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BOROUGH OF WHEATLAND MERGER

Strategic Management Planning Program Report
November 2021



PENNSYLVANIA
ECONOMY LEAGUE

Information, Insight, Integrity.

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Chapter 1 Executive Summary

Introduction

Over the last several years, Wheatland borough has worked to ensure the sustainability of municipal services in its small community, beginning with a state-sponsored Early Intervention Program study completed by the Pennsylvania Economy League Central Division (PEL) in 2018. The borough subsequently approved a home rule charter and outsourced its public works operations to neighboring Hermitage, which already provided police services to the borough.

The following 2021 Strategic Management Planning Program (STMP) study by PEL takes the next step by considering the impacts of a merger between Wheatland and the city of Hermitage. The study mostly focuses on financial impacts. Operational impacts are limited given that Hermitage already provides the bulk of services to Wheatland.

Merger in Pennsylvania is the combination of two or more municipalities resulting in the termination of all but one of the municipalities. The surviving municipality assumes jurisdiction over the municipalities that have been terminated. Hermitage and Wheatland are contemplating a merger in which the city of Hermitage would be the remaining municipality. For the merger to occur, both governing bodies and residents from both municipalities must give approval through a majority vote.

Although Wheatland was able to stabilize its finances in the last five years, there are numerous indications that this is temporary with deficits looming in the future. Under a merger completed today, the city would receive the borough's tax base along with a healthy fund balance as opposed to a municipality potentially in financial distress. In general, the merger appears to be a mostly win-win situation, although the individual impact will vary due to the differences in tax structure.

Key Recommendations

PEL's main recommendation for this report is that Wheatland and Hermitage follow the provisions of the state Municipal Consolidation or Merger Act as outlined in the state [Boundary Change Procedures Manual](#). A merger is expected to result in providing stable, cost-effective services to the residents and businesses of Wheatland while delivering additional revenue to Hermitage, thus increasing the future sustainability of both municipalities and providing for the health, safety and welfare of the region.

It is also recommended that Wheatland and Hermitage work to educate their citizens on the positive impacts of merger while also detailing any potential costs so that voters can make an informed decision. Although it appears that community leaders in both municipalities desire the merger, the joining of two municipalities through consolidation or merger often is met with opposition from interests within the communities. Therefore, education on the process and outcomes is crucial to eliminate potential disinformation that could derail the process.

Wheatland Historical Financials

The borough of Wheatland improved its financial condition during the historical review period, experiencing surpluses from 2016 to 2020 and increasing its balance in the General Fund. The bookend years of 2016 and 2020 show an increase in revenues and a decrease in expenditures. However, there are red flags lurking in the financials that could become problematic in the coming years and threaten sustainability.

Tax revenue accounts for over 75 percent of the borough's revenues. Property tax rates were increased twice during the review period, which resulted in some revenue growth. But as property tax rates went up, collection rates fell and are now at only 85 percent. The property assessment trend is flat, so the borough is unlikely to experience any increases in property tax revenue absent additional tax hikes.

Earned income taxes have been a source of growth; however, these revenues have fluctuated based on non-resident collections. Furthermore, an increase in the resident earned income tax from 0.5 percent to 1.0 percent was enacted in 2021 to improve the General Fund's revenue-raising capabilities.

A significant non-tax revenue source, a state Department of Community and Economic Development decreasing grant to help fund the public works contract with the city of Hermitage, has ended.

In terms of expenditures, contracted police (and later public works) services from Hermitage grew over the historical period, although both contracts remain cost-effective ways to provide services in lieu of in-house staffing. General government expenditures, including salary for the secretary/treasurer, also rose over the historical period. The cost for benefits and insurances declined as the number of employees decreased.

Wheatland Projections

Baseline revenue and expenditure projections forecast a growing structural deficit for the borough nearing \$25,000 by 2025. While continued prudent budgetary management can avoid some of these pressures, the baseline projections suggest increasing difficulty of the current tax base and tax rates to maintain existing service levels.

Financial Impacts

The financial impact of the proposed merger to Wheatland residents depends on factors such as their type of income and property-owning status. Hermitage property tax rates at 5 mills are significantly lower than the Wheatland rate of 24.75 mills, but the city's earned income tax is higher at 1.75 percent compared to 1.00 percent. Another significant difference is that portions of the business community might have to pay Hermitage's flat rate \$200 mercantile/business privilege tax.

It is not anticipated that Hermitage residents will experience any tax rate changes as the result of a merger.

The impact on Hermitage financials is projected to be slightly net positive. The variability and uncertainty mostly come from non-resident earned income tax expectations and the cost of repair and maintenance of Wheatland's transferred capital assets.

Other Merger Impacts and Considerations

In terms of additional impacts, a merger of Wheatland and Hermitage appears to have few negative consequences. For example, services are anticipated to remain the same or even improve under a merger given the larger tax base and extensive Hermitage city government operations. Long-term municipal financial sustainability is also likely to be more attainable under the larger tax base, and lower property taxes in the Wheatland footprint could encourage new development there.

Wheatland currently has only one employee, who is likely to retire in the near term, so there is little in the way of staff impact that can often complicate a merger. Hermitage is unlikely to need additional staff post-merger. In addition, the former Wheatland residents would now have the services of a professional municipal manager and more extensive government operations in general that would be cost prohibitive in the current situation.

The Wheatland Volunteer Fire Department appears amenable to coming under the Hermitage umbrella. Meanwhile, Wheatland could continue its identity as a distinct neighborhood within the city through retention of the volunteer fire name and similar measures.

As Wheatland and Hermitage go through the merger process, they should be aware that mergers are a challenging process. To assist the municipalities, this report includes actions that are linked to success as well as pitfalls to avoid.

Chapter 2 Historical Financial Review

Introduction

The borough of Wheatland improved its financial condition during the historical review period, experiencing surpluses from 2016 to 2020 and increasing its balance in the General Fund. The bookend years of 2016 and 2020 show an increase in revenues and a decrease in expenditures. However, there are red flags lurking in the financials that could become problematic in the coming years and threaten sustainability.

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A significant non-tax revenue source, a state Department of Community and Economic Development decreasing grant to help fund the public works contract with the city of Hermitage, has ended.

In terms of expenditures, contracted police (and later public works) services from Hermitage grew over the historical period although both contracts remain cost-effective ways to provide services in lieu of in-house staffing. General government expenditures, including salary for the secretary/treasurer, also rose over the historical period. The cost for benefits and insurances declined as the number of employees decreased.

Methodology

PEL compiled this historical review of the borough's General Fund through analysis of year-end financial reports, independent audits, annual budgets, salary and benefit data, pension obligations and other financial obligations, as well as interviews with borough officials. The historical review concentrates on the General Fund.

Summary of Historical Financial Position

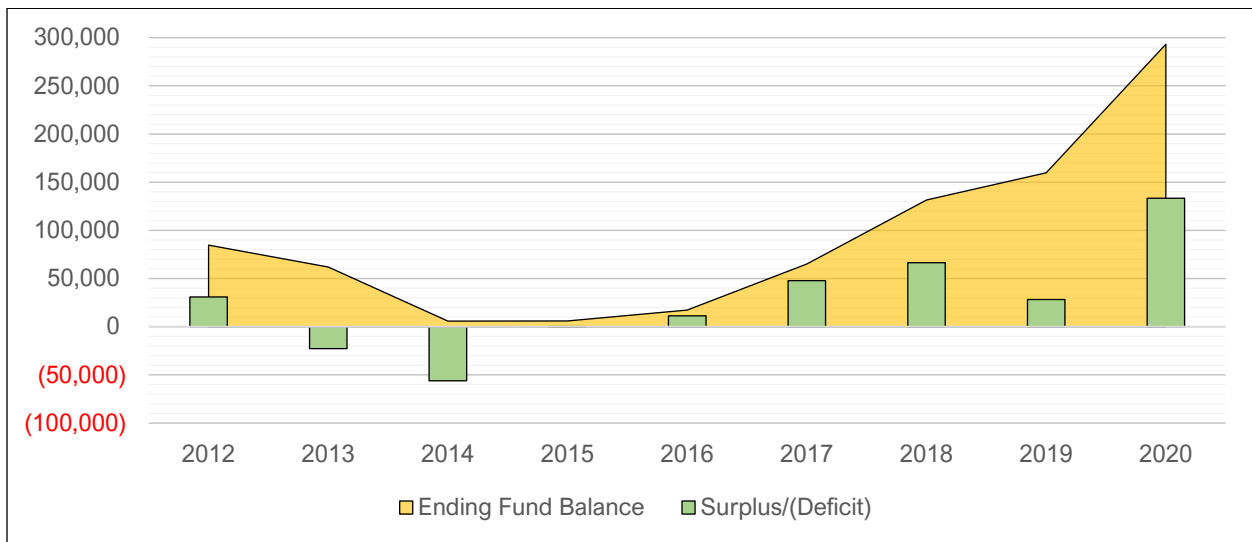
The General Fund experienced surpluses in every year since 2016 including a large \$133,408 surplus in 2020. Revenues grew by 10 percent while expenditures declined by over 12 percent in the five-year period. See Table 2-1.

Table 2-1
General Fund Historical Revenues, Expenditures and Surplus/(Deficit)

	2016	2017	2018	2019	2020	Change 2016-2020	
	Actual	Actual	Actual	Actual	Actual	\$	%
Revenues	550,772	497,222	573,804	518,255	609,138	58,366	10.6
Expenditures	541,795	449,407	507,445	489,990	475,730	-66,065	-12.2
Surplus/(Deficit)	8,977	47,815	66,359	28,265	133,408		
Ending Fund Balance	17,280	65,095	131,454	159,719	293,127		

Strong performance since 2016 built the General Fund balance back from an extremely low value in the middle of last decade. Figure 2-1 below shows the General Fund balance and surplus/deficit history since 2012 according to DCED records. By year end 2020, the fund balance grew to approximately 61 percent of 2021 budgeted General Fund expenditures, or the equivalent of over seven months of reserves. See Figure 2-1.

Figure 2-1
General Fund Ending Fund Balance and Surplus/Deficit History, 2012-2020



Total Revenues

Over 75 percent of borough revenues collected since 2016 were derived from taxes including real estate, earned income, local services, and real estate transfer. Tax revenue increased 16.4 percent from 2016 to 2020 due to a combination of earned income tax growth, increased real estate tax millage rates, and above-average delinquent real estate tax revenue in 2020.

Intergovernmental revenue, including recurring revenues and one-time grants, represents the next largest revenue source. Intergovernmental revenues surpassed \$100,000 in 2020 due to a DCED grant assisting in the funding of public works contracted services and the receipt of \$17,000 from Mercer County’s CARES Act municipal distributions.

Licensing and permit revenue is almost exclusively received from cable television franchise fees which have been slowly declining this decade. Other financing sources includes miscellaneous revenues and interfund transfers which have declined each year since 2016. See Table 2-2.

