



BOROUGH OF STATE COLLEGE  
FINANCIAL TREND MONITORING SYSTEM

July 19, 2010

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# FINANCIAL TREND MONITORING

## EXECUTIVE SUMMARY

trend has been identified as a key indicator

<u>INDICATORS</u>			
<b>COMMUNITY</b>			
Population			NEUTRAL
Age Cohorts			NEUTRAL
<b>REVENUES</b>			
General Fund Revenue			FAVORABLE
General Fund Revenue (constant dollars)			NEUTRAL
General Fund Revenue per capita			NEUTRAL
Real Estate Tax Revenue			FAVORABLE
Real Estate Tax Revenue (constant dollars)			FAVORABLE
Assessed Valuation			ALERT
Earned Income Tax Revenue			NEUTRAL
Earned Income Tax Revenue (constant dollars)			UNFAVORABLE
Earned Income Tax Revenue per capita			UNFAVORABLE
<b>EXPENDITURES</b>			
General Fund Expenditures			NEUTRAL
General Fund Expenditures (constant dollars)			NEUTRAL
General Fund Expenditures per capita			NEUTRAL
<b>OPERATING POSITION</b>			
General Fund Operating Performance			FAVORABLE
Unreserved General Fund Balance			FAVORABLE
<b>DEBT STRUCTURE</b>			
Outstanding Debt by Fund			NEUTRAL
Outstanding General Fund Debt per capita			FAVORABLE
General Fund Debt Service-% of Revenues			FAVORABLE

<u>Performance Indicators</u>	
	= trend is an indicator of positive financial health
	= trend is an indicator of negative financial health
	= trend is neither positive nor negative
	= trend should be analyzed in greater detail and action taken

## **Borough of State College**

### **FINANCIAL TREND MONITORING SYSTEM**

#### Introduction

A government's financial condition can be broadly defined as its ability to finance the services it provides to its citizens on a continuing basis. More specifically, financial condition refers to a government's ability to maintain existing services levels; withstand local and regional economic disruptions; and meet the demands of natural growth, decline and change. Evaluating a government's financial condition is a complex process that involves analyzing a variety of factors, some of which are difficult to quantify. The relationship between these factors adds to the complexity of the task. To facilitate this process, the International City/County Management Association (ICMA), in collaboration with the Government Finance Officers Association (GFOA) and other groups, developed the Financial Trend Monitoring System (FTMS.) The FTMS is a management tool that identifies key factors affecting financial condition and arranges them to enable objective measurement and analysis. A series of financial indicators were created which, when plotted over a period of time, can be used to monitor changes in financial condition and alert a government to future problems. Review and analysis of these trends is very helpful in understanding financial condition. The FTMS does not provide a single number, rating, or index to measure a government's financial health. Rather, it provides flags to identify existing and emerging financial problems, gives clues to their causes, and provides time to develop actions to remedy the problems.

While State College is viewed as a financially healthy community, an objective review and analysis of the factors impacting our financial condition is important in identifying trends and planning for the Borough's future. The Ad Hoc Tax Study Committee appointed to study the Borough's tax structure in 2005 discussed the need for this kind of data to assist with long range financial planning and decision making. Council included an appropriation in the 2008 Finance Department budget to permit the hiring of an intern to assist staff with the implementation of this project. Ross Momyer, then a Penn State senior majoring in Statistics, accepted this internship. Staff began the project by reviewing the thirty-six financial indicators which comprise the FTMS. We selected the following indicators for use in monitoring changes in the Borough's financial condition:

#### ***Community***

Population  
Population Age Cohorts

#### ***Revenues***

General Fund Revenue  
General Fund Revenue Per Capita  
Real Estate Tax Revenue  
Assessed Valuation  
Earned Income Tax Revenue

Earned Income Tax Revenue Per Capita

***Expenditures***

General Fund Expenditures

General Fund Expenditures Per Capita

***Operating Position***

General Fund Operating Performance

Unreserved General Fund Balances

***Debt Structure***

Total Outstanding Debt by Fund

Outstanding General Fund Debt Per Capita

General Fund Debt Service as a Percentage of General Fund Revenues

The next step was gathering the data necessary to prepare and plot ten year trends for these indicators. Ross performed this work using a variety of local, regional, state and national data sources. This data formed a baseline which can be updated on an annual basis so that monitoring of the Borough's financial condition is an on-going process. After the data was collected and ratios were calculated where necessary, Ross prepared the graphs which accompany the report to present visually the trends occurring in the Borough's finances. Staff added narrative comments and observations about the trends, as well as an Executive Summary, to compliment the graphs. The first FTMS report was presented to Council in August, 2008.

Ross returned in the summers of 2009 and 2010 to assist staff in updating the indicators using current data. This report presents the Borough's financial trends for the period 2000-2009. Further review and analysis of these trends can enhance our financial management and decision-making processes. It will help us answer questions such as: Can the Borough continue to pay for what it is now doing? Are there adequate reserves or other vehicles for financing emergencies? Is there enough financial flexibility to allow the Borough to adjust to change?

Staff Comments

***Community***

Population/Age Cohorts

During the ten year period, the Borough's population has fluctuated, but grew by almost 1,500 persons, or about 3.8%. With the exception of actual data for the census year 2000, the population figures shown are annual estimates furnished by the U. S. Census Bureau, and include Penn State students living on campus. The age cohort data is available only for the census year 2000, therefore this data cannot be trended for the ten year period. Because the Borough is essentially "built out," our population is not expected to increase significantly in the future.

## *Revenues*

### General Fund Revenues

Overall, the Borough's General Fund revenues increased almost \$6.7 million or about 60.6% during the period. This increase in revenue is largely due to increases in the real estate tax millage and the transition from the \$5 occupational privilege tax to the \$47 local services tax. When adjusted to compensate for inflation, the increase in General Fund revenues is actually quite modest, rising about \$2.5 million or 22.3% over ten years. Expressed on an inflation-adjusted per capita basis, General Fund revenues rose from \$287 to \$338 per person for the period. It's interesting to note that General Fund revenues expressed as constant dollars declined from 2005 through 2008, indicating that the increases in revenue did not keep pace with the rate of inflation during that time.

### Real Estate Tax Revenue

The growth in the Borough's real estate tax revenue is principally due to increases in the millage rate, which are referenced on the graph. Adjusting the real estate tax revenue for inflation provides a more accurate picture of our revenue growth. It's interesting to note that in years where there was no millage rate increase (2000-2001 and 2006-2007), real estate tax revenue effectively declined. This decline continued in 2008 even though there was a rate increase of .505 mills, indicating the amount of that increase did not offset the impact of inflation.

### Assessed Valuation

The Borough's taxable assessed valuation has remained relatively stagnant during the period, growing by an average of less than 0.5% a year. Increases in valuation from new construction have largely been offset by reductions resulting from commercial assessment appeals. As shown by the graph, tax exempt realty continues to comprise a significant portion (44.6%) of the Borough's total assessed valuation. The impact of the homestead exclusion forgiveness, granted to the owners of qualified residential properties beginning in 2006, is also illustrated. Because the Borough is almost fully developed, significant future increases in taxable valuation will come about primarily through redevelopment. Our situation is in stark contrast to our neighbors in the Centre Region, who have enjoyed steady growth in their taxable valuation, and thus their real estate tax revenue, due to new development. Comparisons of the Borough's taxable assessed valuation and real estate millage with those of the municipalities in the Centre Region are provided to illustrate our plight.

## Earned Income Tax Revenue

Earned income tax revenue has increased \$442,862 or 12.9% during the period, an average growth of only 1.3% annually. The tax rate has remained unchanged. As the Borough's Ad Hoc Tax Study Committee pointed out in their 2005 report, a significant portion of our population has little or no earned income which is subject to the tax, a situation which hasn't changed. An amendment to the state enabling legislation, further limiting income subject to local taxation, resulted in a decline in revenue beginning in 2004. When an adjustment for inflation is made, the Borough's earned income tax revenue has actually declined about 14 % over the last ten years. Similarly, earned income tax revenue per capita declined from \$89 to \$74 during the period, when adjusted for inflation.

## *Expenditures*

### General Fund Expenditures

Overall, expenditures in the Borough's General Fund increased \$5.8 million, or about 56.8%, during the period. These increases reflect increased costs of operations and additional debt service for capital projects. It should also be noted that one-time transfers of fund balance earmarked for several major capital projects accounted for approximately \$2.3 million of the increase in expenditures. These transfers included \$1.2 million to fund the new Municipal Building in 2001; \$471,200 for the Borough's share of the COG office building in 2002; and \$607,000 for the new Schlow Library facility in 2004. When adjusted to compensate for inflation, General Fund expenditures increased about \$2 million or 19.4 % for the period. On an inflation-adjusted per capita basis, they rose from \$268 to \$308 per person over ten years.

## *Operating Position*

### General Fund Operating Performance

During the period, there were four years in which the Borough's General Fund expenditures exceeded its revenues. However, it must be remembered that the expenditures for three of those four years included the one-time transfers of fund balance which had been earmarked for the major capital projects mentioned previously. If those transfers were excluded, General Fund revenues would have exceeded expenditures in 2001, and the difference between revenues and expenditures would have been \$471,200 less in 2002 and \$607,000 less in 2004. It should also be noted that the General Fund received \$200,000 from the Fraser Centre land transfer agreement in 2008. Improvement in the General Fund's operating performance in 2009 resulted from increases in revenues and decreases in operating and debt service costs. Approximately \$774,000 was reserved/designated to address future issues related to pension obligations and local services tax refund liabilities.

## Unreserved General Fund Balance

The credit rating agencies consider the maintenance of a prudent amount of unreserved fund balance to be an indicator of a financially healthy and well-managed government. Traditionally, the Borough has maintained an unreserved fund balance in the range of ten to fifteen percent of budgeted expenditures. This level of fund balance sustains Borough operations during the first several months of the new fiscal year and eliminates the need to temporarily borrow funds in anticipation of the receipt of taxes and other revenue. It would also help the Borough weather a temporary economic downturn or respond to a disaster or other unexpected event. Because of financial commitments to the Municipal Building, COG office building, and Schlow Library projects, the Borough's unreserved fund balance was permitted to grow, reaching a peak in 2000. As already noted, a portion of these monies were earmarked by Council to reduce the amount of debt which the Borough needed to assume in order to fund these major capital projects. From 2001 through 2004, the earmarked funds were transferred from the fund balance to pay for these projects. During 2005, Council adopted a policy calling for the unreserved fund balance to be maintained at a minimum level equal to 12% of General Fund expenditures.

