing so.

- Eliminate the visitor's desk post that was frequently vacant during our engagement. It unintentionally conveys the initial impression to visitors that County government is absent, inactive or unprepared and it does not fulfill the practical purpose of guiding visitors. Information Technology staff explained that the County is considering installing touch screens or other interactive technology in this space, similar to what already exists for the Court system, which would be a better use of the space. The County should also use its website to disseminate information or manage transactions whenever its technology allows.

Some governments have created one-stop shops where residents can complete multiple transactions related to multiple departments in the same space. This is more convenient for the resident and more efficient for government. The Beaver County Courthouse is not currently configured for that kind of change. So the County should focus on gaining flexibility in how its staff are deployed and make the best use of the existing space that it can. This same principal can be applied to secretarial or clerical functions.

There will be initial obstacles to creating a pool of staff that can be shared across offices in terms of job descriptions, skill levels, or pay equity. The separately elected row officers may be reluctant to contribute any of their staff to this staff-sharing system. Under the direction of the Chief Administrative Officer²², the County can start small with a few offices and then expand over time.

What about Home Rule?

DCED publishes a very helpful Home Rule Handbook that explains the concept as follows²³:

"The basic concept of home rule is relatively simple. The basic authority to act in municipal affairs is transferred from state law, as set forth by the General Assembly, to a local charter, adopted and amended by the voters."

Counties that adopt a Home Rule charter have more flexibility to change the structure of County government, though they still have to comply with federal law, the Pennsylvania constitution and any state laws that are applicable to home rule municipalities. Eight of Pennsylvania's 67 county governments are organized according to Home rule charters²⁴. Luzerne County was the most recent to adopt a Home Rule charter, working through the process from 2009 - 2012.

The question whether Beaver County should consider Home Rule was usually raised in reference to whether the County should eliminate some of the separately elected row offices, reduce the staffing in those units and transfer their duties to the remaining parts of County government. Home rule county governments do generally have fewer elected officials, though there is a lot of variety in which ones they retain.

²² Please see initiative BC02 in the Mission Review chapter.

²³ DCED's helpful guide on this subject is available online here: <https://dced.pa.gov/download/home-rule-governance-in-pennsylvania/>

²⁴ This includes the City/County of Philadelphia along with Allegheny, Delaware, Erie, Lackawanna, Lehigh, Luzerne and Northampton.

Elected Executive and Legislative Officials²⁵

	Beaver	Allegheny	Delaware	Erie	Lackawanna	Lehigh	Luzerne	Northampton
Board of Commissioners	X		X		X		X	
County Executive (elected)		X		X		X		X
County Legislature		X		X		X		X
Clerk of Courts	X							
Controller	X	X	X	X	X	X	X	X
Coroner	X			X	X	X		
District Attorney	X	X	X	X	X	X	X	X
Prothonotary	X							
Recorder of Deeds	X				X			
Register of Wills	X		X		X			
Sheriff	X	X	X	X	X	X		
Treasurer	X	X			X			
Other				X	X	X		

Only three Home Rule counties are led by an elected Board and only Lackawanna uses a three-member board, like Beaver County does. Delaware uses a five-member County Council and Luzerne uses an 11-member County Council with an appointed County Manager. The others use an elected county executive and county legislature, though Lehigh still calls its legislature the Board of Commissioners.

All seven Counties retained a separately elected Controller and District Attorney and most have a separately elected Sheriff, though that position is not required. Lackawanna considered amending its charter to eliminate that position, along with the separately elected Clerk of Judicial Records, Recorder of Deeds and Register of Wills in 2013.

The most common change adopted by Home Rule counties is some consolidation of the judicial “clerical” functions. No Home Rule county has separate offices for the Clerk of Courts (criminal cases) and Prothonotary (civil cases)²⁶. Lackawanna consolidated these functions under an elected Clerk of Judicial Records, and Erie and Lehigh merged those functions along with those assigned to the Recorder of Deeds and Register of Wills to one elected official called the Clerk of Judicial Records. As noted earlier, eliminating the row officer does not mean that the County eliminated the duties associated with it. They were assigned to other elected officials or appointed staff.