Table 2-2
General Fund Historical Revenues

	2016	2017	2018	2019	2020	Change 2016-2020	
	Actual	Actual	Actual	Actual	Actual	\$	%
Taxes	399,749	417,087	501,313	447,589	465,323	65,574	16.4
Licenses & Permits	9,730	9,830	11,275	13,596	9,336	-394	-4.0
Fines & Forfeits	0	0	0	0	0	0	-100.0
Interest, Rents & Royalties	306	258	3,464	7,417	6,439	6,133	2,004.2
Intergovernmental Revenue	30,469	18,314	38,506	36,352	123,701	93,232	306.0
Charges for Service	600	600	0	0	600	0	0.0
Other Financing Sources	109,918	51,133	19,246	13,301	3,739	-106,179	-96.6
Total Revenues	550,772	497,222	573,804	518,255	609,138	58,366	10.6
Percent of Total Revenue							
Taxes	72.6	83.9	87.4	86.4	76.4		
Licenses and Permits	1.8	2.0	2.0	2.6	1.5		
Fines and Forfeits	0.0	0.0	0.0	0.0	0.0		
Interest, Rents and Royalties	0.1	0.1	0.6	1.4	1.1		
Intergovernmental Revenue	5.5	3.7	6.7	7.0	20.3		
Charges for Service	0.1	0.1	0.0	0.0	0.1		
Other Financing Sources	20.0	10.3	3.4	2.6	0.6		
Grand Total	100.0	100.0	100.0	100.0	100.0		

Tax Revenues

Real estate taxes increased almost 10 percent between 2016 and 2020 due to the combined effects of tax rate increases and higher-than-average delinquent tax receipts in 2020. Earned income tax (EIT) revenue growth accounted for most of the tax growth in the last five years, increasing by over 50 percent since 2016. Wheatland's EIT revenue history has exhibited significant year-to-year variation according to DCED records. These fluctuations are mostly related to variations in non-resident tax collections as well as higher-than-average delinquent collections in 2020.

Local services taxes (LST) are raised through a \$52 levy on individuals employed within the borough, and its consistency reflects recent stability in the number of jobs located in Wheatland. Forty-seven dollars (\$47) of the LST levy is apportioned to Wheatland and the remaining \$5 is allocated to the Farrell Area School District.

Real estate transfer taxes are tied to property sales, which can vary significantly from year to year. According to DCED records, the 2017 figure of \$7,396 represented the median annual figure between 2006 and 2020. The 2018 collection of \$46,170 was the second highest while the 2020 collection of \$3,887 was the fourth lowest since 2006. See Table 2-3.

Table 2-3
Historical Tax Revenues by Type

	2016	2017	2018	2019	2020	Change 2016-2020	
	Actual	Actual	Actual	Actual	Actual	\$	%
Real Estate Taxes	252,156	255,540	264,975	252,883	276,045	23,889	9.5
Earned Income Taxes	94,595	110,847	139,201	134,968	144,992	50,397	53.3
Local Services Tax	39,566	41,274	45,228	44,507	38,166	-1,400	-3.5
Real Estate Transfer Taxes	10,511	7,396	46,170	13,053	3,887	-6,624	-63.0
Per Capita Taxes	1,309	1,165	3,116	1,200	1,436	127	9.7
Occupation Taxes	842	630	1,903	978	797	-45	-5.3
Mechanical Device Taxes	770	235	720	0	0	-770	-100.0
Total Tax Revenues	399,749	417,087	501,313	447,589	465,323	65,574	16.4

Wheatland's real estate tax millage history is shown below (see Table 2-4). The borough had an average collection rate of 90 percent between 2012 and 2017 but collection rates have fallen under 85 percent for three consecutive fiscal years since.

Table 2-4
Real Estate Millage, Tax Levy and Collection Rate History (All Funds)

Year	Millage Rate	Assessed Value (\$)	Taxes levied (\$)	Taxes Collected (\$)	Collection Rate (%)
2012	23.25	10,523,100	244,662	219,367	89.7
2013	23.25	10,508,600	244,325	223,383	91.4
2014	23.25	10,611,750	246,723	218,609	88.6
2015	24.25	10,618,700	257,503	238,430	92.6
2016	24.25	10,704,650	259,588	231,424	89.2
2017	24.25	10,656,150	258,412	228,942	88.6
2018	25.25	10,656,600	269,079	227,733	84.6
2019	25.75	10,651,200	274,268	231,735	84.5
2020	25.75	10,779,350	277,568	233,728	84.2

Note: "Taxes Levied" equals the face value of the year's tax levy. "Taxes Collected" exclude any prior year or delinquent collections in cited fiscal year. All governmental funds with a tax levy presented.

Assessed values are determined by the Mercer County Assessor's Office, which last conducted a countywide reassessment effective 1974. The Center for Rural Pennsylvania, which is a legislative agency of the Pennsylvania General Assembly (the "Center"), published a scholarly study entitled "Pennsylvania County Property Reassessment: Impact on Local Government Finances and the Local Economy."¹ In its study, the Center found that an increase in the number of years since the last countywide reassessment results in an associated decrease in the amount of tax revenue generated per mill. The decrease was measurably greater for rural counties. Further, the Center found that as the years since reassessment increase, the county property tax system becomes more inequitable. The Center recommended that reassessment occur at intervals of no less than every four years.

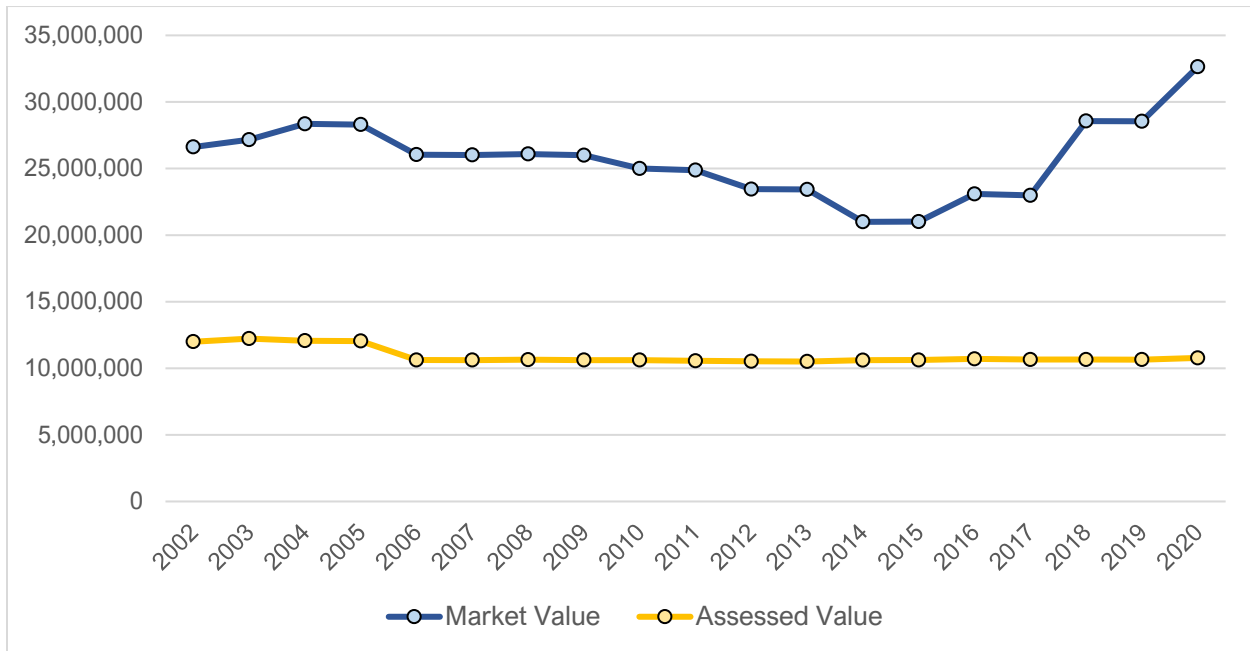
¹ Weber, et. al. "Pennsylvania County Property Reassessment: Impact on Local Government Finances and the Local Economy." The Center for Rural Pennsylvania. November 2010, https://www.rural.palegislature.us/documents/reports/county_reassessment_2010.pdf

Estimated borough market value notably declined from 2005 to 2014 before bouncing back to an estimated high of \$32.6 million in 2020. Assessed real property value peaked in 2003 and declined in the same time period. Since 2010, total assessed value grew by only 1.6 percent. These trends have reduced the ratio between assessed and market value to approximately 33 percent. See Table 2-5 and Figure 2-2.

Table 2-5
Assessed Value versus Market Value

Year	Market Value	Change	% Chg	Assessed Value	Change	% Chg	Ratio of Assessed to Market Value
2002	26,621,300			11,996,750			45.1
2003	27,165,300	544,000	2.0	12,230,050	233,300	1.9	45.0
2004	28,353,300	1,188,000	4.4	12,070,350	-159,700	-1.3	42.6
2005	28,302,300	-51,000	-0.2	12,044,350	-26,000	-0.2	42.6
2006	26,044,900	-2,257,400	-8.0	10,621,600	-1,422,750	-11.8	40.8
2007	26,015,633	-29,267	-0.1	10,616,800	-4,800	0.0	40.8
2008	26,090,253	74,620	0.3	10,644,900	28,100	0.3	40.8
2009	26,001,754	-88,499	-0.3	10,613,500	-31,400	-0.3	40.8
2010	25,004,124	-997,630	-3.8	10,613,950	450	0.0	42.4
2011	24,874,646	-129,478	-0.5	10,559,100	-54,850	-0.5	42.4
2012	23,454,934	-1,419,711	-5.7	10,523,100	-36,000	-0.3	44.9
2013	23,428,709	-26,226	-0.1	10,508,600	-14,500	-0.1	44.9
2014	20,997,352	-2,431,357	-10.4	10,611,750	103,150	1.0	50.5
2015	21,014,385	17,033	0.1	10,618,700	6,950	0.1	50.5
2016	23,094,299	2,079,914	9.9	10,704,650	85,950	0.8	46.4
2017	22,982,232	-112,067	-0.5	10,656,150	-48,500	-0.5	46.4
2018	28,566,949	5,584,717	24.3	10,656,600	450	0.0	37.3
2019	28,546,227	-20,722	-0.1	10,651,200	-5,400	-0.1	37.3
2020	32,641,390	4,095,163	14.3	10,779,350	128,150	1.2	33.0
Change 2002 – 2020		6,020,090	22.6		-1,217,400	-10.1	
Change 2010 – 2020		7,637,266	30.5		165,400	1.6	

Figure 2-2
Assessed Value versus Market Value



This low assessment growth results in the inability of real estate taxation to keep up with inflation absent tax millage increases. For example, note that inflation increased price levels approximately 19 percent between January 2010 and January 2020². Thus, for every \$100 raised and spent since 2010, inflation increased the cost of the same basket of goods and services to \$119 while the same tax rate would only generate \$101.60 in real estate tax revenue.

Non-Tax Revenues

The largest non-tax revenue source in 2020 was the DCED grant that assisted the borough’s transition from in-house public works to contracting these services from Hermitage city. The borough received the final disbursement of this grant in 2021. The borough also received \$17,000 of COVID-19 relief revenue distributed by Mercer County.

Cable television franchise fees now represent the largest recurring non-tax revenue, a source which has declined slightly (4.0 percent) since 2016. Overall, recurring non-tax revenue declined by over \$28,000 (53 percent) since 2016 largely due to the reduction of state pension aid which is based on the number of active pension-eligible employees. See Table 2-6.