### *Debt Structure*

#### Total Outstanding Debt by Fund

As shown on the graph, most of the Borough's outstanding debt is allocated to the General and Parking Funds. The Borough refinanced most of its debt in 2009 to take advantage of historically low market interest rates. There are presently two general obligation bond issues outstanding, for which the future debt service (principal and interest) payments total approximately \$40 million. In addition, the Borough is responsible for its portion of the Centre Regional Recreation Authority's debt service for the regional swimming pool improvement projects, which totals approximately \$2.8 million. The debt service payments are allocated to the General, Parking, and Sanitary Sewer Funds according to each fund's share of the total debt. The General Fund debt is repaid using tax revenues, while the Parking and Sanitary Sewer Fund debt is considered to be "self liquidating" because it is repaid through user fees.

#### Outstanding General Fund Debt Per Capita

Because General Fund debt is repaid from tax revenues, the credit rating agencies consider outstanding General Fund debt per capita when evaluating a government's financial condition. The Borough's outstanding General Fund debt per capita declined from \$462 to \$382 per person during the period, which is a very manageable amount and compares most favorably with a sampling of five similar communities in Pennsylvania, whose average was \$1,219 in 2009. In conjunction with the 2009 debt refinancing, the Borough achieved the coveted AA rating from Standard & Poor's, which represents an upgrade of the Aa3 rating previously assigned to the Borough by Moody's Investors Service. This high rating is considered a firm indication of the Borough's overall financial health and strong management practices.

## General Fund Debt Service as a Percentage of General Fund Revenues

The credit rating agencies consider the relationship of General Fund debt service to General Fund revenues to be an important indicator of the financial health of a government, since the General Fund is primarily supported by tax revenues. Guidelines set forth by the GFOA recommend that a government's annual General Fund debt service not exceed 12% of its annual General Fund revenues. In 2008, Council adopted a debt policy limiting the Borough's General Fund debt service to no more than 10% of its General Fund revenues. The Borough's ratio has remained significantly under this level during the period.

### Summary

Review and analysis of the trends presented in this report will enhance our understanding of the factors which impact the Borough's financial condition. It will also assist us in planning for the future by helping to identify current or potential financial problems, providing insight as to their cause, and allowing us time to develop a plan of action to address the problems. In short, the FTMS can be a very valuable adjunct to the Borough's long range financial planning and decision making.

### Acknowledgements

The preparers wish to thank Borough Manager Tom Fontaine and Assistant Manager Roger Dunlap for their guidance, suggestions, and support during this project. Special thanks are due to Tax Administrator Linda Welker and Planning Director Carl Hess for their assistance with the gathering of data for several of the indicators.

Prepared and submitted by:

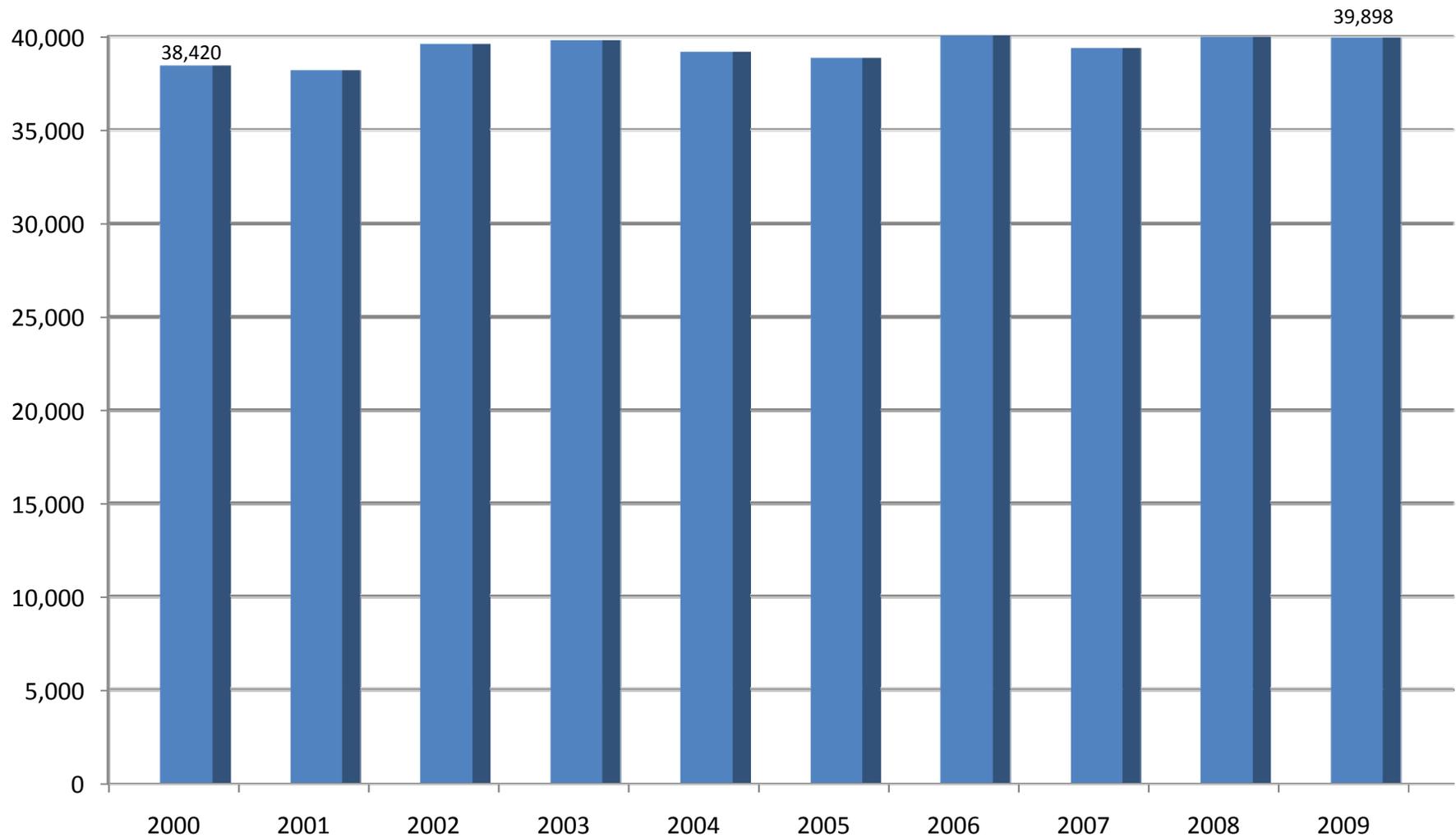
STATE COLLEGE BOROUGH FINANCE DEPARTMENT

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July 19, 2010

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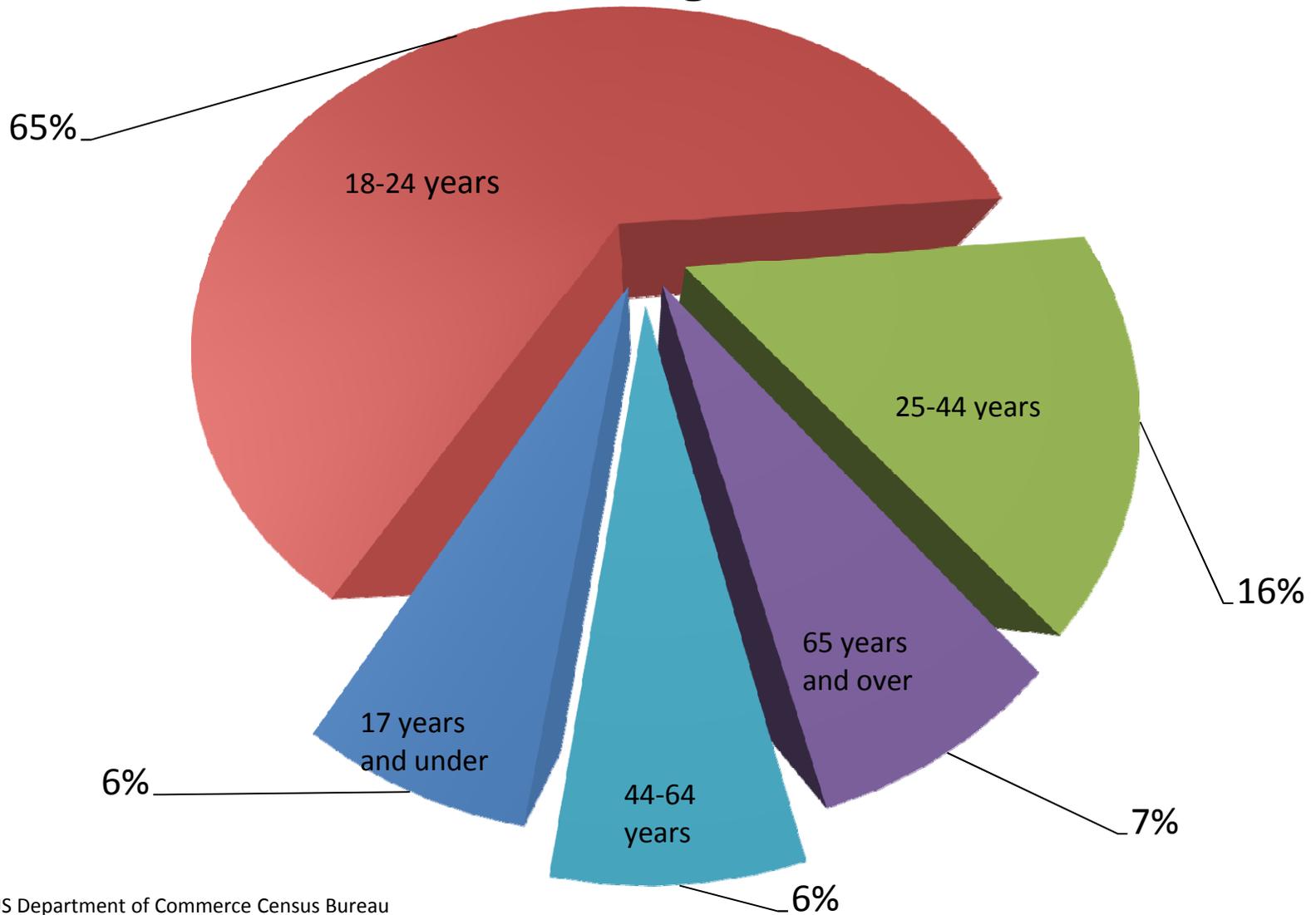
# State College Borough Population