The number of elected officials is not the only variable that can be changed through the Home Rule process. Luzerne County’s Home Rule charter designates the County Council positions as part-time, sets parameters for when they can hold meetings and prohibits them from “interfering

²⁵ Philadelphia is removed from this comparison because of its City-County status. Court officials are also removed from this comparison for all counties.

²⁶ Other Counties, such as Indiana and Armstrong, have the same person serve as Clerk of Courts and Prothonotary.

in the day-to-day decision making of the professional manager and staff²⁷.” That charter creates a unified Law Department (rather than having separate solicitors for individual row officers) and changes the hiring practices.

Luzerne’s Home Rule process was partially driven by interest in enforcing efficiency and cost reduction measures recommended in the Early Intervention Plan²⁸. But it was also driven by concerns about corruption, culminating in a federal investigation into the conduct of County judges.

The Home Rule process is lengthy since it relies on the creation of a new body called a Government Study Commission. Commission members are nominated and elected through a countywide election. The Commission is charged with analyzing the current form of government and releases a report stating its findings. If the Commission recommends a Home Rule charter, the recommendation is subject to referendum. If a majority of the electors votes in favor of adopting the recommendation, the form of government changes according to the schedule provided by the law.

Luzerne’s process formally started when the Commissioners agreed to place the question regarding the formation of the Government Study Commission on the primary ballot in 2009. The community effort in favor of Home Rule began earlier than that. Luzerne County adopted its Home Rule charter in 2010, held its first elections for the newly created positions in 2011 and implemented the new structure in 2012.

The Home Rule charter process is open-ended in terms of the possible changes, subject to the federal and state legal restrictions mentioned earlier. Once the Board of Commissioners agrees to place the question on the ballot regarding the formation of the Government Study Commission, their formal role in the process is complete. They cannot direct the Commission to only consider certain kinds of changes. The Home Rule process can also be initiated by a petition of the County’s registered voters.

Luzerne County is the only recent comparative point of reference for whether Beaver County should pursue Home Rule and, as noted above, special circumstances other than financial considerations drove that process. In our limited experience, there needs to be an energized, committed group of residents who are invested in the Home Rule process for it to be successful. As described above, the process is lengthy and does not guarantee that it will culminate in a new form of government or that any new form will have lower expenditures. Looking solely at the number of separately elected row officers, Luzerne exited the process with two while its northern neighbor Lackawanna still has eight, which is only one fewer than Beaver County has without Home rule.

County	Effective Date
Luzerne	2012
Allegheny	2000
Erie	1978
Lehigh	1978
Northampton	1978
Lackawanna	1977
Delaware	1976

Home Rule is not a viable method for dealing with the most pressing financial challenges described in the Financial Condition Assessment, but it is an option for addressing the

²⁷ Report and Recommended Home Rule Charter for Luzerne County prepared by the County Government Study Commission. August 2010. Page ix. <https://www.luzernecounty.org/557/Home-Rule-Charter>

²⁸ PFM has written several Early Intervention Plans for Luzerne County. The one referenced in the Government Study Commission’s report was completed in 2009.

fragmentation and inefficiency in Beaver County's current form of government. While residents and County leaders should consider Home Rule's potential in that regard, implementing the prior initiative and consolidating staff across multiple offices, including the row officers, would achieve the same goals without the time or uncertainty inherent in the Home Rule process.