² CPI Inflation rate January 2005 to January 2020 per Bureau of Labor Statistics https://www.bls.gov/data/inflation_calculator.htm

Table 2-6
Non-Tax Revenues by Type

	2016	2017	2018	2019	2020	Change 2016-2020	
	Actual	Actual	Actual	Actual	Actual	\$	%
Cable Television Franchise Fees	8,065	7,647	8,926	9,980	7,746	-319	-4.0
Rentals	0	0	2,200	5,501	5,620	5,620	100.0
Fire State Aid	3,070	2,869	2,357	3,025	3,051	-19	-0.6
Refunds of Prior Year Expenditures	11,699	444	3,577	5,642	2,890	-8,809	-75.3
All Other Licenses and Permits	1,665	2,183	2,349	3,616	1,590	-75	-4.5
Marcellus Shale Impact Fee	1,133	969	1,375	999	1,342	209	18.4
Public Utility Realty Tax (PURTA)	470	411	422	439	908	438	93.2
Interest Earnings	306	258	1,264	1,916	819	513	167.6
All Other Sanitation Service Charges	600	600	0	0	600	0	0.0
All Other Unclassified Op. Revenues	379	286	229	647	305	-74	-19.5
Alcoholic Beverage Licenses	300	300	450	450	150	-150	-50.0
Pension System State Aid	25,496	13,765	1,052	1,289	0	-25,496	-100.0
Recurring Subtotal	53,183	29,732	24,201	33,504	25,021	-28,162	-53.0
State Grants	0	0	32,850	30,150	101,250	101,250	100.0
CARES Act Distribution	0	0	0	0	17,000	17,000	100.0
Interfund Operating Transfers	96,591	11,651	15,440	7,012	544	-96,047	-99.4
Sale of Fixed Assets	1,249	38,752	0	0	0	-1,249	-100.0
Non-Recurring Subtotal	97,840	50,403	48,290	37,162	118,794	20,954	21.4
Total Non-Tax Revenue	151,023	80,135	72,491	70,666	143,815	-7,208	-4.8

Total Expenditures

Insurances and employee benefits fell by almost \$90,000 (or 73.7 percent) since 2016 because of downsizing the borough's full-time staff from three to one employee. Other financing uses (miscellaneous expenditures and interfund transfers) also fell during this time. Expenditures in other cost centers grew, including general government (e.g., solicitor and auditing services, building and plant costs, secretary, and council expenditures, etc.), public safety and public works, the latter two now representing the cost of contracting these services from Hermitage. See Table 2-7.

Table 2-7*Historical Expenditures by Function of Government*

	2016	2017	2018	2019	2020	Change 2016-2020	
	Actual	Actual	Actual	Actual	Actual	\$	%
General Government	97,039	98,490	152,431	123,509	116,463	19,424	20.0
Public Safety	155,188	159,762	162,619	177,349	173,209	18,021	11.6
Culture and Recreation	575	126	89	2,407	0	-575	-100.0
Public Works	110,483	67,839	80,734	114,844	118,599	8,116	7.3
Health and Human Services	0	0	0	1,220	814	814	100.0
Insurances & Benefits	120,312	67,975	50,175	31,866	31,683	-88,629	-73.7
Other Financing Uses	58,198	55,215	61,397	38,795	34,962	-23,236	-39.9
Total Expenditures	541,795	449,407	507,445	489,990	475,730	-66,065	-12.2
Percent of Total Expenditures							
General Government	17.9	21.9	30.0	25.2	24.5		
Public Safety	28.6	35.5	32.0	36.2	36.4		
Culture and Recreation	0.1	0.0	0.0	0.5	0.0		
Public Works	20.4	15.1	15.9	23.4	24.9		
Health and Human Services	0.0	0.0	0.0	0.2	0.2		
Insurances & Benefits	22.2	15.1	9.9	6.5	6.7		
Other Financing Uses	10.7	12.3	12.1	7.9	7.3		
Total Expenditures	100.0	100.0	100.0	100.0	100.0		

Table 2-8 below further details borough General Fund expenditures by cost area.

Table 2-8*Historical Expenditures by Department*

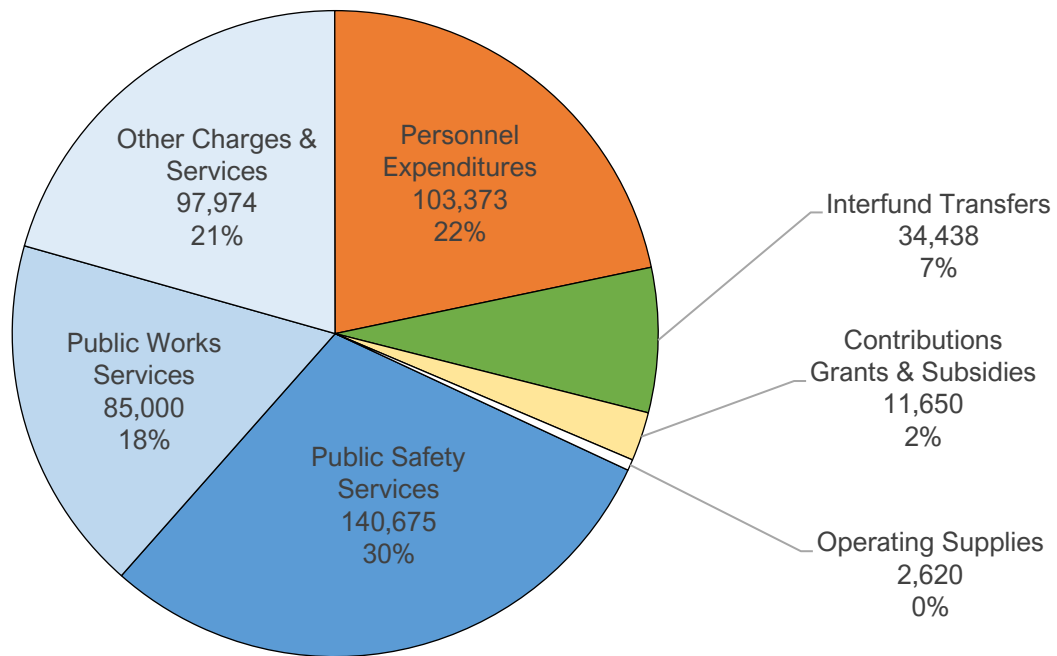
	2016	2017	2018	2019	2020	Change 2016-2020	
	Actual	Actual	Actual	Actual	Actual	\$	%
Secretary / Clerk	29,998	30,833	36,148	32,629	36,253	6,255	20.9
Legislative (Governing) Body	22,746	19,572	28,146	27,982	22,180	-566	-2.5
Tax Collection	20,492	20,696	21,653	19,299	20,198	-294	-1.4
Buildings and Plant	8,301	11,461	11,684	14,230	15,714	7,413	89.3
Other General Gov't Administration	0	0	36,860	12,612	7,900	7,900	100.0
Auditing / Financial Administration	5,550	6,000	6,500	6,850	6,950	1,400	25.2
Solicitor / Legal Services	7,452	7,357	8,417	7,182	6,010	-1,442	-19.4
Executive (Manager or Mayor)	2,500	2,571	3,023	2,725	1,258	-1,242	-49.7
General Government Total	97,039	98,490	152,431	123,509	116,463	19,424	20.0
Police	124,500	130,775	134,125	137,355	140,675	16,175	13.0
Fire	24,951	24,480	24,305	25,792	26,743	1,792	7.2
Planning and Zoning	4,652	3,305	2,104	14,099	4,457	-195	-4.2
Other Public Safety	1,085	1,202	2,085	103	1,334	249	22.9
Public Safety Total	155,188	159,762	162,619	177,349	173,209	18,021	11.6
Culture and Recreation	575	126	89	2,407	0	-575	100.0
Public Works	110,483	67,839	80,734	114,844	118,599	8,116	7.3
Health and Human Services	0	0	0	1,220	814	814	100.0

	2016	2017	2018	2019	2020	Change 2016-2020	
	Actual	Actual	Actual	Actual	Actual	\$	%
Insurance, Casualty, and Surety	60,397	29,455	16,271	16,761	15,460	-44,937	-74.4
Worker Compensation	14,189	11,430	12,804	7,416	8,703	-5,486	-38.7
Payroll Taxes / Unemployment Comp.	11,860	7,210	5,158	6,096	5,843	-6,017	-50.7
Pension Contributions	33,206	19,880	15,942	1,593	1,000	-32,206	-97.0
Other Group Insurance Benefits	660	0	0	0	677	17	2.6
Unallocated Insurances & Employee Benefits Total	120,312	67,975	50,175	31,866	31,683	-88,629	-73.7
Interfund Operating Transfers	54,297	53,708	60,992	34,438	34,438	-19,859	-36.6
All Other Unclassified Expenditures	3,901	1,507	405	4,357	524	-3,377	-86.6
Other Financing Uses Total	58,198	55,215	61,397	38,795	34,962	-23,236	-39.9
Total Expenditures	541,795	449,407	507,445	489,990	475,730	-66,065	-12.2

With the borough's reduction of staff to one employee, service charges now account for over two-thirds of expenditures: public safety and public works services provided by Hermitage, and other various charges & services (professional services, communications, advertising, non-employee insurances, and utility costs). Personnel expenditures, which include borough secretary salary and benefits, tax collector commissions, council, and mayor stipends, was just above \$100,000 in 2020.

Interfund transfers out to other funds included transfers to the Street Reconstruction Fund (\$16,353), Capital Improvement Fund (\$12,057), and the Debt Service Fund (\$6,028). Contribution expenditures included state aid and local contributions to the Wheatland Volunteer Fire Company and various small COG contributions. See Figure 2-3.

Figure 2-3
General Fund 2020 Expenditures by Type



Long-Term Debt

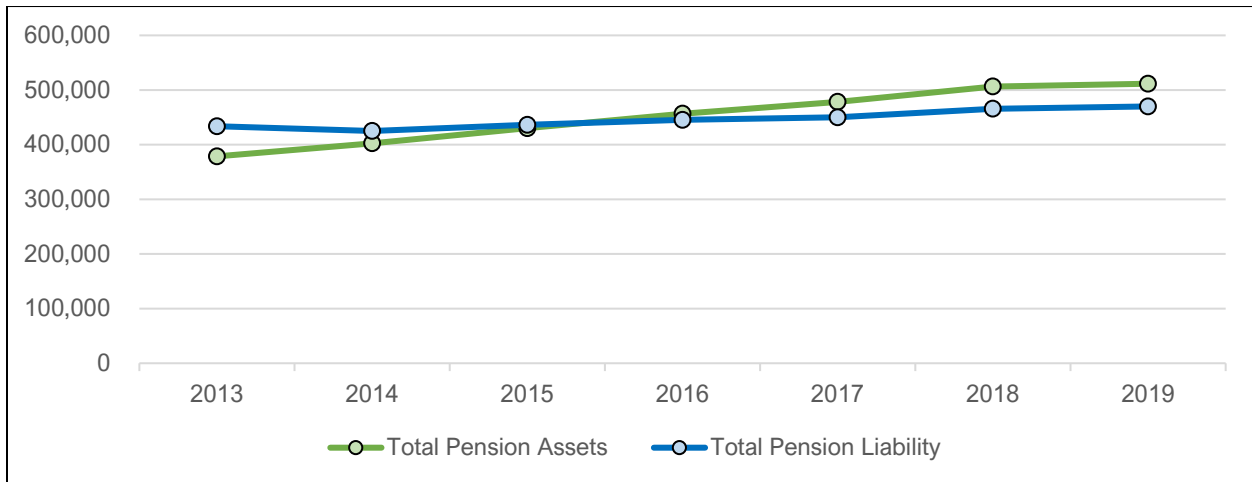
Wheatland has issued debt to fund various capital improvements. The borough borrowed \$135,334 from First National Bank of Pennsylvania in 2013 to fund street reconstruction projects (Loan # 45199395). The loan had a remaining principal balance of \$45,891 at year-end 2020 and carried an interest rate of 3.75 percent. Quarterly payments of \$4,088.10 were due every January, April, July, and October through October 2023. However, the borough paid this liability off early in 2021.

