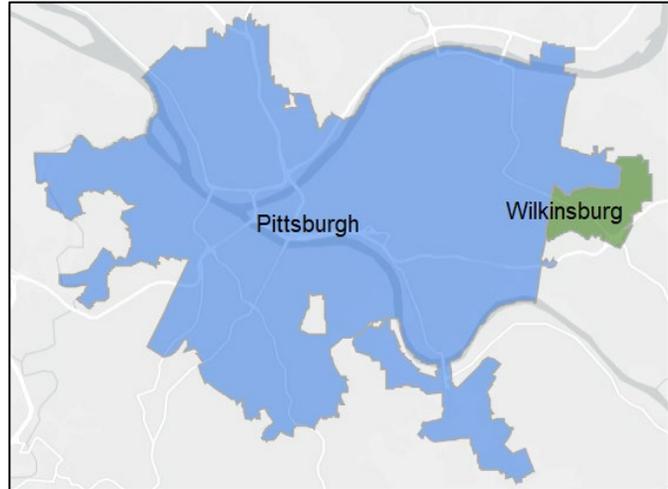


Wilkinsburg-Pittsburgh Merger Analysis

In March 2021, the Wilkinsburg Community Development Corporation (“WCDC”) contracted with Public Financial Management to evaluate the fiscal and operational impact of a potential merger between the Borough of Wilkinsburg (“Borough”) and the City of Pittsburgh (“City”).

There are alternatives to full merger, such as intergovernmental contracting where one government pays another for services. Pittsburgh and Wilkinsburg already use this approach. The Borough has paid the City for residential refuse collection since 2006 and fire protection since 2011. The two communities have also taken some initial steps toward full merger with Wilkinsburg’s middle and high schools part of the Pittsburgh Public Schools.



Municipal mergers in Pennsylvania are very rare. The last successful merger was in 2013 when Lumber City Borough merged into Ferguson Township in Clearfield County. Since 2000, there have been just nine attempted mergers (seven successful), most involving two small municipalities with a combined population less than 10,000 people.

The WCDC is aware of the challenges of a full merger and has been studying these issues and the Borough’s sustainability as an independent municipality for years. The WCDC has met with 130 stakeholders through focus groups and one-on-one meetings to discuss opportunities for greater collaboration between these two communities.

The WCDC has asked PFM to estimate the potential merger’s financial impact on Wilkinsburg’s taxpayers and the City. Our first memorandum described the potential impact from a tax perspective and explained how the merger would change tax rates and tax bills for Wilkinsburg residents and businesses. We also projected how much revenue the City could expect to add through a merger. While our analysis should be reviewed in its entirety for the full context and underlying assumptions, we estimated that the City would receive \$7.1 million to \$9.6 million in new revenues net of the current municipal service fee revenues that the City would no longer receive in a merger.

From a financial perspective, the key follow-up question is whether this level of revenue would fully cover the City’s cost of providing service to Wilkinsburg. The full answer to that question depends on the type and level of services the City would provide in a merger. The two communities need to discuss Wilkinsburg’s service expectations and the City’s ability and willingness to meet those expectations. This analysis will give the parties a starting point for more detailed discussions.

One reason that mergers are so rare in Pennsylvania is that they are so complex due to the different revenue sources, tax levels, and mix of services provided by different governments, as well as the disposition of legacy costs, like pension obligations and debt. To provide meaningful analysis in the face of this complexity, we have made the following assumptions about a potential merger:

- There would be full merger of Wilkinsburg into Pittsburgh in which the Borough local government would no longer exist, and the City local government would provide municipal services to



Wilkinsburg. As described below, some positions in Borough government would shift to the City and others would be eliminated. In the latter case, Borough employees may fill vacant positions in City government.