Source: US Department of Commerce Census Bureau

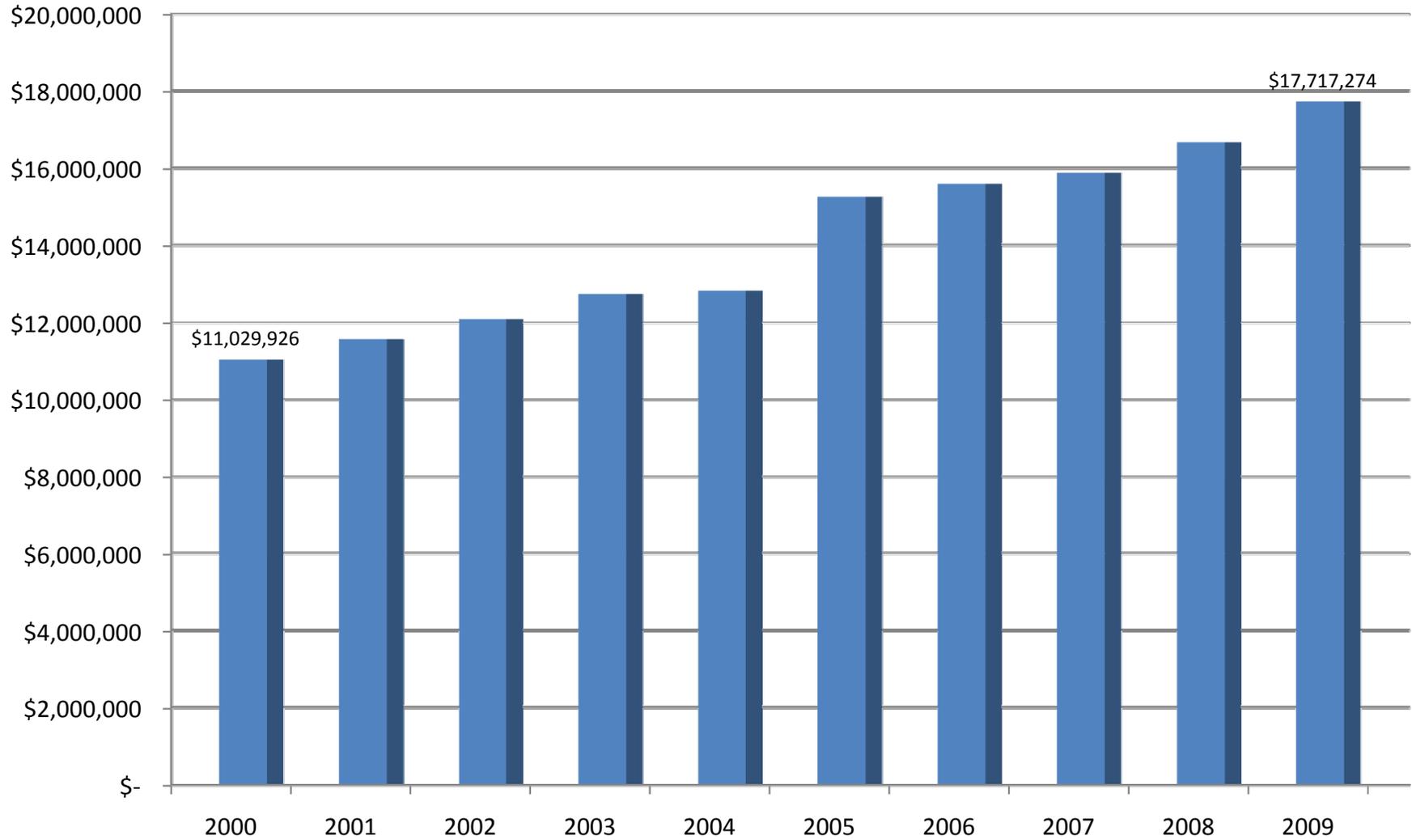
Note: Includes Students Residing on Campus

# State College Borough Population 2000 Census Age Cohorts



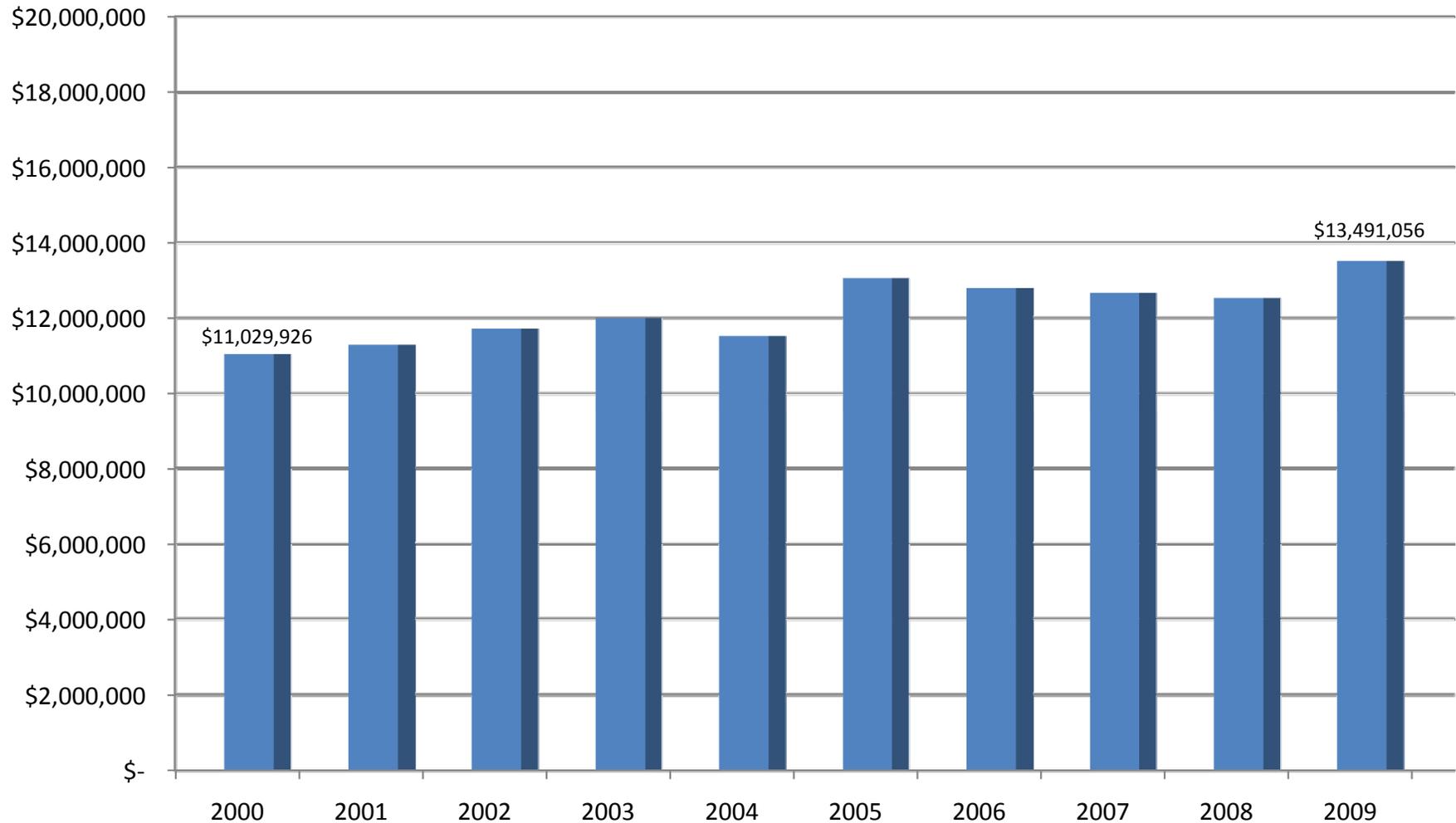
SOURCE: US Department of Commerce Census Bureau