Borough Pension Obligations

The borough maintains a defined benefit pension plan for non-uniform employees, which is managed by the Pennsylvania Municipal Retirement System (PMRS). The plan’s 2019 GASB 68 report notes three inactive employees or beneficiaries currently receiving benefits, one inactive employee entitled to but not yet receiving benefits, and one active employee. Furthermore, the lone active employee is retirement eligible as of 2021. The borough had a uniformed police pension as of 2012 but has no remaining retirees or future beneficiaries.

The borough’s non-uniform pension plan is well funded with actuarial assets exceeding actuarial liabilities since year-ending 2016. The plan’s actuarial asset-to-liability funding ratio was 108.8 percent at year-end 2019. See Figure 2-4.

Figure 2-4
Net Pension Assets/(Liabilities), Police Pension Plan, Year-ending 2012-2019



If a merger were to occur, the simplest course of action would be to maintain the Wheatland non-uniform pension plan as a standalone fund. However, Hermitage can discuss potential options with PMRS, the administrator of both Wheatland non-uniform and Hermitage non-uniform pension plans. The administrator would be able to ascertain the pros and cons of merging the Wheatland plan into the larger Hermitage plan for administrative ease while maintaining the level of benefits afforded to each constituency.

Other Funds

The borough maintains several governmental funds in addition to the General Fund, each accounting for various special functions. See Table 2-9.

Table 2-9
Summary of Other Funds

Fund	Main Function/Purpose	Major Revenue Sources	Predominant Expenditure Types
Capital Improvement	Purchase of capital machinery and equipment, building repairs, and street paving.	Interfund transfers in from the General Fund.	Capital improvements and equipment.
Debt Service	To account for borough debt service payments.	Interfund transfers in from the General Fund.	Debt Service payments.
Street Reconstruction	To account for major street rehabilitation and reconstruction projects.	Interfund transfers in from the General Fund and debt proceeds.	Capital construction and/or debt service payments.
Income Tax	Reserves of out-of-state non-resident earned income tax receipts collected prior to Act 32's consolidation of EIT tax collectors.	Non-resident earned income tax receipts and interest earnings	Historically used to balance yearly General Fund as necessary.

Fund	Main Function/Purpose	Major Revenue Sources	Predominant Expenditure Types
Liquid Fuels	To account for state aid revenue and expenditures consistent with Liquid Fuels Tax Municipal Allocation Law, Act 655 of 1956, as amended (72 P.S. §2615.5 et sec.).	Intergovernmental revenue (state aid).	Capital construction and equipment purchase; traffic control devices; winter maintenance services; street lighting; storm drain maintenance; and other allowable expenditures.
Special Sewer	To maintain borough-owned sewer assets (conveyance lines and pump station)	Sewer user charges collected on behalf of the borough by City of Farrell.	Pump station operation costs, system maintenance and repair costs as needed.

By year-end 2020, these funds had year-end cash-basis fund balances of \$331,355 collectively as shown in Table 2-10 below.

Table 2-10
2020 Year-end Fund Balances

Category	Fund	Balance (\$)
Capital Projects	Capital Improvement Fund	116,652
Capital Projects	Street Reconstruction	40,987
Debt Service	Debt Service Fund	14,413
Special Revenue	Income Tax Fund	88,962
Special Revenue	Liquid Fuels Fund	70,203
Enterprise	Special Sewer Fund	138
Total		331,355

The Sewer Fund's revenue is derived from two sources. First, a \$9 per quarter user charge is billed per equivalent dwelling unit (EDU) within Wheatland connected to its conveyance and pump station system. The system currently has 660 EDUs and generates \$5,940 quarterly (\$23,760 annually) assuming 100% collection. These charges are collected on the borough's behalf by the City of Farrell.

Second, the borough charges the City of Farrell \$520.92 monthly as several Farrell properties flow through the Wheatland conveyance system and pump station. Borough officials noted that this charge was based on historical average water usage flow data.

Starting in 2019, these sewer revenues were partially used to offset the borough's obligations as a member of the Southwest Regional Police Department (SWRPD). See the "Other Financial Obligations" section below for details.

Of note is the Income Tax Fund. Prior to the passage of Act 32 and the streamlining of local earned income tax collection, resident and non-resident EIT were collected by the Wheatland Tax Collector. The borough would set aside non-resident income tax raised from Ohio commuters due to concerns of a future refund liability and use portions as needed to balance the General Fund as necessary.

Any current refund liabilities would be handled by the county's earned income tax collector (currently Berkheimer) before remittance of EIT revenues to the borough. Given the length of time since the levy of these non-resident taxes, we believe the fund's assets are free and clear of refund liability. The borough should confirm this with their current solicitor and/or the earned income tax collector.

Other Financial Obligations

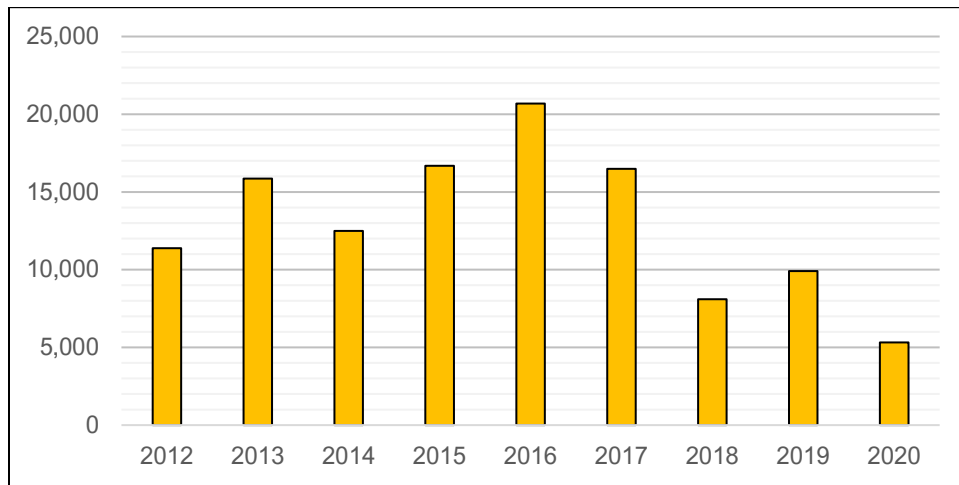
Wheatland was a member of the Southwest Regional Police Department (SWRPD), which was disbanded in 2015 after the major member municipalities, including Shenango Township and the city of Farrell, began withdrawing from the regional entity. In 2019, Wheatland borough entered into an agreement with the city of Farrell that authorized the city to use sewer user fees it collects on behalf of the borough to satisfy the borough's allocation of dissolution assets and liabilities as calculated by Farrell officials. These liabilities included approximately \$20,000 in the borough's past due share of health premium payables for retirees through September 30, 2019. The borough authorized the city to deduct future borough sewer user fee collections proportionate to its share of

retiree health insurance premiums. Furthermore, Farrell is to remit to Wheatland all sewer revenue collected by the former on behalf of the latter that are in excess of the borough’s aforementioned share of retiree benefit costs; remittances of said excess are due within 30 days of receipt. Lastly, the agreement requires the city to execute a subsequent agreement indemnifying the borough from any other obligation, cost or expense pertaining to the operation or dissolution of the SWRPD.

2020 was the first full fiscal year in which the agreement was in force, and the borough received \$5,319 in wastewater / sewage service charge revenues, a 50 percent decline from the preceding year. See Figure 2-5.

Figure 2-5

Wheatland Enterprise Fund Wastewater / Sewage Charges for Services Revenue, 2012-2020



Chapter 3 Financial Projections

Introduction

Baseline revenue and expenditure projections forecast a growing structural deficit for the borough nearing \$25,000 by 2025. While continued prudent budgetary management can avoid some of these pressures, the baseline projections suggest increasing difficulty of the current tax base and tax rates to maintain existing service levels.

Revenue Assumptions

- The 2021 budget and recent revenue history serve as the baseline.
- Tax rates and fees remain at 2021 levels.
- No growth or decline in total assessed property value.
- Earned income taxes: Resident EIT doubled from 2020 to 2021 due to increase in resident EIT tax rate from 0.5 percent to 1.0 percent. Non-resident EIT consistent with 2018-2020 activity. Total EIT growth of 1.5 percent annually thereafter.
- Local services tax held flat.
- Assumed annual decline of 1.5 percent in cable TV franchise. Other non-tax revenues held constant.

Expenditure Assumptions

- The 2021 budget and recent expenditure history serve as the baseline.
- Borough's final full-time employee retires at year-end 2021. Borough contracts for temporary agency services and financial administrative services.
 - 2022's temporary agency services estimated at a 50% agency surcharge on a \$12.5/hr position for 1,000 hours (\$18,750 total in 2022).
- The start of financial administration contracted services by an accounting firm or establishment with similar credentials starting at \$10,000 annually and growing with inflation.
- No new debt incurred.
- Interfund transfers to the Street Reconstruction, Capital Improvement, and Pension Sinking Funds held consistent with 2021 budgeted figures, totaling nearly \$34,500.
- Police and public works contractual expenditure growth rates based on 2017-2021 experience (2.5 percent and 1.5 percent, respectively).