- Wilkinsburg residents would receive the same array of services that the City government provides to other Pittsburgh residents. In some cases, like emergency medical services, the City would provide a service that the Borough itself does not. In a small number of cases, like parking enforcement, services provided by the Borough would shift to an entity like the Pittsburgh Parking Authority, not the City itself.
- The City would continue to provide fire protection and refuse collection to Wilkinsburg, but Wilkinsburg residents would no longer pay the municipal service fee. They would instead pay taxes at the same level and type as other Pittsburgh residents¹.
- We use both municipalities' 2021 budgets as the basis for our financial impact analysis since they are publicly available, detailed data sources. The Wilkinsburg analysis is supplemented by the information in the Borough's official statement from its 2020 bond issuance, which includes the 2019 comprehensive annual financial report. We have not projected how expenditures would change over time, just as we did not project how revenues would change over time in the merger.
- This analysis does not consider the potential impact of merging local libraries, school districts, municipal authorities, or other forms of government besides the Borough and City. We do not include the Borough's sanitary sewer system in our analysis because the merger would involve the Pittsburgh Water and Sewer Authority (PWSA), not City government itself.
- We have identified some one-time transition costs or resources but have not quantified the former. The parties would need subject matter experts in different areas to quantify the cost of any major upgrades to Borough owned facilities or vehicles before they are transferred to the City or changing legal documents to move obligations from the Borough to the City.

In the short-term, we project that the City would have \$1.6 million - \$2.2 million² more in expenditures than it would receive in new revenues from a merger. However, if economic activity in Wilkinsburg rebounds to pre-pandemic levels and tax revenues follow, that deficit could flip to a small surplus for the City, especially if the parties are able to achieve economies of scale not quantified here.

The projected near-term deficit and potential surplus are very small within the context of Pittsburgh's \$565 million budget. Those results are more significant within the context of the Borough's much smaller \$12.6 million budget, which relies upon \$1.8 million in prior year reserves to cover General Fund operating expenditures this year. Beyond tax increases or service cuts that exacerbate existing challenges, the Borough as an independent entity has a small range of resources to draw upon to cover deficits.

Our first memo showed that the merger would result in lower municipal tax bills for Wilkinsburg homeowners because the drop in real estate taxes more than offsets increased earned income taxes. This analysis suggests that all Wilkinsburg residents, including renters, should consider the potential benefits of a merger depending on whether the City can provide a more sustainable level of service than the Borough can by

¹ Please see the May 2021 analysis for more description how tax rates and types compare between Wilkinsburg and Pittsburgh.

² The difference depends on whether the Borough's future debt payments are higher than shown in the 2021 budget and whether the Borough uses General Fund money to fund capital projects. Both variables are discussed further below.



itself³. The answer to that question depends in large part on more detailed discussions about service levels and expectations, which should be the next step.

The rest of this memo describes the underlying assumptions since those are some of the areas that the two communities should discuss further.

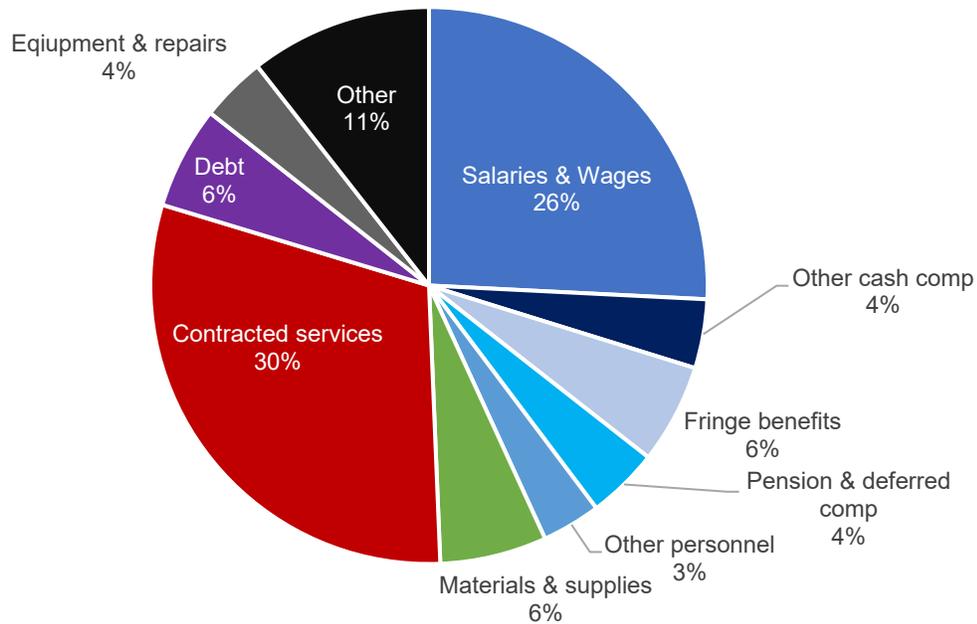
³ The Borough's 2021 budget cuts one position from Police, one from Public Works, and one from Code Enforcement, though those may be temporary reductions to manage through the pandemic.