Process efficiencies

Given the size of the projected deficit, our review prioritized discretionary services with a relatively large budget and practically necessary services that could potentially be delivered with fewer positions. The County should also make its work processes more efficient and reduce its spending on materials, contracted services, utilities and related non-personnel items wherever possible without compromising service. This has already happened in the Beaver County Court system where the Court made the following changes:

- The Courts use **video conferencing software** for arraignments, sentencing, and bench warrants. This reduces the costs for transporting defendants and frees the Sheriff's staff to focus on other duties. Recently the Courts have started to use the software during trials for expert testimony.
- The Courts use **digital audio recording**, which reduces the need for court reporters to be present at each trial. Court reporters are still used in some cases, such as jury trials or at an attorney's request, and transcriptions of court proceedings can be produced from the recordings.
- Adult Probation has expanded the use of **pre-trial services** and an **electronic monitoring system** to reduce the County's jail population. The Jail has the largest departmental allocation in the 2018 General Fund budget and inmate population size is one of the key factors driving its spending. Probation officers go to the County Jail to identify inmates who are eligible for bail and good candidates for a reduction in the bond amount. The officer then assumes supervision of the defendant until court action takes place. Adult probation has also expanded its electronic monitoring system for eligible parolees who do not require high levels of supervision. These programs have helped reduce the inmate population.

We identified other opportunities for improving efficiency during our department interviews. In many cases the opportunity depends on the County's ability to use technology to automate processes that are currently manual and paper-dependent.

Digitization

Several departments cited the need to move from paper-based processes to electronic filing, record keeping or processing.

- **Digitizing administrative processes:** When the County authorizes new hires, it uses a paper-based process that requires the associated forms to be signed in triplicate. Two of the three Commissioners have to approve a hiring decision and all three have to sign the forms to acknowledge the decision. In 2017 the County tried to digitize this process but the Commissioners found the process cumbersome and directed HR to switch back to paper.

The purchasing process is similarly paper dependent. The Central Services Director reviews purchase orders and supporting documentation and signs the requisite forms to advance the process. He sends the paper copies to the Commissioners who review, sign and return them to Central Services. Paper copies are then distributed to the vendors and the department initiating the purchase, and Central Services retains one copy for its file. One contractor noticed during our review that they receive electronic payment from the County and then receive a paper “pay stub” essentially stating the same information²⁹.

The County Veterans Affairs Office has a software program that other counties use to manage claims and benefits. As of late 2017 the Office was not using the program and relied on paper records because of the time it would take to enter historical data into the system.

Some parts of County government are moving away from this reliance on paper. The Payroll unit within Human Resources uses a digital process to collect data on employee time and attendance so there are no paper timesheets for any unit except the Emergency Services department. Most employees receive their paycheck via direct deposit instead of a paper check.

- **Electronic filing:** The Prothonotary advocated for the County to implement an electronic case filing (or e-filing) system to reduce the amount of paper records handled by her office and the associated printing, mailing, filing and retention costs. E-filing enables attorneys and parties participating in civil litigation to submit their documents and track their progress through the process electronically. Some counties have adopted e-filing as an option and others, like Lehigh County, have made it mandatory for certain types of cases. When asked about e-filing, the Court Administrator explained that the County’s civil administrative judge does not oppose the concept, but wants to wait until the Pennsylvania Supreme Court implements a system, so the County does not invest in one system only to have the Commonwealth mandate something else.
- **Records retention:** The Register of Wills maintains records related to estates and marriages indefinitely, many of which are only available in paper. She is working with a private vendor to digitize these records so they are still accessible without consuming as much space.

Human Resources also mentioned records retention as an area worth reviewing for costs savings. Their staff cited the large number of documents archived at the underground mine in Wampum, Pennsylvania. It is better to store seldom used documents offsite, rather than at the County Courthouse, but that storage space comes with a rental cost. The County should periodically review the documents stored at the mine and dispose those that are not needed or legally required for retention.

Paper-dependent processes are often slower, less efficient and more prone to human error than electronic processes. For example, the Payroll manager receives time sheet information from the Emergency Management department by fax machine and then enters the information by hand into the computer system.

²⁹ Central Services clarified that it is not the source of this separate “pay stub”.

The tough decisions raised elsewhere, like whether to raise taxes, freeze employee wages or eliminate discretionary services, are even harder when the affected taxpayers, employees and residents feel that they are making sacrifices to sustain an outdated, inferior level of service. Even if the time saved through digitization is too small to generate large financial benefits, the County should move away from the paper-dependent processes so staff can use their time on more critical tasks.