Summary of Projected Revenues and Expenditures

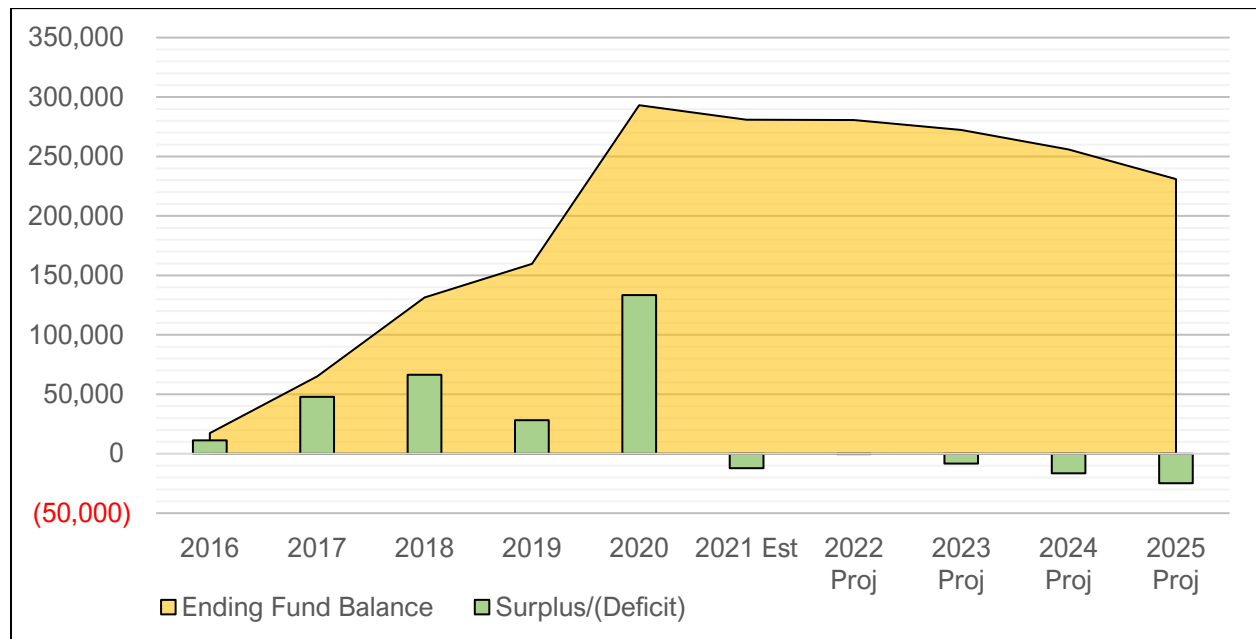
Baseline projections anticipate growing deficits in each year of the projection period. The projections forecast 2022 to be approximately balanced as the borough transitions out of having its own staffing, opting instead for temporary staffing, and contracted financial administrative services. Subsequent revenue growth will be minimal and not consistent with expenditure growth, increasing the annual deficit to approximately \$25,000 by 2025. See Table 3-1 and Figure 3-1.

Table 3-1
Projected General Fund Revenues and Expenditures

	2021	2022	2023	2024	2025	Change 2021-2025	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Revenues	552,196	504,965	507,591	510,261	512,973	-39,223	-7.1
Expenditures	564,364	505,319	515,876	526,712	537,834	-26,530	-4.7
Surplus/(Deficit)	-12,169	-354	-8,285	-16,451	-24,861		

The cumulative effect of the baseline projections would deplete the General Fund balance by year-end 2025 to approximately \$230,000 or five months of projected expenditures.

Figure 3-1
Ending Fund Balance and Surplus/Deficit Projections, 2021-2025



Revenues

Real estate taxes are expected to decline due to the larger-than-average prior year real estate tax receipts already received in 2021; current and delinquent real estate tax revenues are estimated to stay constant through the projection period. Earned income taxes are conservatively estimated to total \$180,000 in 2021 and grow modestly thereafter. However, a majority of EIT revenue will still come from non-resident payers who work within borough limits but reside in a domicile without its own resident EIT (e.g., Ohio residents). As such, the borough’s EIT and LST outlook are tied to each other to a greater degree than the typical Pennsylvania borough. See Table 3-2.

Table 3-2
Projected Tax Revenue

	2021	2022	2023	2024	2025	Change 2021-2025	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Real Estate Taxes	269,753	254,071	254,071	254,071	254,071	-15,682	-5.8
Earned Income Taxes	180,000	182,700	185,441	188,222	191,045	11,045	6.1
Local Services Taxes	39,000	39,000	39,000	39,000	39,000	0	0.0
Real Estate Transfer Tax	6,993	6,993	6,993	6,993	6,993	0	0.0
Per Capita Taxes	921	921	921	921	921	0	0.0
Occupational Tax	774	774	774	774	774	0	0.0
Mechanical Devices Tax	670	250	250	250	250	-420	-62.7
Total Tax Revenue	498,111	484,708	487,449	490,230	493,054	-5,057	-1.0

Most of the borough's 2021 non-tax revenues come from one-time DCED grants: the final distribution of the DCED public works transition grant and the 2021 STMP grant. As such, non-tax revenues are anticipated to fall to approximately \$20,000 annually after 2021. Marginal declines are anticipated in cable television franchise fees, the largest recurring non-tax revenue source for the General Fund. See Table 3-3.

Table 3-3
Projected General Fund Non-Tax Revenue by Type

	2021	2022	2023	2024	2025	Change 2021-2025	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Cable T.V. License	7,723	7,607	7,493	7,380	7,269	-453	-5.9
Rent of Buildings	4,800	4,800	4,800	4,800	4,800	0	0.0
Volunteer Fire Relief Aid	3,050	3,050	3,050	3,050	3,050	0	0.0
Building Permits	1,000	1,000	1,000	1,000	1,000	0	0.0
Refund of Prior Years Expenditures	1,000	1,000	1,000	1,000	1,000	0	0.0
Gas Leases	650	650	650	650	650	0	0.0
All other Charges	600	600	600	600	600	0	0.0
Miscellaneous Permits	450	450	450	450	450	0	0.0
PURTA	400	400	400	400	400	0	0.0
Interest	400	400	400	400	400	0	0.0
Alcoholic Beverage License	300	300	300	300	300	0	0.0
State Grants	33,713	0	0	0	0	-33,713	-100.0
Interfund Transfers	0	0	0	0	0	0	0
Total Non-Tax Revenues	54,085	20,257	20,143	20,030	19,919	-34,166	-63.2

Expenditures

Total expenditures are expected to decline between 2021 and 2022 and then grow incrementally thereafter. Most of the cost reductions come from the end of full-time staffing and reducing general government and employee benefit cost centers. Interfund transfers are also expected to fall after a one-time transfer of grant proceeds in 2021. Public safety expenditures are expected to increase 10 percent through the projection period, growing to over \$190,000 by 2025. See Tables 3-4 and 3-5.

Table 3-4
Projected Expenditures by Function of Government

	2021	2022	2023	2024	2025	Change 2021-2025	
	Estimated	Projected	Projected	Projected	Projected	\$	%
General Government	156,377	130,540	133,358	136,260	139,249	-17,128	-11.0
Public Safety	173,001	177,158	181,422	185,795	190,282	17,280	10.0
Culture & Recreation	1,676	1,723	1,770	1,820	1,871	195	11.6
Health and Human Services	1,630	1,679	1,729	1,781	1,835	205	12.6
Public Works	137,160	133,886	136,588	139,353	142,180	5,020	3.7
Unallocated Insurances & Employee Benefits	35,431	22,403	22,981	23,577	24,191	-11,240	-31.7
Other Financing Uses	3,400	3,493	3,589	3,687	3,789	389	11.4
Interfund Transfers	55,688	34,438	34,438	34,438	34,438	-21,250	-38.2
Grand Total	564,364	505,319	515,876	526,712	537,834	-26,530	-4.7

Table 3-5
Projected Expenditures by Type

	2021	2022	2023	2024	2025	Change 2021-2025	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Other Charges & Services	382,373	393,837	403,626	413,671	423,980	41,607	10.9
Personnel Expenditures	108,096	58,653	59,231	59,827	60,441	-47,655	-44.1
Interfund Transfers	55,688	34,438	34,438	34,438	34,438	-21,250	-38.2
Contributions Grants & Subsidies	12,089	12,089	12,089	12,089	12,089	0	0.0
Operating Supplies	6,119	6,302	6,491	6,686	6,887	768	12.6
Grand Total	564,364	505,319	515,876	526,712	537,834	-26,530	-4.7

Interfund Transfers

The majority of budgeted interfund transfers represent transfers funding capital expenditures: over \$28,000 annually between the street reconstruction fund and the capital improvement fund. See Table 3-6.

Table 3-6
Projected Interfund Transfer Expenditures

	2021	2022	2023	2024	2025	Change 2021-2025	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Transfer to Street Reconstruction Fund	16,353	16,353	16,353	16,353	16,353	0	0.0
Transfer to Capital Improvement Fund	12,057	12,057	12,057	12,057	12,057	0	0.0
Transfer to Pension Sinking Fund	6,028	6,028	6,028	6,028	6,028	0	0.0
Transfer to EIP / STMP Account	21,250	0	0	0	0	-21,250	-100.0
Total Interfund Transfers	55,688	34,438	34,438	34,438	34,438	-21,250	-38.2

Other Charges & Services

Contracted police and public works are projected to grow consistent with historical experience to approximately \$155,000 and \$90,000, respectively, by the end of the projection period. Professional services are anticipated to average \$40,000 after 2021. Collectively, other charges and services are anticipated to grow more than \$420,000 by 2025, an 11 percent increase from 2021 estimates. See Table 3-7.

Table 3-7
Projected Other Charges & Services Expenditures

	2021	2022	2023	2024	2025	Change 2021-2025	
	Estimated	Projected	Projected	Projected	Projected	\$	%
Contracted Police Services	140,675	144,192	147,797	151,492	155,279	14,604	10.4
Contracted Public Works Services	85,000	86,275	87,569	88,883	90,216	5,216	6.1
Professional Services	48,175	38,948	40,116	41,319	42,559	-5,616	-11.7
Utilities	36,954	38,062	39,204	40,380	41,592	4,638	12.6
Other Contracted Services	26,697	27,498	28,323	29,173	30,048	3,351	12.6
Temp Agency Services	0	18,750	19,313	19,892	20,489	20,489	100.0
Hydrant Expense	15,000	15,450	15,914	16,391	16,883	1,883	12.6
Maintenance & Repair Services	16,213	10,605	10,923	11,251	11,588	-4,625	-28.5
Telephone	3,390	3,492	3,596	3,704	3,815	425	12.6
Other Public Works Services	3,285	3,384	3,485	3,590	3,697	412	12.6
Animal Control	1,630	1,679	1,729	1,781	1,835	205	12.6
Trainings Meetings & Seminars	1,600	1,648	1,697	1,748	1,801	201	12.6
Advertisements	1,500	1,545	1,591	1,639	1,688	188	12.6
Other	2,253	2,310	2,368	2,428	2,490	237	10.5
Other Charges & Services Total	382,373	393,837	403,626	413,671	423,980	41,607	10.9

Chapter 4 Financial Impacts of Merger

Introduction

The immediate financial impact of the proposed merger to Wheatland residents depends on factors such as their type of income and property-owning status. Hermitage property tax rates are significantly lower than the Wheatland rate, but the city's earned income tax is higher compared to the borough's levy. Another financial impact is that portions of the business community might have to pay Hermitage's flat rate mercantile/business privilege tax. These businesses, however, will almost certainly benefit from reduced property taxes post-merger.

It is not anticipated that Hermitage residents will experience any tax rate changes as the result of a merger.

The impact on Hermitage financials is projected to be slightly net positive. The variability and uncertainty mostly come from non-resident earned income tax expectations and the cost of repair and maintenance of transferred capital assets.

Post-Merger Taxes

Wheatland and Hermitage have notably different tax structures. Wheatland levies a total real estate tax millage of 24.75 mills, nearly five times the Hermitage rate of 5 mills. However, Hermitage levies a resident earned income tax (EIT) rate of 1.75 percent. Wheatland's resident EIT rate is 1.0 percent as of 2021, itself an increase from the borough's historical rate of 0.5 percent.