# General Fund Revenue



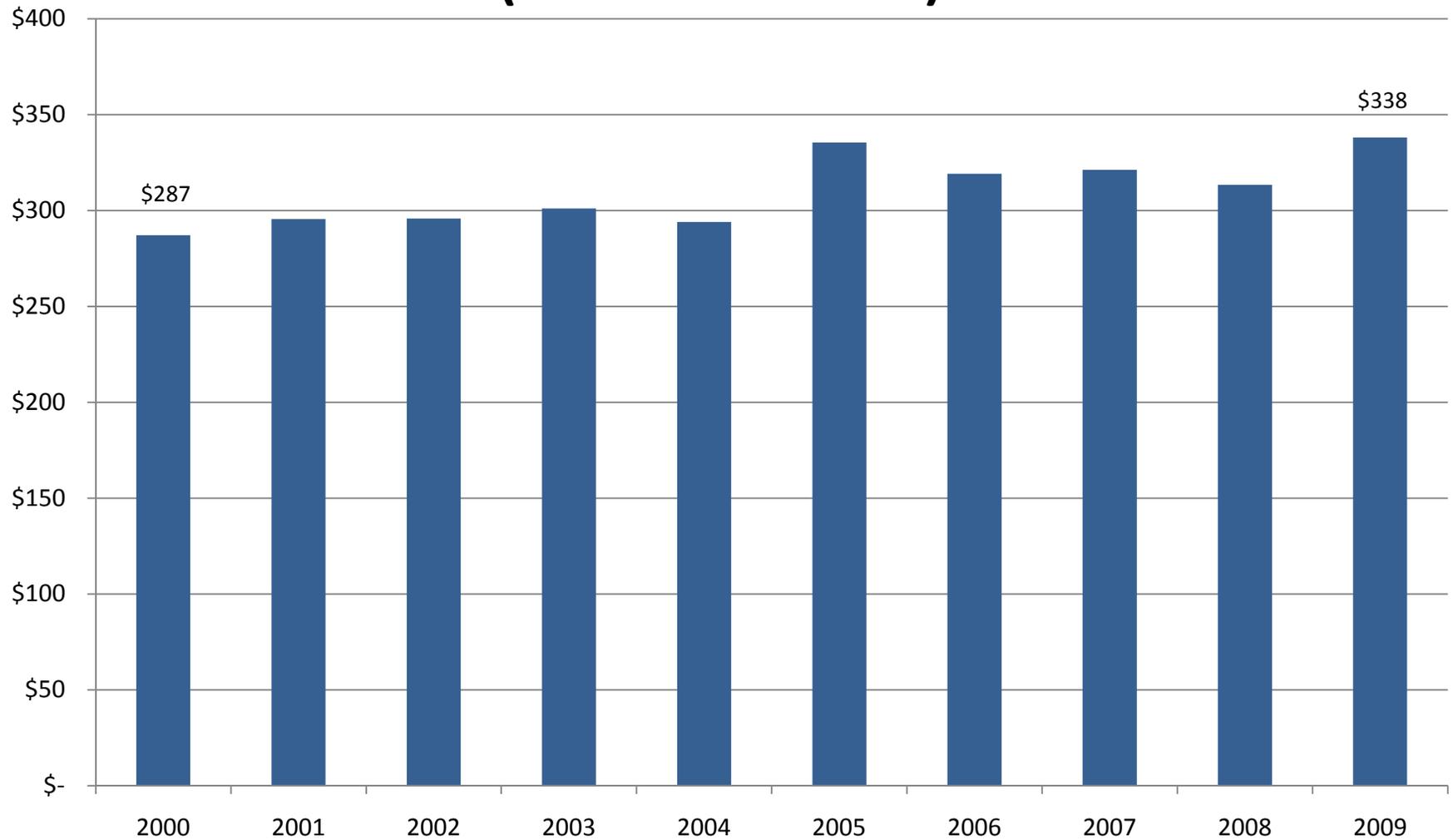
SOURCE: State College Borough Finance Department Annual Reports

# General Fund Revenue (constant dollars)



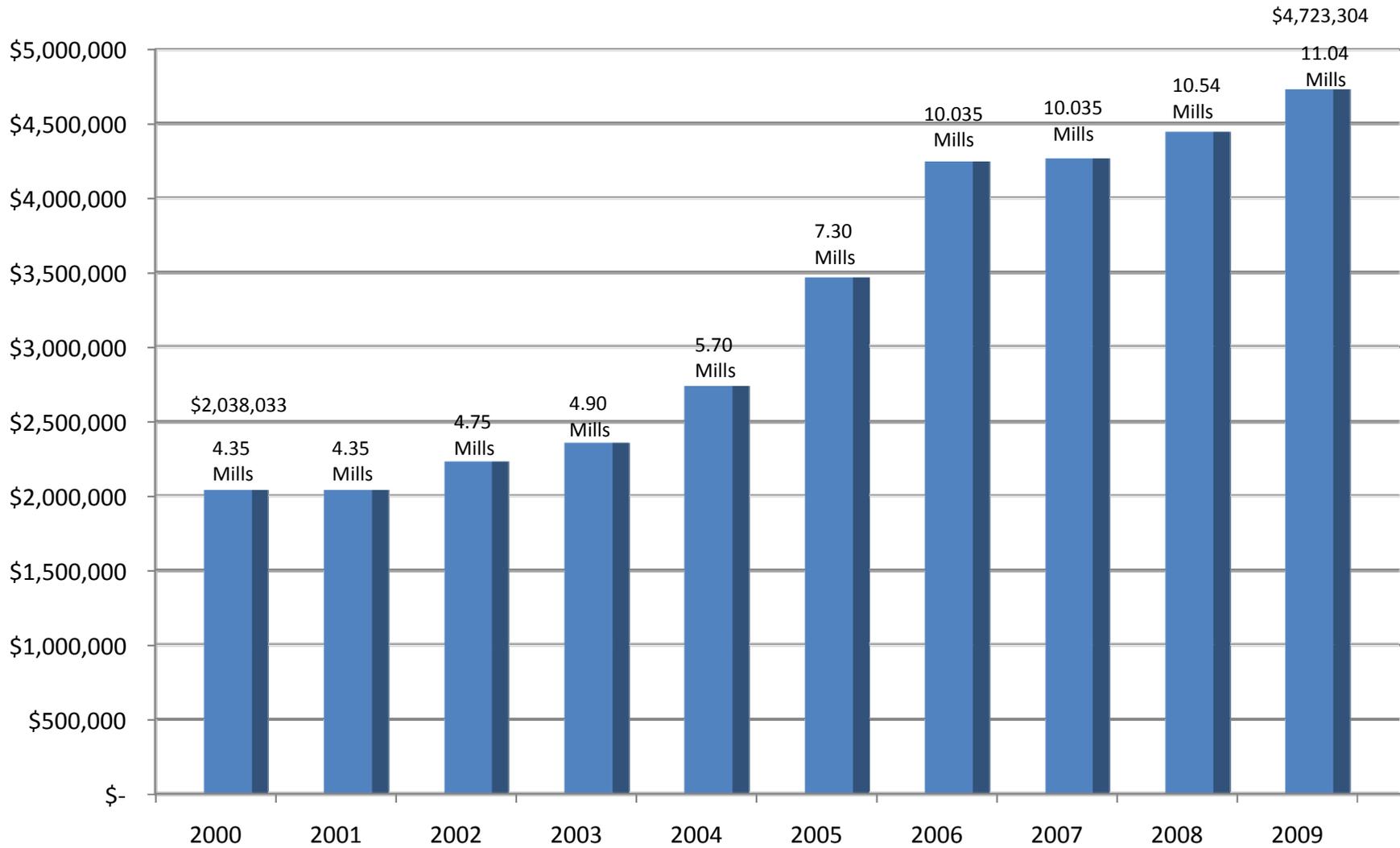
SOURCE: State College Borough Finance Department Annual Reports, adjusted using Municipal Cost Index

# General Fund Revenue per capita (constant dollars)



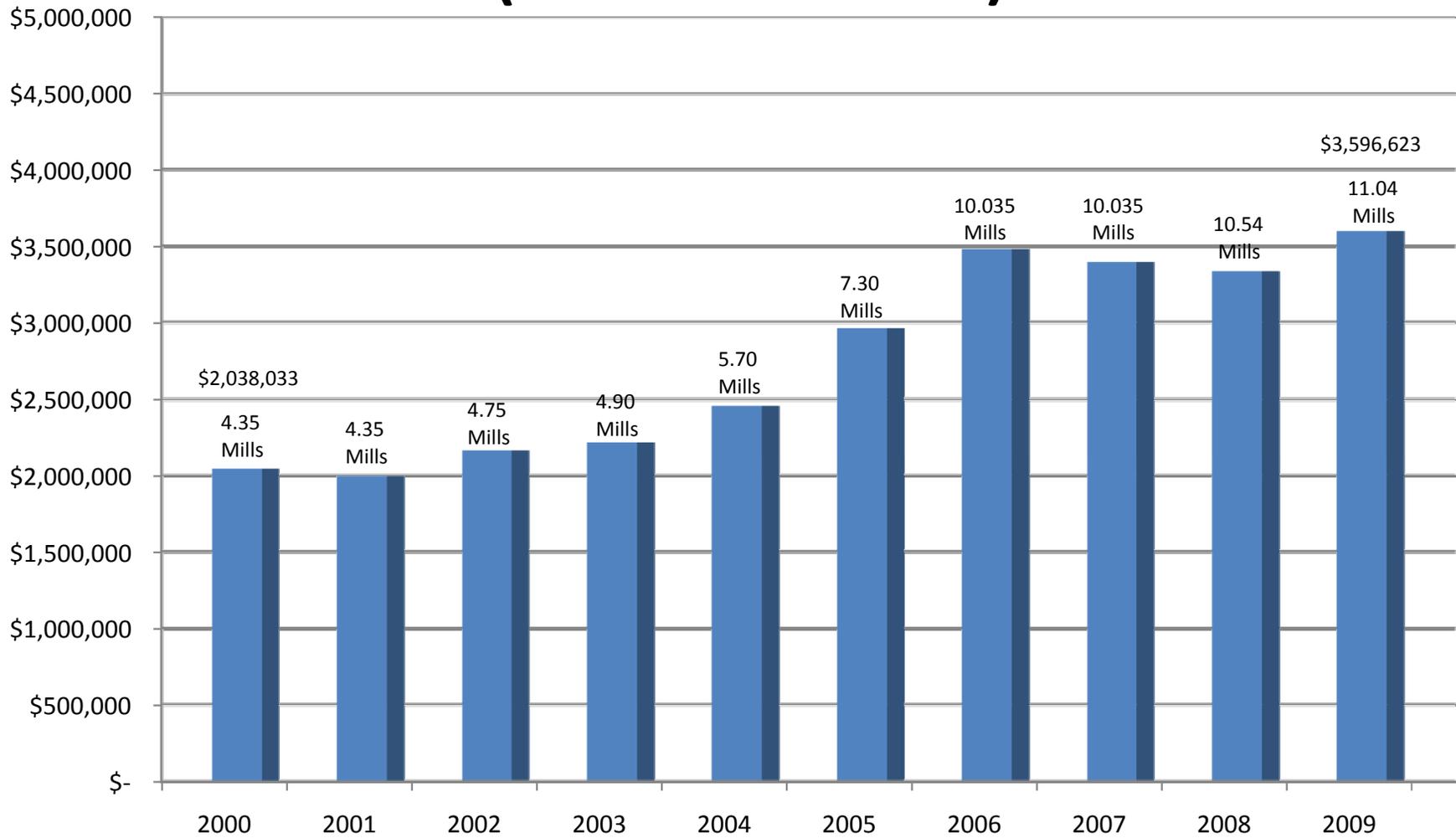
SOURCE: State College Borough Finance Department Annual Reports, adjusted using Municipal Cost Index; 2000 US Census Bureau Population Data