Position assumptions: What happens to Borough employees?

The Borough allocates 43 percent of its 2021 budget to employee compensation, including salaries (\$3.3 million); fringe benefits (\$0.7 million)⁴, and pensions and deferred compensation (\$0.5 million). While employee compensation accounts for a smaller share of total expenditures in Wilkinsburg than other Pennsylvania municipalities⁵, it is still the biggest share of the Borough’s budget.

2021 Budget by Category



The merger projection assumes that most positions in Police, Public Works, and Planning/Code would shift from the Borough to the City.

For example, the Borough’s 2021 budget lists 22 police officer positions below the rank of Chief. We assume the City would add 22 positions to its police department to cover Wilkinsburg, just as occurred when Wilkinsburg’s 24 firefighters shifted to the City in 2011. The City can draw on a larger workforce than the Borough, so it may be able to provide the same level of coverage with fewer positions or a higher level of coverage at the same cost. By virtue of its size, the Pittsburgh Bureau of Police can also provide more specialized services than the Borough. These are some of the service level discussions that the communities should have to understand the full impact of a merger.

In terms of compensation, we assume Wilkinsburg police officers would receive base salaries and tenure-based longevity payments in line with the terms of the City’s current collective bargaining agreement with the Fraternal Order of Police. We have done a similar translation for the Borough’s Public Works and Planning/Code employees, using titles listed in the two budgets to approximate how wages for individual

⁴ Fringe benefits includes insurance coverage for health, vision, dental, life, and accidental death and dismemberment (AD&D).

⁵ Personnel costs account for a smaller share of Wilkinsburg’s costs because the Borough contracts with the City for fire protection and refuse collection. Spending on those two labor-intensive services is recorded as a contracted service.



positions would change. The specific terms of how individual employees would be treated with respect to rank, assignments, and certain types of compensation in a merger would be subject to collective bargaining.

The projections assume most of the Borough's senior, management, and clerical positions would be eliminated because the City would likely not add new positions of that type to serve Wilkinsburg. Those types of employees could potentially be absorbed into the City government or fill vacancies there.

For fringe benefits, we took the amounts listed in the City's 2021 budget for health and other types of insurance in each relevant department and divided that total by the number of full-time equivalent positions (FTEs) in that department. We then multiplied that per-employee estimate by the number of positions that would shift to the City in a merger. This provides a reasonable placeholder estimate, though some types of employees will have more costly fringe benefits than others.

This cost analysis is primarily focused on changes in the number and types of positions, and does not project changes in compensation or employment status for individuals. We understand the merger's potential impact on individuals is very important so the parties should discuss these matters.

Service assumptions

Eastern Area PreHospital Services, Incorporated (EAPS) provides emergency medical technician and paramedic coverage for Wilkinsburg. The Borough does not have any EMS expenditures since EAPS is a separate non-profit organization funded by contributions and users. In Pittsburgh, the City Bureau of Paramedics provides EMS coverage as a part of City government. For this analysis we assume the City would provide EMS coverage to Wilkinsburg, however the two communities should discuss whether that will be the case.