Other notable differences include a higher realty transfer tax and a higher per capita tax in Hermitage, the imposition of a mercantile/business privilege tax in Hermitage, and the levy of a \$5.00 occupation tax in Wheatland. See Table 4-1.

Table 4-1

Municipal Tax Rate Comparison 2021

Tax	Wheatland	Hermitage
Real Estate Tax - General Purpose (mills)	22.92	5.00
Real Estate Tax - Pensions and Retirement (mills)	0.50	
Real Estate Tax - Street Lighting (mills)	1.33	
Real Estate Tax - Total (mills)	24.75	5.00
Earned Income Tax - Resident (%)	1.00	1.75
Earned Income Tax - Nonresident (%)	1.00	1.00
Local Services Tax (\$)	47.00	47.00
Realty Transfer Tax (%)	1.00	1.50
Per Capita Tax (\$)	5.00	20.00
Mercantile/Business Privilege Taxes - Flat Rate (\$)		200.00
Mechanical Devices Tax (\$)	50.00	50.00
Occupation Tax (\$)	5.00	

If a merger of Wheatland into Hermitage were to occur, residents and businesses of current-day Wheatland would be subject to Hermitage tax rates. The ultimate impact on residents will vary from person to person, household to household, and business to business. Unless otherwise stated, this section will focus on Wheatland households as its unit of analysis.

According to Mercer County parcel records, the median Wheatland taxable residential parcel with an improved structure has an assessed value of \$10,500, with the middle 50 percent of these parcels having total assessed values between \$8,550 and \$12,900. These parcels pay between \$212 and \$319 in municipal taxes at the current millage, with the median parcel owing \$260.

Assuming the Hermitage millage is held at 5 mills post-merger, these former Wheatland households would see the municipal portion of their tax bill fall. The middle 50 percent of improved residential properties would owe between \$43 and \$65 (median \$53).

The savings of this millage change would be between \$169 and \$255 with the median household saving \$207 on property taxes. See Table 4-2.

Table 4-2

Estimated Municipal Property Tax Savings/(Cost) for Current Wheatland Residents Post-Merger (\$)

	25th Percentile	Median	75th Percentile
2021 Assessed Value	8,550	10,500	12,900
Municipal Real Estate Tax at 24.75 mills	212	260	319
Municipal Real Estate Tax at 5 mills	43	53	65
Net Municipal Real Estate Tax Savings/(Cost)	169	207	255

These property savings are counteracted by the increased earned income tax levy in Hermitage. According to the United States Census Bureau, the 2019 Wheatland estimated median household income was \$32,206, and the approximate values for the 25th and 75th quartiles was approximately \$20,000 and \$50,000 respectively. These Wheatland households pay a current earned income tax at a rate of 1.0 percent. This equates to a current EIT between \$200 and \$500 for the middle fifty percent of Wheatland households, and a EIT of \$322 for the median household.

Assuming the Hermitage resident EIT rate is held at 1.75 percent post-merger, the middle fifty percent of former Wheatland households would pay between \$350 and \$875 annually.

The additional cost of this new EIT rate for former Wheatland households would be between \$50 and \$375 with the median household paying \$242 more. See Table 4-3.

Table 4-3

Estimated Resident Earned Income Tax Savings/(Cost) for Current Wheatland Residents Post-Merger (\$)

	25th Percentile	Median	75th Percentile
2019 Household Income	20,000	32,206	50,000
Municipal EIT Tax at 1.00 %	200	322	500
Municipal EIT Tax at 1.75 %	350	564	875
Net Municipal Earned Income Tax Savings/(Cost)	(150)	(242)	(375)

The ultimate impact for residents and households comes down to their unique circumstances. For an owner-occupied household, a comparison of the estimated savings/(cost) by income and assessed property value thresholds is shown in Table 4-4 below. The approximate middle fifty percent of household incomes and assessed property values is identified by the cells in the highlighted border area.

For example, a household with \$30,000 of annual earned income and a property with an assessed value of \$10,000 would have an added cost of \$28 annually. Overall, households that can anticipate larger savings are those with higher-than-average assessed property value and lower-than-average annual income, unearned income, and those with incomes not taxed by local resident EIT (e.g., Social Security payments, retirement disbursements from pensions, 401(k)s, etc.). Those with larger costs are those with higher taxable earned incomes. See Table 4-4.

Table 4-4

Estimated Wheatland Owner-Occupied Household Tax Savings/(Cost) Post-Merger

		Total Assessed Property Value (\$)								
		0	2,500	5,000	7,500	10,000	12,500	15,000	17,500	20,000
Annual Earned Income (\$)	0	0	49	99	148	198	247	296	346	395
	10,000	(75)	(26)	24	73	123	172	221	271	320
	20,000	(150)	(101)	(51)	(2)	48	97	146	196	245
	30,000	(225)	(176)	(126)	(77)	(28)	22	71	121	170
	40,000	(300)	(251)	(201)	(152)	(103)	(53)	(4)	46	95
	50,000	(375)	(326)	(276)	(227)	(178)	(128)	(79)	(29)	20
	60,000	(450)	(401)	(351)	(302)	(253)	(203)	(154)	(104)	(55)
	70,000	(525)	(476)	(426)	(377)	(328)	(278)	(229)	(179)	(130)
	80,000	(600)	(551)	(501)	(452)	(403)	(353)	(304)	(254)	(205)

The above analyses use current tax rates. However, this report's baseline projections outlined in Chapter 2 forecast growing deficits for the borough of Wheatland with minimal capital investment. Unforeseen emergencies and/or major repairs could further deteriorate future borough finances requiring tax increases. The borough's tax base is small: one additional mill of real estate taxation raises only an additional \$10,800 at face value. A similar amount of revenue can be raised with an additional 0.125 percent of resident earned income taxation.

Baseline Wheatland projections forecast a 2025 deficit approaching \$30,000. This deficit can be eliminated in one of two ways: an additional 3 mills of real estate tax, or an additional 0.375 percent of resident earned income tax. The following two tables show the relative net savings or costs for Wheatland residents when comparing these possible tax increases compared to current Hermitage rates. See Tables 4-5 and 4-6.

Table 4-5

*Estimated Wheatland Owner-Occupied Household Tax Savings/(Cost) Post-Merger
Assuming an additional Wheatland Real Estate Tax of 3 mills (27.75 total)*

		Total Assessed Property Value (\$)								
		0	2,500	5,000	7,500	10,000	12,500	15,000	17,500	20,000
Annual Earned Income (\$)	0	0	57	114	171	228	284	341	398	455
	10,000	(75)	(18)	39	96	153	209	266	323	380
	20,000	(150)	(93)	(36)	21	78	134	191	248	305
	30,000	(225)	(168)	(111)	(54)	2	59	116	173	230
	40,000	(300)	(243)	(186)	(129)	(73)	(16)	41	98	155
	50,000	(375)	(318)	(261)	(204)	(148)	(91)	(34)	23	80
	60,000	(450)	(393)	(336)	(279)	(223)	(166)	(109)	(52)	5
	70,000	(525)	(468)	(411)	(354)	(298)	(241)	(184)	(127)	(70)
	80,000	(600)	(543)	(486)	(429)	(373)	(316)	(259)	(202)	(145)

Table 4-6

*Estimated Wheatland Owner-Occupied Household Tax Savings/(Cost) Post-Merger
Assuming an additional Wheatland Resident EIT of 0.375 percent (1.375 percent total)*

		Total Assessed Property Value (\$)								
		0	2,500	5,000	7,500	10,000	12,500	15,000	17,500	20,000
Annual Earned Income (\$)	0	0	49	99	148	198	247	296	346	395
	10,000	(38)	12	61	111	160	209	259	308	358
	20,000	(75)	(26)	24	73	123	172	221	271	320
	30,000	(113)	(63)	(14)	36	85	134	184	233	283
	40,000	(150)	(101)	(51)	(2)	47	97	146	196	245
	50,000	(188)	(138)	(89)	(39)	10	59	109	158	208
	60,000	(225)	(176)	(126)	(77)	(28)	22	71	121	170
	70,000	(263)	(213)	(164)	(114)	(65)	(16)	34	83	133
	80,000	(300)	(251)	(201)	(152)	(103)	(53)	(4)	46	95

The impact on individuals and households that rent rather than own is solely an exercise of estimating the added cost of Hermitage's higher resident EIT rate, at least in the near term, as the property tax savings would be borne by the property owner. However, it is possible that the lower property tax would reduce the rate of rental increases over time, or possibly make Wheatland relatively more attractive for businesses in the region, which could positively impact renters long-term.

It is also notable that the added EIT costs are spread out over the course of the year for residents with wages and salaried employment, and those individuals with net profits owe EIT quarterly. Furthermore, those with net profits that own commercial or industrial properties have their own set of costs and savings like wage and salary earners who own their residential property.

Hermitage Financials

It is anticipated that the merger will increase Hermitage General Fund revenues by \$85,000 to \$145,000 with much of the variability coming from delinquent real estate taxes and non-resident

earned income taxes. A merger would also increase Hermitage local services taxes—a revenue stream that currently funds the city’s Capital Fund—by approximately \$40,000.

Added General Fund expenditures will mostly come from the associated costs of maintaining, repairing, and insuring Wheatland capital assets that would be assumed by Hermitage post-merger. This includes street lighting expenditures and fire hydrant rentals, the costs of maintaining and insuring the Wheatland Borough Hall and Fire House structure and the Wheatland garage, and the maintenance and insurance costs of Wheatland-owned capital equipment. Hermitage will also be responsible for the upkeep of various other small lots currently owned by Wheatland (for a full listing of Wheatland-owned parcels, see Chapter 5). These costs likely add between \$50,000 and \$75,000 to Hermitage General Fund expenditures.

Hermitage Revenues

At current Hermitage rates, General Fund tax revenue is anticipated to increase by at least \$270,000 annually and as much as \$325,000 annually, which alone outpaces the known loss in revenue of \$225,675 from the current Hermitage-Wheatland police and public works contracts. The merger will also increase various license and permit revenue, including cable television franchise fees, conservatively estimated at an additional \$10,000 annually.

Wheatland borough’s total assessed value in 2020 was \$10,779,350. Assuming no further appreciation in this value, taxation at the Hermitage real estate tax rate of 5.0 mills would represent a total levy of \$53,897. Assuming a 90 percent collection rate, this would add \$48,507 to current real estate tax revenue.

Hermitage would also receive any prior year and delinquent tax revenues previously owed to Wheatland. Borough delinquent tax revenues have ranged between \$18,000 and nearly \$38,000 since 2016, while prior year revenues averaged approximately \$2,600 during the same period. Prior year and delinquent revenues are estimated between \$11,000 and \$17,000 annually in the near-term post-merger. However, this figure will likely further decline post-merger given the lower municipal property tax bill received by former Wheatland residents that will lower the amount of municipal delinquent taxes. See Table 4-7.