In instances like Veterans Affairs, where the barrier seems to be transitioning from paper to digital claims management, the County could use the administrative/clerical staffing pool concept described earlier to provide the short-term boost in manpower needed to achieve long-term efficiency. There will undoubtedly be a learning curve associated with new technology, but the County needs to get beyond its reliance on paper-based processes where there is readily available technology that is more efficient, more accurate and more customer friendly.

Energy efficiency and space utilization

We noted earlier that the layout for the County Office Building contributes to the fragmented and inefficient processes for handling administrative, front desk and clerical functions. That building also has a fair amount of underutilized space, like the small enclosed outdoor seating areas with sparse furniture.

Several interview participants described more significant problems at the Human Services Building (1030 Eighth Avenue; Beaver Falls). The Public Works Director whose department handles facility maintenance cited that building as the most problematic. While the building is relatively new, it has had a series of problems involving its roof, boiler, exhaust and heating-ventilation-air-conditioning (HVAC) systems. The Public Works Director also cited problems with the building's design since it was built with an open floor plan even though the work frequently involves confidential conversations. The County added dividers to improve privacy and that created problems for managing temperature throughout the building. According to the aforementioned review of the Brady's Run Park Ice Arena, that facility also has a structural flaw that leads to unnecessarily high utility costs.

Earlier this year the Public Works Director was reviewing proposals from companies offering energy efficiency audits. While the County's General Fund spending on utilities dropped from \$1.5 million in 2012 to \$1.4 million in 2016, we recommend the County continue this process and do an energy efficiency audit in the next couple years.

In terms of space utilization, it is unlikely the County will have enough money in the near term for major building renovations. In the long term, the County should consider contracting with a firm that can evaluate how the County could use its space more efficiently and effectively.

Purchasing and procurement

The County has two employees in Central Services (the Director and one clerical employee) who administer the purchasing process on behalf of most County departments. The type of process used depends on the dollar value of the item or service purchased. Larger purchases require multiple quotes or a formal competitive bidding, subject to some exceptions. While Central Services provides administrative oversight and ensures adherence with the County's procurement guidelines, multiple departments initiate purchases and collect bids on their own.

This decentralization is practical since Central Services is small and often removed from the specialized requirements that guide a department's procurement decisions. For example, Recreation staff are more likely than Central Services to know the exact kind of chemicals they need to clean the pool at Old Economy County Park.

Some purchases are common enough that the County would benefit from centralizing purchasing, or at least improving coordination. Two different interview participants told separate stories about how they purchased something simple like office supplies from a vendor who sold the same item to another part of County government for another price. While Central Services went back to the vendor and got price reduced in one instance, the process was more time consuming than it needed to be and there could be marginal savings from improved coordination and buying in bulk.

We also recommend that the County intermittently rebid its professional services contracts (i.e. actuary, financial advisor, external auditor) and any major supply or material purchases. The Public Works Director requires his staff to get quotes from new vendors whenever possible to ensure that the County does not pay a higher price than needed simply because it is more convenient to use the same vendors repeatedly. The Board should encourage this type of "competitive pricing" throughout County government.

Finally, the County's Information Technology staff stressed the value of coordinating software purchases through their unit so different departments uses the same or compatible software as much as possible. The IT Director advocated for migrating as many functions to the same software platform as possible. Human Resources wants to consolidate the two separate systems used for time/attendance and payroll down to one. The Assessment Office made a similar case to move the Treasurer's Office to the same software platform so the current and delinquent tax collection processes are more seamless.

Some large organizations use a "best of breed" approach and select the product that best meets the needs of each process. Given the aforementioned problems with fragmented, uncoordinated and paper-based processes, we recommend that Beaver County's software purchases instead emphasize integration and compatibility as much as the individual duties of County agencies will allow. There will be instances where it is not cost effective to use the same software package, particularly if doing so requires the County to purchase multiple user licenses. In general the County should err on the side of simplicity so technology is a tool for improving coordination and efficiency, and not a barrier to it.