The best way to determine whether the City will need to add more staff and ambulance units to cover Wilkinsburg is to review the volume and types of calls in Wilkinsburg and the City's existing capacity to respond to them. In the absence of that information, we have used a placeholder assumption that the City would increase its 188-person budgeted complement by 5 percent (or 9 positions) since Wilkinsburg's population is roughly 5 percent the size of Pittsburgh's.

While staffing levels are not necessarily set on a per capita basis, this provides a placeholder value for added personnel costs. The City may also incur additional non-personnel costs (vehicles, medical supplies) not included in our analysis. We assume that the calls would some generate EMS revenues to offset some of the City's additional costs to serve Wilkinsburg.

There are two other instances where we have added positions to the projected City expenditures:

- The Borough contracts with an outside organization for facility cleaning while the City performs these functions in-house. We added one custodial position to the projected budget.
- The Borough uses part-time and seasonal labor for some functions in Public Works while the City generally uses full-time employees. We have added two laborers to the projected budget.

The Borough has small expenditures for parking enforcement and stormwater management in its 2021 budget. Those functions are handled by the Pittsburgh Parking Authority and Pittsburgh Water and Sewer Authority in the City, so we removed those expenditures from our projection.

According to the budget, the Borough uses outside contractors for legal, information technology/data



processing, tax collection, and engineering services. For simplicity, we assume the City would add those expenditures to its budget, though existing City staff may be able to assume additional work in the merger and reduce these expenditures. This is another area for discussion between the parties.

Potential economies of scale

One potential financial benefit to merging governments is the opportunity for economies of scale where a combined government can deliver the same or better level of service more efficiently than a smaller government can on its own. The larger government may be able to purchase materials, services, or utilities at a lower cost because of their size. The larger government may have an inventory of unused vehicles or equipment that can be deployed more efficiently after a merger. Merging governments may avoid duplication of costs where two units purchase the same item (i.e. both governments pay membership dues to the same organization), or it may lower rates for certain types of liability insurance because the risk is distributed across a larger organization.

We note this potential but do not have enough information to include estimated savings in our analysis, except in cases where the Borough’s budget detail identifies items that would clearly be duplicates, like membership dues paid to regional organizations. Similarly, we do not know the plans for Borough-owned facilities in a merger, so we assume that all would remain open, though some may be used in a different capacity. The table below shows the Borough’s expenditures by category with sample levels of reductions applied to each one.

	10% reduction	25% reduction	50% reduction
Materials and supplies	\$25,000	\$63,000	\$127,000
Contracted services	\$64,000	\$159,000	\$318,000
Building repairs and maintenance	\$6,000	\$14,000	\$28,000
Vehicles/equipment repairs and maintenance	\$41,000	\$103,000	\$206,000
Utilities	\$44,000	\$110,000	\$221,000
General liability insurance	\$42,000	\$106,000	\$212,000
Total savings	\$222,000	\$555,000	\$1,112,000

Debt

We assume that the City would absorb the Borough’s debt and make the remaining payments after a merger. The Borough’s 2021 budget has \$751,000 in combined principal and interest payments for three bonds and a Pennsylvania Infrastructure Bank (PIB) loan that the Borough used to fund street paving. The Borough issued two series of general obligation bonds in 2020 to refund bonds issued in 2011 and 2015.