# Real Estate Tax Revenue



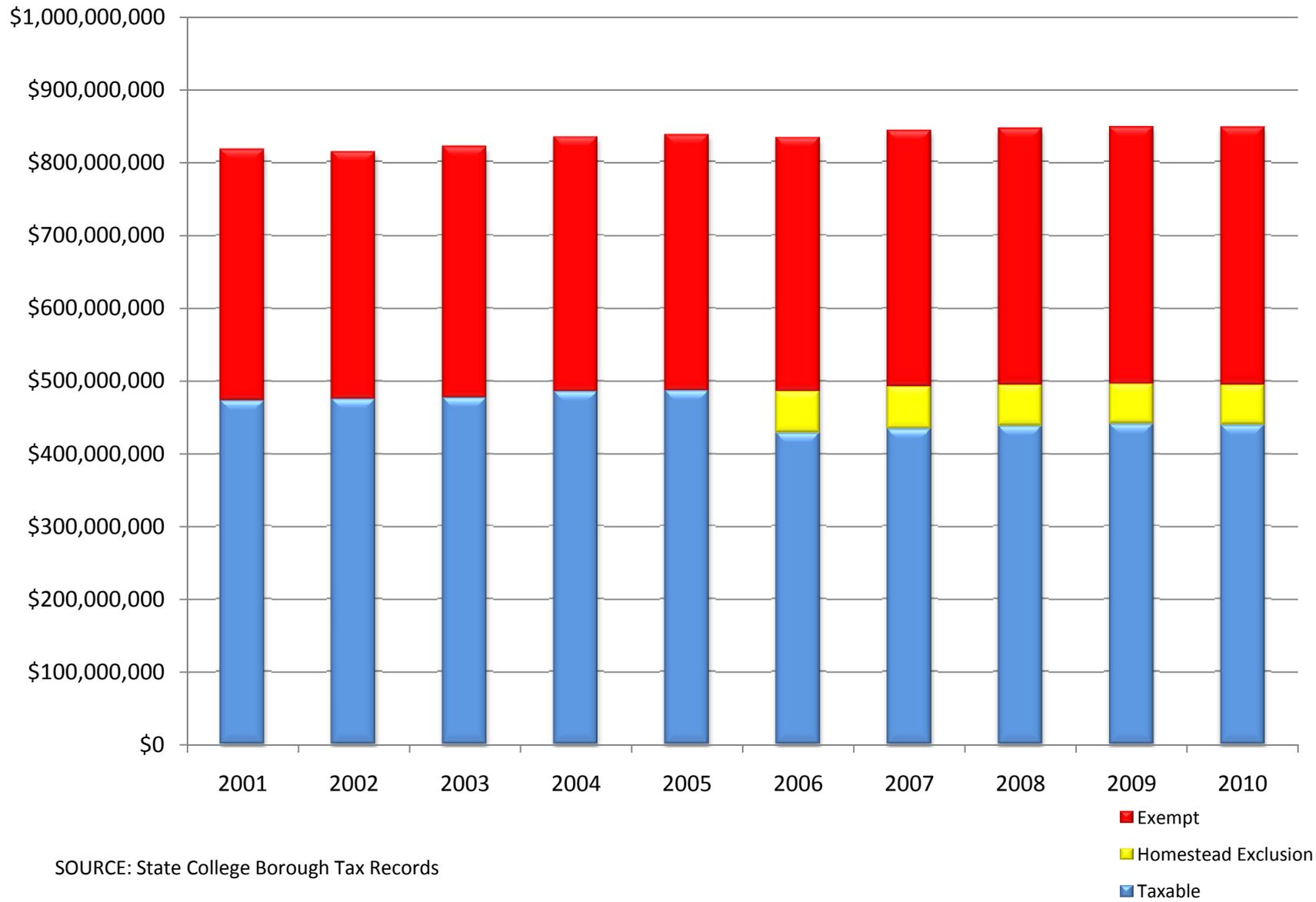
SOURCE: State College Borough Finance Department Annual Reports

# Real Estate Tax Revenue (constant dollars)



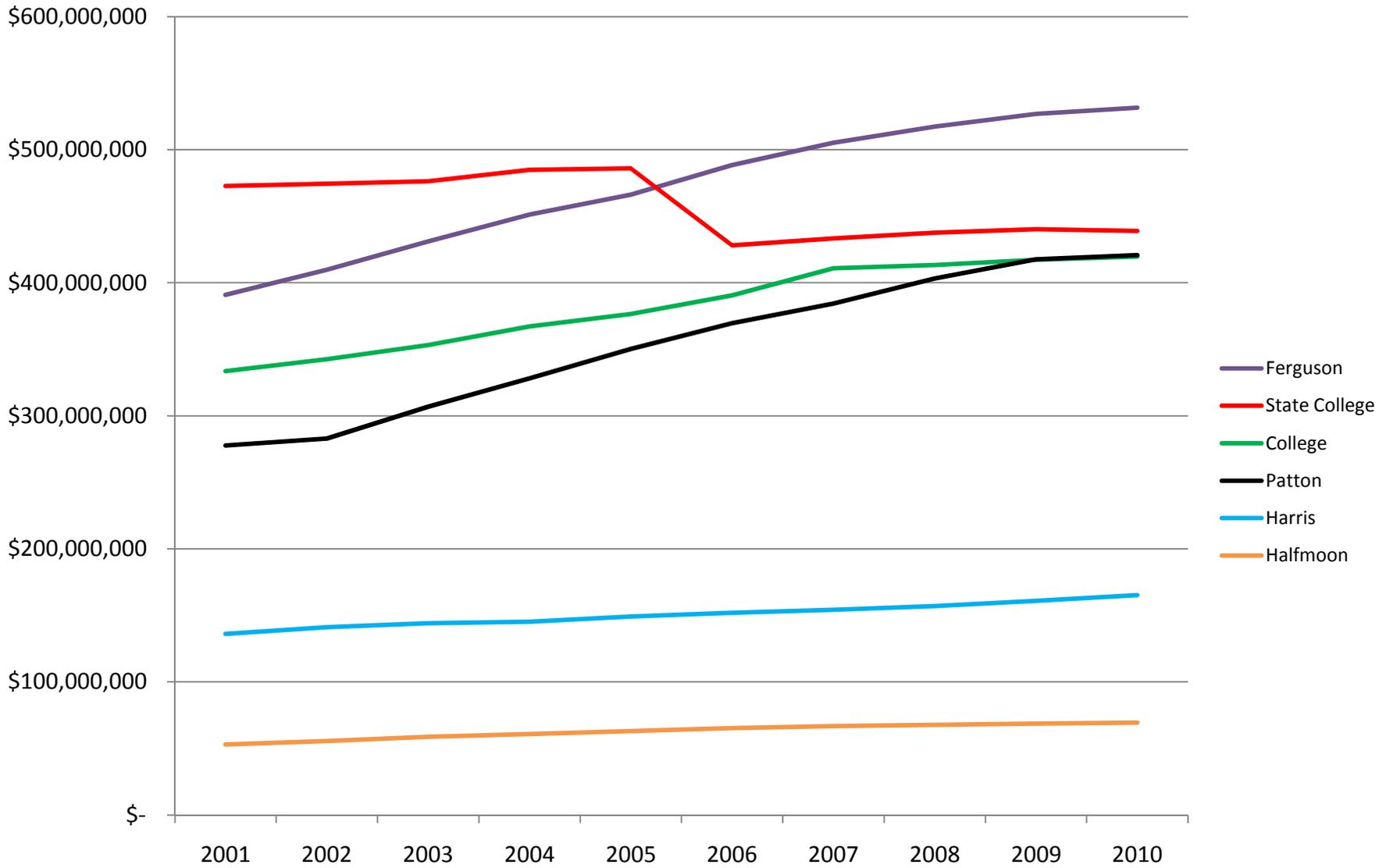
SOURCE: State College Borough Finance Department Annual Reports, adjusted using Municipal Cost Index