Table 4-7

Hermitage Real Estate Taxes

Real Estate Taxes	2019	2020	2021	Merger Impact: Revenue Added/(Lost)	
	Actual	Actual	Budget	Range (\$)	Range (%)
Current Year	1,271,068	1,264,664	1,269,000	48,507	3.8%
Delinquent	51,744	47,379	40,000	10,000 - 15,000	25.0% - 37.5%
Prior Years	374	0	2,000	1,000 - 2,000	50.0% - 100.0%
Total	1,323,185	1,312,043	1,311,000	59,507 - 65,507	4.5% - 5.0%

Earned income taxes (EIT) would be the largest source of added income to Hermitage after a potential merger with Wheatland. As noted in Chapter 2, the majority of Wheatland EIT is raised from non-resident wages. These revenues are more susceptible to yearly swings and present most of the uncertainty in projecting added General Fund revenues post-merger. Non-resident EIT would

remain at the same rate (1.0 percent) and would add between \$60,000 and \$100,000 annually based on Wheatland non-resident EIT trends since 2013.

Wheatland resident EIT raised on average \$39,000 between 2013 and 2020 at a rate of 0.5 percent which represents roughly \$7.8 million in taxable wages and net profits each year. At the Hermitage resident EIT rate of 1.75 percent, \$136,500 is anticipated in added resident EIT.

All other General Fund taxes are anticipated to raise between \$14,800 and \$22,100 annually with a plurality generated from realty transfer taxes. See Table 4-8.

Table 4-8*Hermitage Other General Fund Taxes*

	2019	2020	2021	Merger Impact: Revenue Added/(Lost)	
	Actual	Actual	Budget	Range (\$)	Range (%)
Earned Income Taxes	7,099,011	7,214,159	7,051,000	196,500 - 236,500	2.8% - 3.4%
Realty Transfer Tax	610,945	833,250	600,000	9,000 - 15,000	1.5% - 2.5%
Per Capita Taxes	184,961	177,159	180,000	4,600 - 4,800	2.6% - 2.7%
Business License Tax	91,925	88,780	90,000	1,000 - 2,000	1.1% - 2.2%
Mechanical Devices Tax	8,075	9,733	8,500	200 - 300	2.4% - 3.5%
Grand Total	7,994,917	8,323,082	7,929,500	211,300 - 258,600	2.7% - 3.3%

Hermitage non-tax revenues are anticipated to decline with the termination of the Wheatland-Hermitage police and public works contracts. The value of these contracts for 2021 were \$140,675 and \$85,000, respectively. However, several non-tax revenue line items would see increases, the most notable being the borough's liquid fuels state allocation. The city should also see small increases in other line items such as cable television franchise fees, beverage license fees, and miscellaneous permit revenues. See Table 4-9.

Table 4-9*Hermitage Non-Tax General Fund Revenues³*

	2019	2020	2021	Merger Impact: Revenue Added/(Lost)	
	Actual	Actual	Budget	Range (\$)	Range (%)
Liquid Fuels Allocation	642,500	617,000	552,805	30,000 - 30,000	5.4% - 5.4%
Cable TV Franchise	272,204	202,020	265,000	7,000 - 9,000	2.6% - 3.4%
Rental License Fee	70,730	69,310	65,000	2,500 - 4,000	3.8% - 6.2%
Other Permits and Fees	31,049	54,224	30,000	1,000 - 3,000	3.3% - 10.0%
Beverage Licenses	9,360	5,700	0	150 - 450	
Public Works Services	82,500	85,000	85,000	(\$85,000)	(100.0%)
Police Services	194,867	198,482	198,525	(\$140,675)	(70.9%)
All Other Non-Tax Revenues	1,600,952	2,326,079	2,514,251		
Total	2,904,162	3,557,815	3,710,581	(\$185,025) - (\$179,225)	(5.0%) - (4.8%)

Lastly, local services taxes (LST) are levied on individuals employed within Hermitage and Wheatland. LST rates are the same in each municipality: a total levy of \$52 annually per individual employed in the municipalities, with the municipalities receiving \$47 and the respective school districts receive \$5. Assuming the number of jobs located in Wheatland remains constant, we

³ Excluding budgeted use of fund balance.

anticipate Hermitage city will add \$40,000 in LST revenues. However, this revenue is not included in the revenues above since Hermitage dedicates LST revenues to its Capital Fund.

Hermitage Expenditures

A potential merger would add expenditures to several non-personnel line items, with the majority of added operational costs arising from property utilities, street lighting costs, and fire hydrant rentals. The impact of these added operating expenditures is currently anticipated to cost between \$51,800 and \$76,000 annually. See Table 4-10.

Table 4-10

Hermitage Other Charges & Services Expenditures

	2019	2020	2021	Merger Impact: Expenditures Added/(Reduced)	
	Actual	Actual	Budget	Range (\$)	Range (%)
Utilities	245,167	242,991	303,340	28,000 - 38,000	9.2% - 12.5%
Fire Hydrant Rental	99,198	103,633	107,500	13,000 - 16,000	12.1% - 14.9%
General Liability Insurance	107,396	90,175	107,000	7,000 - 14,000	6.5% - 13.1%
Repair & Maint. Services	103,635	121,883	117,000	2,000 - 6,000	1.7% - 5.1%
Animal Control / COG	36,526	36,506	38,500	1,800 - 2,000	4.7% - 5.2%
Other Charges & Services	893,486	816,718	1,180,850		
Total	1,485,408	1,411,906	1,854,190	51,800 - 76,000	2.8% - 4.1%

Chapter 5 Other Merger Impacts and Considerations

Introduction

In terms of additional impacts, a merger of Wheatland and Hermitage appears to have few negative consequences. For example, services are anticipated to remain the same or even improve under a merger given the larger tax base and extensive Hermitage city government operations. Long-term municipal financial sustainability is also likely to be more attainable under the larger tax base, and lower property taxes in the Wheatland footprint could encourage new development there.

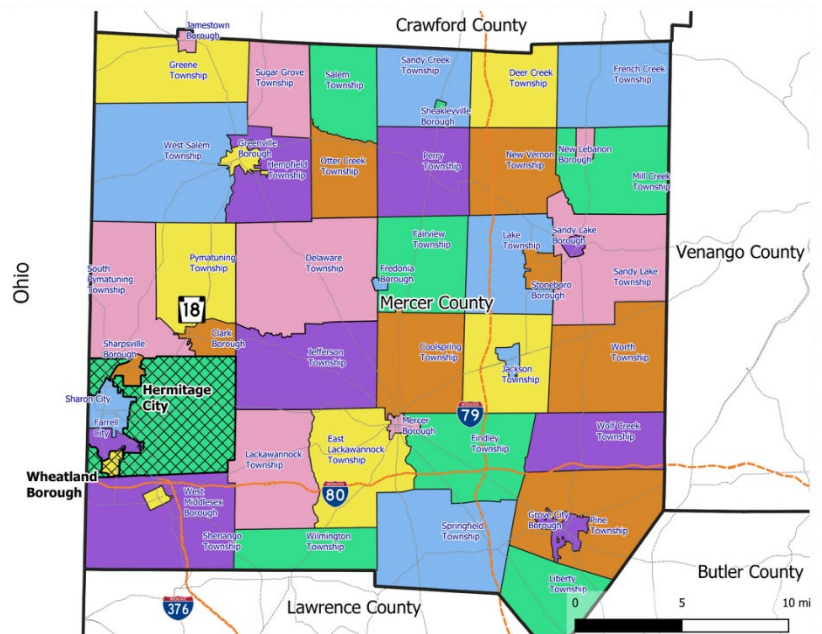
Wheatland currently has only one employee, who is likely to retire in the near term, so there is little in the way of staff impact that can often complicate a merger. Hermitage is unlikely to need additional staff post-merger. In addition, the former Wheatland residents would now have the services of a professional municipal manager and more extensive government operations in general that would be cost prohibitive in the current situation.

The Wheatland Volunteer Fire Department appears amenable to coming under the Hermitage umbrella. Meanwhile, Wheatland could continue its identity as a distinct neighborhood within the city through retention of the volunteer fire name and similar measures.

As Wheatland and Hermitage go through the merger process, they should be aware that mergers are a challenging process. To assist the municipalities, this chapter includes actions that are linked to success as well as pitfalls to avoid.

Government Structure and Location

Wheatland borough is 0.9 square miles located in Mercer County near the Ohio border. The borough is bordered by Shenango Township and the cities of Hermitage and Farrell. Wheatland is governed by a recently adopted home rule charter with a seven-member borough council and an elected mayor. Prior to adoption of the charter, the borough operated under the state Borough Code. The government also includes a secretary/treasurer and elected treasurer.



Hermitage, formerly Hickory Township, is almost 30 square miles, making it the third largest city by area in the state, in contrast to tiny Wheatland. The previous first-class township adopted a home rule charter and took on the city designation in 1976.

The city is governed by the five-member Hermitage Board of Commissioners, which is elected at-large. The board appoints a city manager that reports directly to the board. The manager serves as Chief Administrative Officer of the city, responsible for the administration of all city operations.

Hermitage Manager Duties

The manager is responsible for the appointment and, when necessary, discipline of city employees, along with directing the administration of all departments, offices, and agencies of the city. The manager is responsible for seeing that all laws, provisions of the charter and acts by the board of commissioners, subject to enforcement by him or by others subject to his direction and supervision, are executed. He is to submit the annual budget and capital program to the board of commissioners, keep the board fully advised as to financial conditions and future needs of the city and make recommendations to the board concerning affairs of the city as he deems desirable.

Demographics

A comparison of demographic measurements between Wheatland and Hermitage shows the difficulties that Wheatland faces in the future as the borough's tax base continues to shrink.

The borough's wealth measurements are well below the city. Population has fallen in the borough every decade since 1930, with one of the largest recent proportional drops in the wake of the 1985 tornado. Meanwhile, projections indicate that the borough will begin to experience growing annual deficits starting this year. To overcome those projected deficits, the borough will most likely need to raise taxes as discussed in Chapter 3, which would strain its lower income residents, or cut services. See Table 5-1.

Table 5-1
Wheatland and Hermitage Selected Demographics, 2019 American Community Survey

	Population⁴	Median Household Income	Per Capita Income	Median Owner-Occupied Home Value	Owner Occupied
Wheatland	585	\$32,206	\$21,814	\$58,700	65%
Hermitage	16,230	\$56,026	\$34,809	\$149,000	71%

Services

The proposed merger would maintain or increase the level of municipal services that are delivered to Wheatland residents since the borough already receives contracted public works and police services from Hermitage. Residents of Hermitage would see no impact in terms of services.

The largest impact for police and public works from a municipal merger is financial in that Hermitage would no longer receive compensation for those services through a contract with Wheatland; however, the city would also receive the borough's tax base and other assets as discussed under financial impacts.

⁴ Source: U.S. 2020 Census
PENNSYLVANIA
ECONOMY LEAGUE

Wheatland employs a secretary/treasurer, who is anticipated to retire in 2021, but has no other staff. Assuming the retirement occurs, there would be no need for Hermitage to assume any additional employees from Wheatland. Other Wheatland services, including planning and zoning, are delivered through a third party. Those and other municipal services would be provided by Hermitage for Wheatland residents after the merger.

Given the small size of the borough, it is not anticipated that Hermitage would need to hire other staff in any of its departments to handle the addition of Wheatland.