	2019	2020	2021	Repaid in
2011 Series C	\$194,956	\$190,677	\$0	N/A
2015 Series	\$110,700	\$110,588	\$0	N/A
2016 Series	\$414,371	\$504,196	\$457,596	2028
2020 Series A	\$0	\$0	\$50,776	2033
2020 Series B	\$0	\$0	\$22,516	2029
PIB loan	\$218,307	\$218,307	\$218,307	2027
Miscellaneous	\$2,250	\$3,750	\$2,250	N/A
Total	\$940,584	\$1,027,518	\$751,445	

The Borough will pay less this year toward debt than in prior years and will only pay interest on the 2020 bonds. This raises the question whether the 2020 transaction traded lower payments in the near term to help the Borough manage through the pandemic in exchange for higher



payments later. The Borough would have to provide a complete debt schedule so the City would know whether the \$751,000 paid in 2021 is representative of future annual obligations.

Pension and other post-employment benefits

The Borough has two pension plans, one for police officers and one for other employees. The Borough's contributions to the two plans averaged \$450,000 from 2015 through 2019. The 2021 budget has a \$513,000 contribution, offset in part by \$389,000 in Commonwealth pension aid. We assume that the annual contribution expenditures and pension aid revenue would both shift to the City in a merger. The parties would have to consult their pension attorneys and actuaries to identify and reconcile any differences in pension plan provisions between the Borough and the City, and some changes may be subject to collective bargaining.

The Borough's 2019 audit describes other post-employment benefits (primarily retiree health insurance) with a total liability of \$937,000. This is the estimated cost of benefits that would be paid over several years, not in one particular year. The 2021 budget has \$34,000 for health insurance for retired police officers. We assume the City would cover these expenditures in a merger.

Capital projects and interfund transfers

The Borough has a separate Capital Improvement Fund for major renovation and replacement projects related to its facilities, large vehicles, roads, and other infrastructure. The capital budget for 2021 has just two items: \$550,000 for street reconstruction funded by the PIB loan and \$253,000 in parks improvements. The capital budget also assumes a \$1.8 million transfer from the General Fund to pay for the parks improvements and cover the \$503,000 deficit from prior years. The \$1.8 million transferred into the Capital Fund minus the \$756,000 for parks and the prior-year deficit leaves \$1.0 million in the Capital Fund for future use.

The General Fund does not show a corresponding \$1.8 million transfer out to the Capital Improvement Fund in 2021, which raises the question whether the transfer will occur this year. If it does not, there may be a one-time cost in a merger to retire the Capital Improvement Fund deficit.

Similarly, the 2019 audit notes that the General Fund owed money to other funds (primarily the Sewer Fund) and was owed money from other funds (primarily the Capital Projects fund). These commitments may have been resolved since the end of 2019, but this is another area of further review to determine if a one-time expenditure is needed to retire these obligations after a merger.

One-time costs

Our analysis focuses on how the City's recurring revenues and expenditures would change in a merger, but there will also be one-time transition costs. Some of these one-time costs would have to be quantified by the professional in charge of the work, like shifting the Borough's debt to the City. Others can likely be quantified through a conversation with the City staff familiar with expenditures related to facilities, software, and vehicles. Items for discussion include:

For Borough employees who do not move to the City, who would pay their unemployment claims?
For Borough employees who do not move to the City, would they be able to cash out unused leave?
Are there any IT conversion costs (i.e. hardware that does not meet City standards, software that needs more licenses)?
Are there any immediate repairs to Borough facilities that the City would need/want to make?
Are there any conversion costs for City vehicles (repainting, equipment, etc.)?



Would the City need to purchase new vehicles to provide EMS to Wilkinsburg?
What are the conversion costs for street and other signs, garbage cans, other fixtures?
What are the one-time transaction costs associated with the City taking on Borough debt?
Would the City have to set aside money for any pending litigation involving the Borough?
What are the one-time transaction costs associated with pension plans?

The Borough's 2021 budget cites \$1.8 million in prior year reserves from 2019 to balance the General Fund budget. If any of the balance is still available after this year, these funds could be used to cover one-time costs. Wilkinsburg will also receive \$1.6 million in federal American Rescue Plan revenue (\$800,000 in 2021 and \$800,000 in 2022) that could cover one-time costs, subject to federal guidelines and regulations.