# Total Borough Assessed Valuation



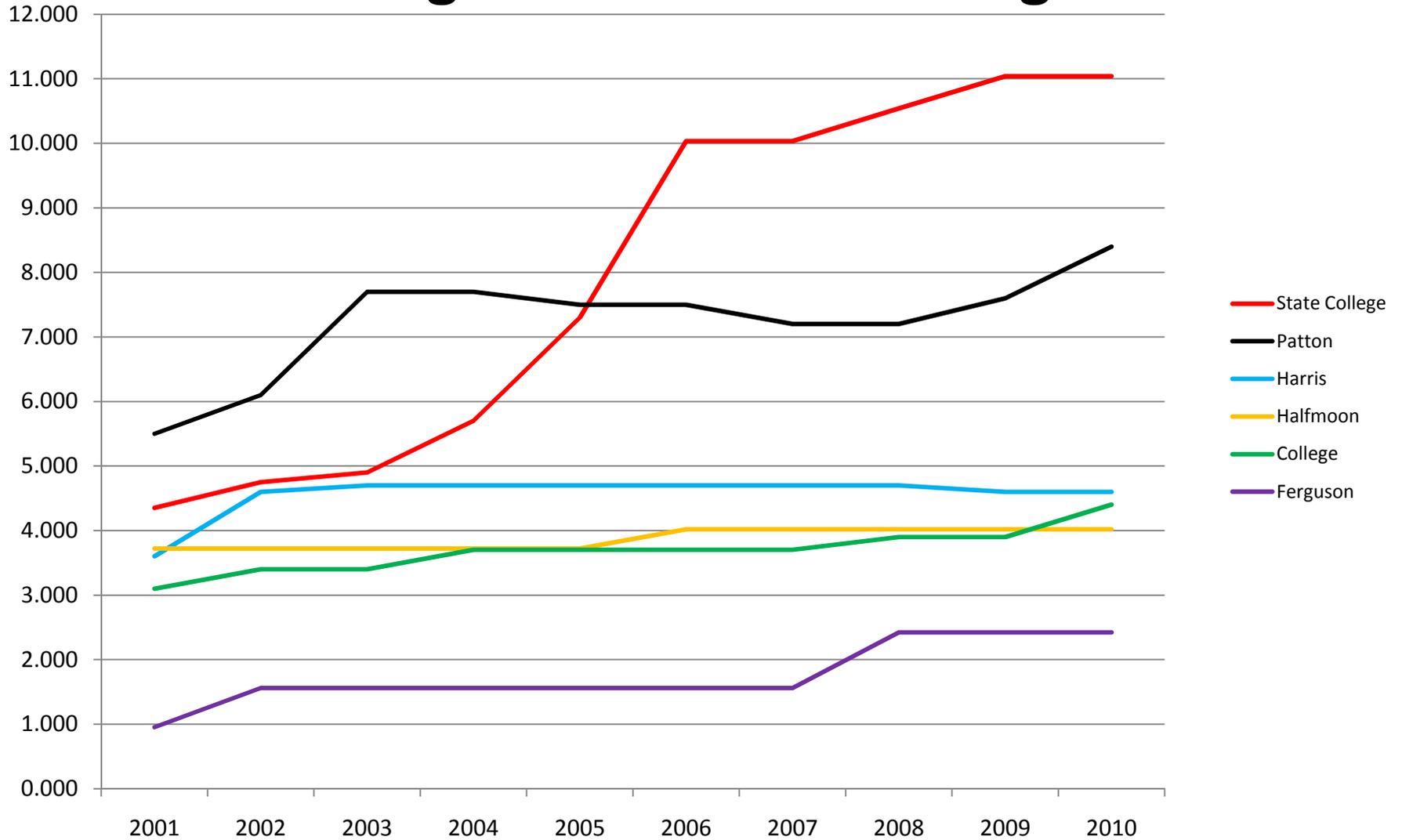
SOURCE: State College Borough Tax Records

# Centre Region Taxable Assessed Valuation



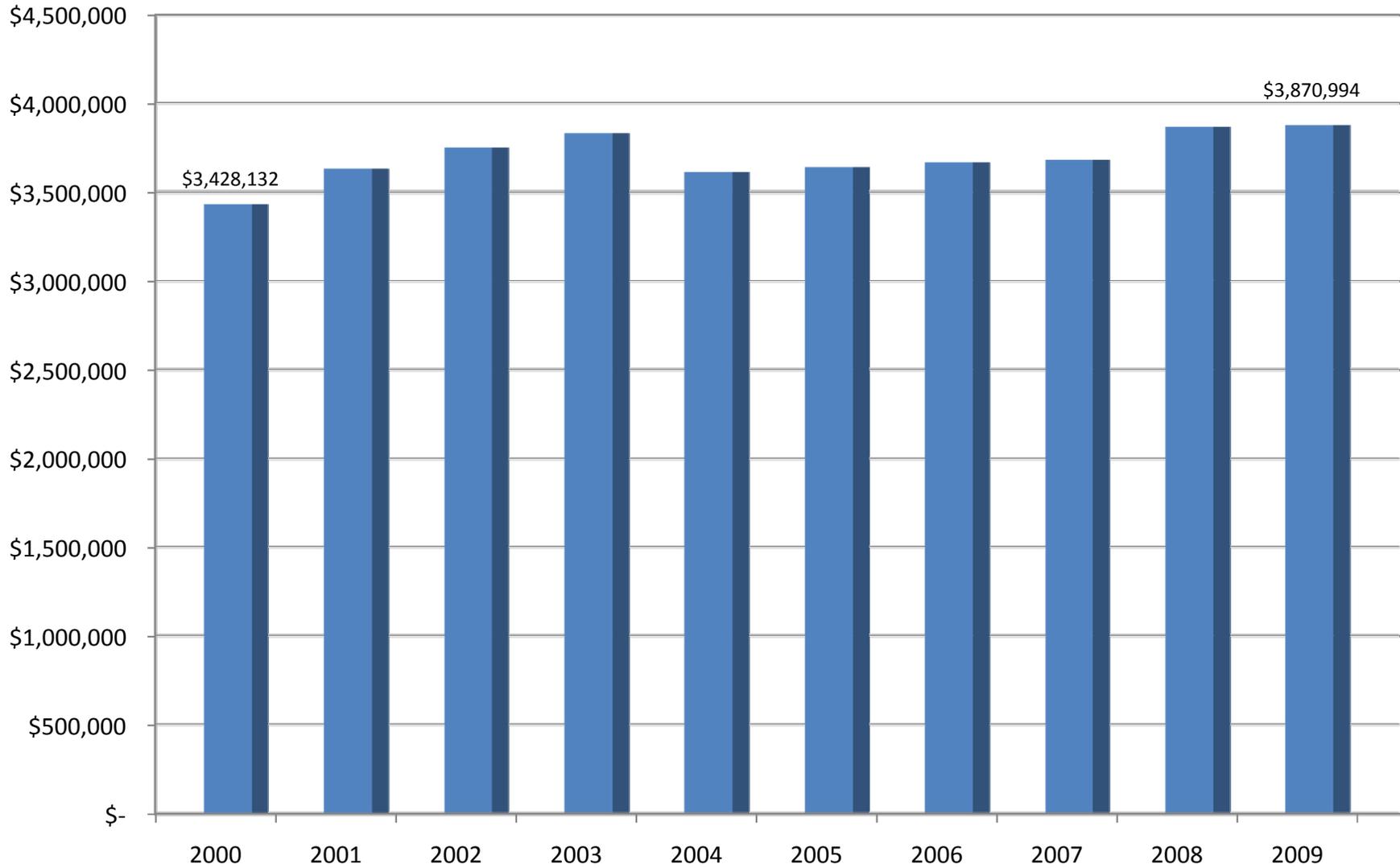
Source: State College Borough Tax Administrator(Centre County Tax Records)

# Centre Region Real Estate Millage Rates



SOURCE: State College Borough Tax Administrator(Centre County Tax Records)