Refuse and Recycling

Wheatland residential properties, up to four units or less, are mandated to receive garbage disposal from Tri-County Industries under a contract negotiated by the Mercer County Council of Governments that expires in January 2023. Residents are billed and pay Tri-County Industries directly for the service under a contract with the borough. Residents pay \$39 per quarter for unlimited garbage collection but must use their own 32-gallon bag or container. Recycling is not included in the fee.

Hermitage mandates residential properties (including rentals of 4 units or less) use the city contracted solid waste hauler for garbage, recyclables and yard waste. The city's current contract is also with Tri-County Industries. The five-year agreement expires July 31, 2024.

Hermitage customers are billed by and pay quarterly directly to Tri-County Industries. The quarterly fee, currently \$59.94, includes a 95-gallon garbage toter, 95-gallon recycling toter and 95-gallon yard waste toter. Customers have an option for smaller toters at a slightly reduced price. The service also includes a twice per year bulk trash pickup. Each fall there is a fuel cost price adjustment, which usually amounts to a few cents per month increase or decrease, based on the change in the average fuel price.

It is assumed that former Wheatland residents would fall under Hermitage's trash and recycling ordinance post-merger.

Elected Officials

Wheatland elected officials, some of whom receive salaries, would no longer be in office once the merger is completed since the borough of Wheatland would cease to exist. The list of elected officials includes mayor, seven council members and the elected tax collector. The borough should review with its solicitor any potential responsibilities that the tax collector might retain post-merger for delinquent taxes that were unpaid while the borough was in existence. The tax collector receives a 5 percent commission on Wheatland collected taxes including real estate, local services, per capita and occupation.

Fire Department Services

Wheatland currently supports the Wheatland Volunteer Fire Department, a nine-member department that operates out of the borough building. The volunteer department receives state aid through Wheatland, and the borough also provides a modest annual contribution.

The volunteer department has indicated in preliminary discussions that it is willing to give up its individual charter and operate under the umbrella of the Hermitage Fire Department. The department would like to retain its name, to which the Hermitage fire marshal/chief agreed, and the Wheatland department has been invited to train with the Hermitage firefighters. It is anticipated that the Wheatland fire engine will be sold since Hermitage is currently placing a new fire engine in service, based on the discussions.

Other Government Services and Community Identity

A merger between Wheatland and Hermitage would have no impact on other governmental boundaries, including those for school districts, county services and mail delivery.

Wheatland can maintain its identity as a distinct neighborhood within the city of Hermitage. For instance, the volunteer fire department and the former borough building could retain the Wheatland name. Wheatland would also keep its own post office.

Additional Merger Benefits

Constituents in both Wheatland and Hermitage would benefit from improved long term financial health. The resulting municipality would have a larger tax base that is more resilient and better equipped to handle economic downturns. Fiscally healthy municipalities can provide for the health, safety, and welfare of their citizens; pay principal and interest on their debt obligations when due; meet financial obligations to their employees, vendors, and suppliers; and provide for proper financial accounting procedures, budgeting, and taxing practices.

Property owners and businesses might be more eager to develop and settle in the former Wheatland footprint once property taxes have been lowered, which could further bolster the tax base of the new community. Linking Wheatland to Hermitage would consolidate the existing industrial corridor that runs through the two communities, making it easier for businesses to handle zoning and other development issues.

Boundary Change Process

The proposed merger between Wheatland and Hermitage would be completed under the state Municipal Consolidation or Merger Act, Section 733(a)(1): Joint agreement of the governing bodies of the municipalities proposed for consolidation or merger approved by ordinance followed by approval by the electorate of the joint agreement. The joint agreement shall include, but not be limited to:

- The name of each municipality that is a party to the agreement.
- The name and the territorial boundaries of the consolidated or merged municipality.
- The type and class of the consolidated or merged municipality.
- Whether a consolidated or merged municipality shall be governed solely by the code and other general laws applicable to the kind and class of the consolidated or merged municipality or under a different form.
- The number of districts or wards, if any.

- Terms for:
 - The disposition of existing assets of each municipality.
 - The liquidation of existing indebtedness of each municipality.
 - The assumption, assignment or disposition of existing liabilities of each municipality, either jointly, separately or in certain defined proportions, by separate rates of taxation within each of the constituent municipalities until consolidation or merger becomes effective pursuant to section 738 (relating to effectuation of consolidation or merger).
 - The implementation of a legally consistent uniform tax system throughout the consolidated or merged municipality which provides the revenue necessary to fund required municipal services.
- The governmental organization of the consolidated or merged municipality insofar as it concerns elected officers.
- A transitional plan and schedule applicable to elected officers.
- The common administration and enforcement of ordinances enforced uniformly within the consolidated or merged municipality.

A public referendum on the joint agreement by the governing bodies takes place at least 13 weeks after approval by the governing bodies. For purposes of this report, it is anticipated that the merger joint agreement for the new city of Hermitage would be on the November 2022 general election ballot.

Municipalities consolidated or merged continue to be governed as before consolidation or merger until the date stipulated in the transitional plan and schedule provided for in the joint agreement.

Boundary Change Considerations

Boundary change in Pennsylvania is notable for its complexity. Starting in the 1960s, the commonwealth's larger cities and boroughs argued for modern annexation laws that would allow them to provide urban services more easily to populations that were expanding beyond their borders into the new suburban areas. The rural townships, faced with losing area and tax base, resisted the attempts to "reclaim" these populations to the urban areas they had left.⁵

In 1994, the General Assembly passed the Municipal Consolidation or Merger Act, which attempted to alleviate township concerns with a strict process. The essential feature in the legislation is that mergers and consolidations require a positive majority vote by both the governing bodies and municipal residents. In contrast, laws governing school district merger and consolidation require only an affirmative vote by the impacted school boards.⁶

The impetus for consolidation or merger is often financial; one of the municipalities is usually experiencing significant fiscal issues or is not providing significant services to its residents. The assumption is that a merger or consolidation will result in the creation of efficiencies in the delivery of services based upon economies of scale.

⁵ Municipal Merger/Consolidation and Sharing of Services, the Pennsylvania Economy League, April 2009

⁶ *Ibid.*

Roadblocks to Process

The state's municipal boundary change process allows many opportunities for opponents to attempt to prevent a municipal merger or consolidation from happening. The joint ordinance effecting a merger or consolidation must be voted on and approved by the respective councils, commissioners, or supervisors at least 13 weeks before the election to be placed on the ballot. Defeat of the proposed ordinance by one municipality ends the process.⁷

Most proposed mergers and consolidations in Pennsylvania have failed for reasons outlined below. There has not been a successful merger or consolidation involving an existing Pennsylvania third class city under the act. Many of the successful combinations involved a small borough merging into a surrounding township, which is close to the situation in Wheatland and Hermitage, since Hermitage is a former township and Wheatland is a much smaller borough.

Pennsylvania is not alone in its lack of municipal mergers and consolidations. Municipal consolidations are rare nationally, even in other states with large numbers of municipalities such as Illinois, and despite advocacy at various levels of state government. Reasons for the failure to consolidate municipalities in other states are similar to those seen in the Commonwealth⁸.

Below are the most common pitfalls and contributions to success regarding merger and consolidation. Wheatland and Hermitage should take these factors under consideration as they educate residents on the process.

Boundary Change Challenges

Key challenges to the consolidation process identified by PEL research⁹:

- Lack of substantial financial support from the Department of Community and Economic Development (DCED) or any other state agency. It should be noted that DCED is providing the funds for this study.
- Need to pay for costs associated with the boundary change. An analysis of boundary change costs has not been performed. Cost could potentially include updates to codes, zoning and eliminating duplicate street names.
- Perceived loss of identity.
- Opposition by elected officials, the business community and/or other key constituencies.
- Tax considerations, including the need to increase taxes and/or fees.

Other factors that contribute to or impede a successful consolidation based on PEL research:

Contribute to Success

- Advocacy for the consolidation by local elected and civic leadership.

⁷ *Ibid.*

⁸ History, Politics and Pride: Why Small Cities, Counties Rarely Merge, Stateline Article, Pew Trust, March 10, 2016

⁹ Municipal Merger/Consolidation and Sharing of Services, the Pennsylvania Economy League, April 2009

- Support of those most directly affected by a change, such as police officers, firefighters, municipal employees, or tax collectors.
- Preservation of services assured to both municipal populations.
- Shared sense of community; discussions centering around the future and healthy change.
- An understanding that no single municipality will experience a negative financial or infrastructure impact.
- Patience with a process that is often difficult, tedious and sometimes painful.
- Transparency is key – do not ignore the public’s desire and need for information, and do not assume that the facts speak for themselves or assume that the general public has much understanding of local government.

Impediments

- Emotional responses can derail the effort, including fear of the unknown, responses to rumors or sympathy for locals that will be directly impacted by the consolidation through a job loss or change in status if merger occurs.
- Some may see the current situation as good and would rather support the need to keep what is good and familiar.
- Citizens tend to talk about the past, preserving memories of past leadership, schools, churches, businesses, and other nongovernmental elements that they emotionally attach to their communities. These connections also form an identity with the existing local government structures.
- The community may resent so-called outsiders telling them what to do, especially consultants.
- Lack of understanding of local government by residents.

Wheatland Property List

The properties below that are owned by Wheatland borough and would be assumed by the city of Hermitage under the proposed merger. See Table 5-2.

Table 5-2
Wheatland Owned Parcels

Parcel	Description	Annotations
76 904 033	BROADWAY LOTS 5 TO 9	Municipal Building
76 904 032	BROADWAY LOTS 10 - 17	Parking lot and gazebo adjacent to Muni Building
76 900 011	26 HAMILTON AVE	Vacant lot between two residential parcels
76 901 058	BEECHWOOD AVE 5 LOTS	Park (playground, swings, pavilion, basketball)
76 901 066	31 CHESTNUT ST N 5	Vacant lot
76 903 075 158	OFF VINE ST LOT 158	Wooded area behind Morton St residential
76 903 075 159	VINE ST LOT 159	Wooded area behind Morton St residential
76 903 075 160	VINE ST LOT 160	Wooded area behind Morton St residential
76 903 075 161	VINE ST LOT 161	Wooded area behind Morton St residential
76 903 075 162	OFF VINE ST LOT 162	Wooded area behind Morton St residential
76 903 075 163	VINE ST LOT 163	Wooded area behind Morton St residential
76 903 075 164	VINE ST LOT 164	Wooded area behind Morton St residential
76 903 075 165	VINE ST LOT 165	Wooded area behind Morton St residential
76 904 007	17 MERCER AVE	Vacant lot

Parcel	Description	Annotations
76 911 001 001 001	LOT 1106A CHURCH STREET	Wheatland Borough Garage
76 901 081	COUNCIL AVE 30 A L SHILLING	Vacant corner lot with covered bench
76 903 040	GRANDVIEW DR LOTS 36 -45 & 56 TO 70	Vacant lot partially wooded partially mowed at end of Grandview Dr and along Chestnut St
76 905 023	STATE ST LOT 182	Along Reon St. Fenced in and wooded. Pump station.
76 904 021	165 BROADWAY W 1/2 22	Vacant residential property