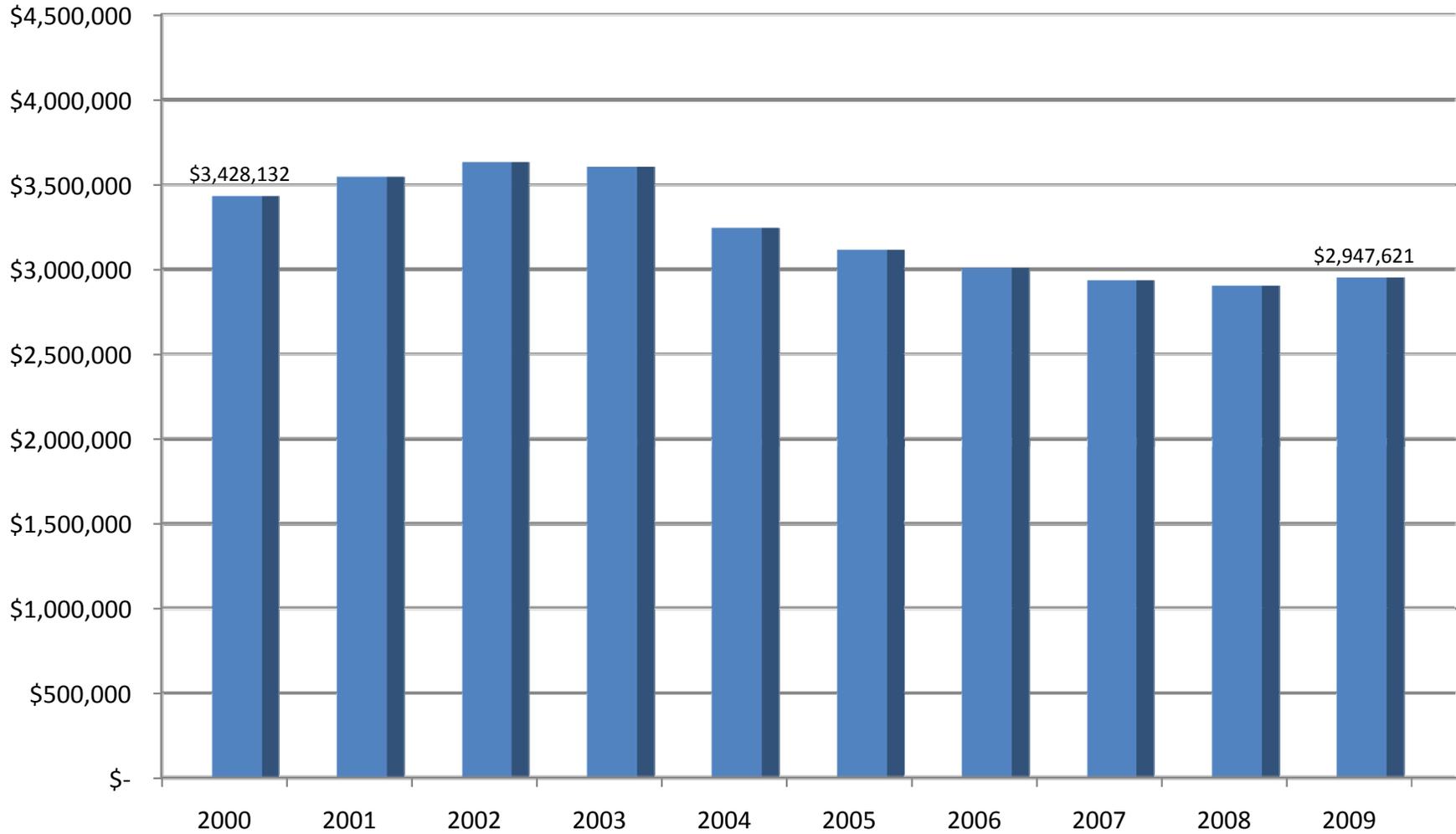
# Earned Income Tax Revenue



SOURCE: State College Borough Finance Department Annual Reports

Borough Resident Rate 1.3%; Non-Resident Rate 1.0%

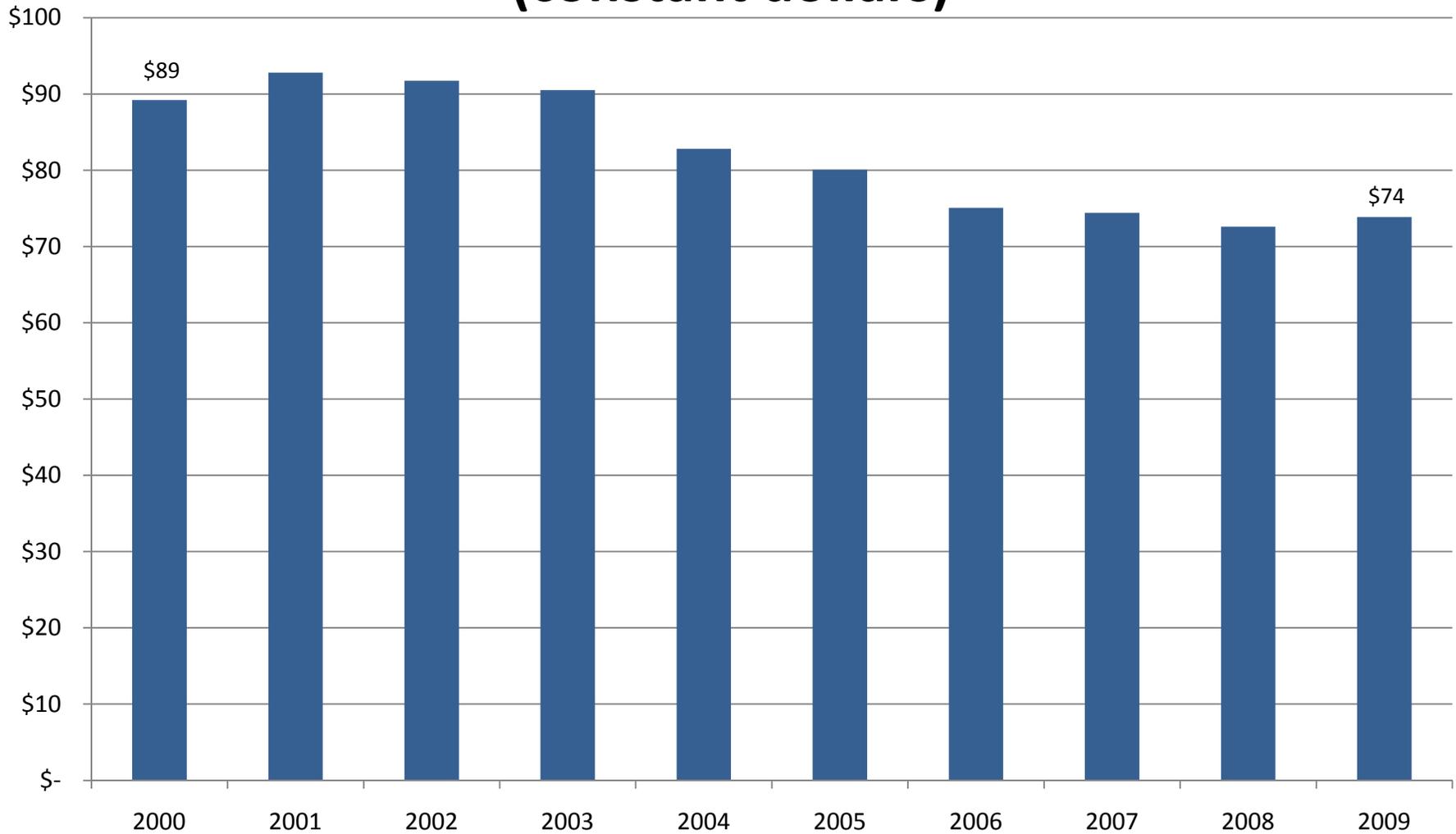
# Earned Income Tax Revenue (constant dollars)



SOURCE: State College Borough Finance Department Annual Reports

Borough Resident Rate 1.3%; Non-Resident Rate 1.0%

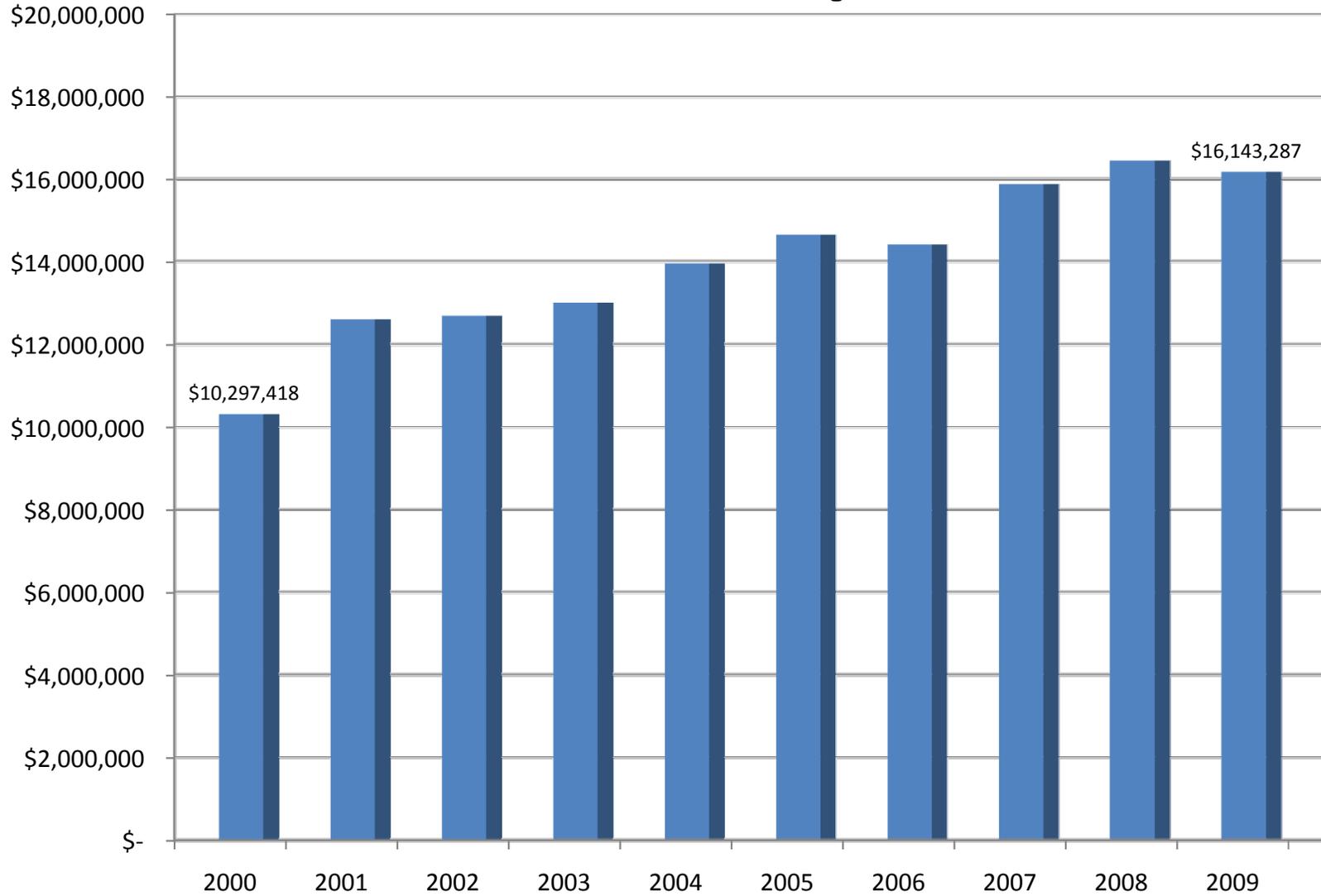
# Earned Income Tax Revenue per capita (constant dollars)



SOURCE: State College Borough Finance Department Annual Reports,  
adjusted using Municipal Cost Index; 2000 US Census Population Data

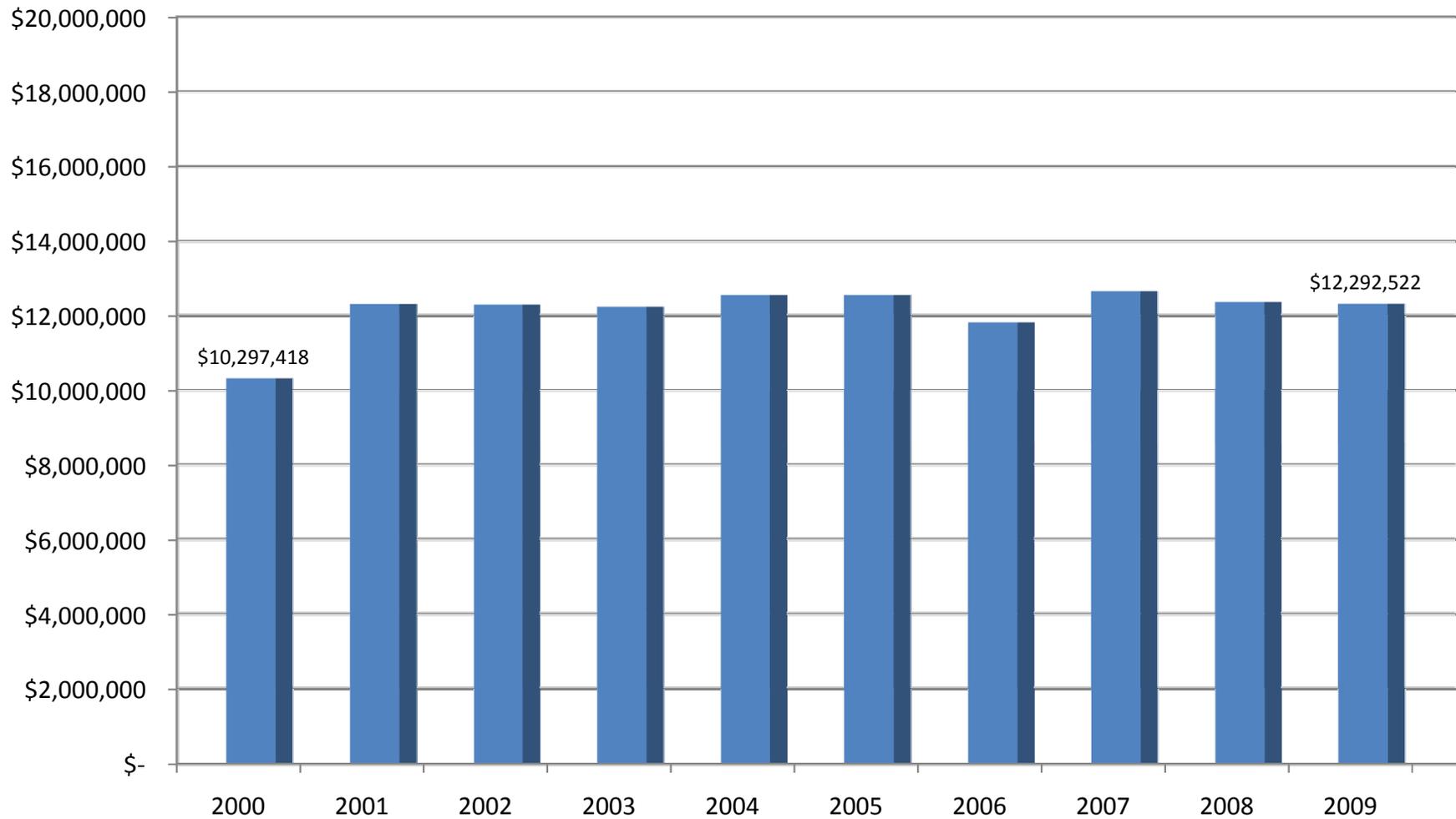
Borough Resident Rate 1.3%; Non-Resident Rate 1.0%

# General Fund Expenditures



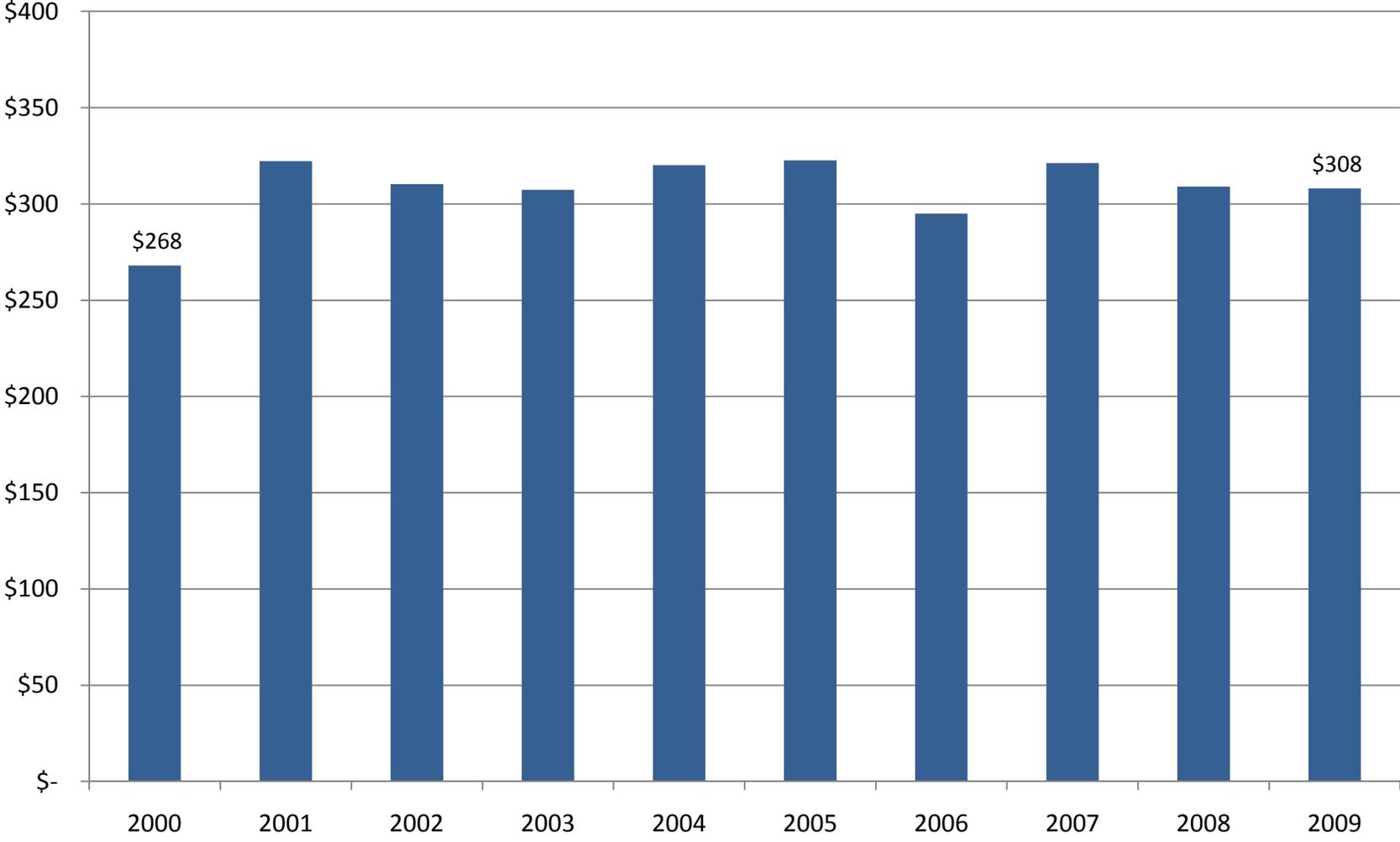
SOURCE: State College Borough Finance Department Annual Reports

# General Fund Expenditures (constant dollars)



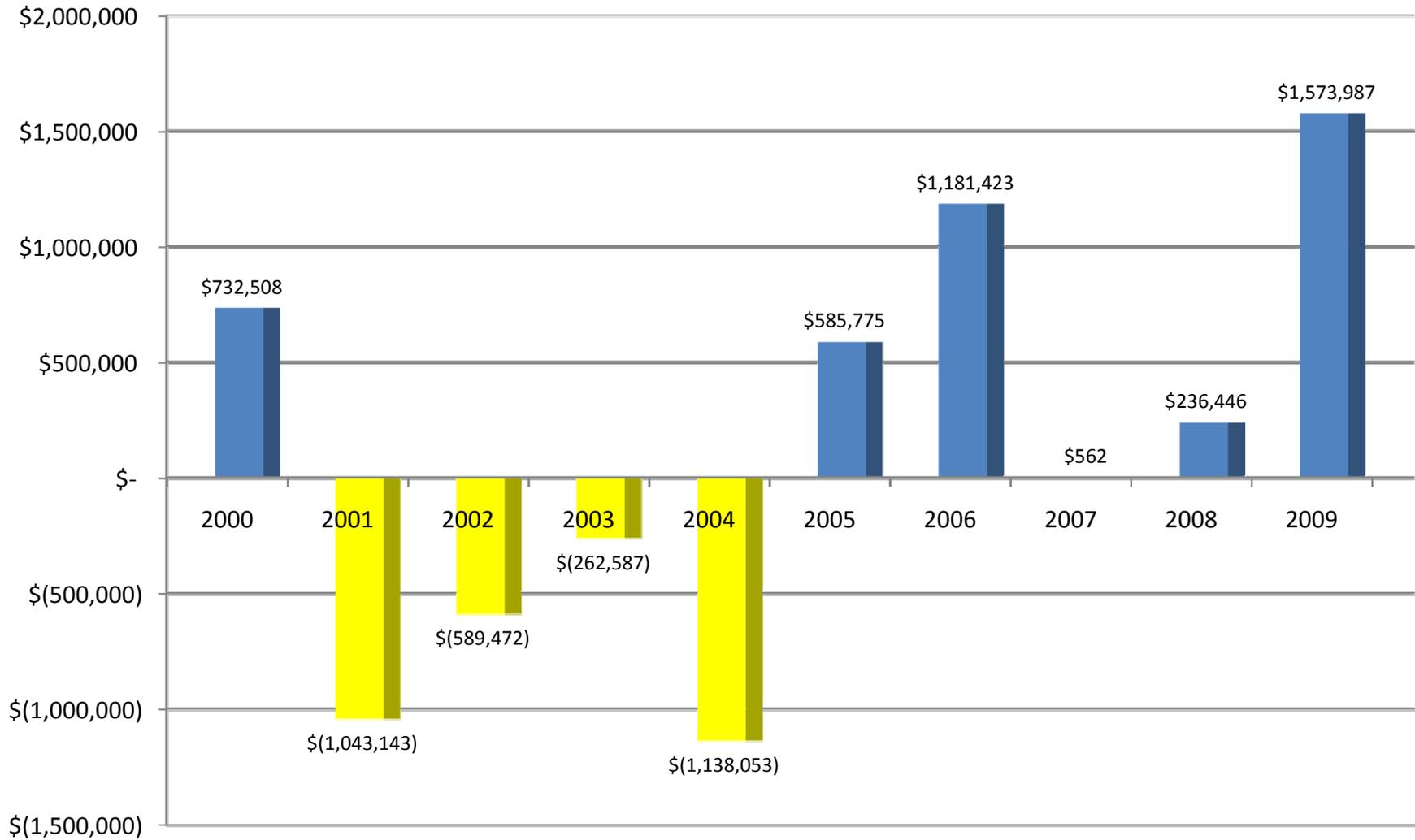
SOURCE: State College Borough Finance Department Annual Reports, adjusted using Municipal Cost Index

# General Fund Expenditures per capita (constant dollars)



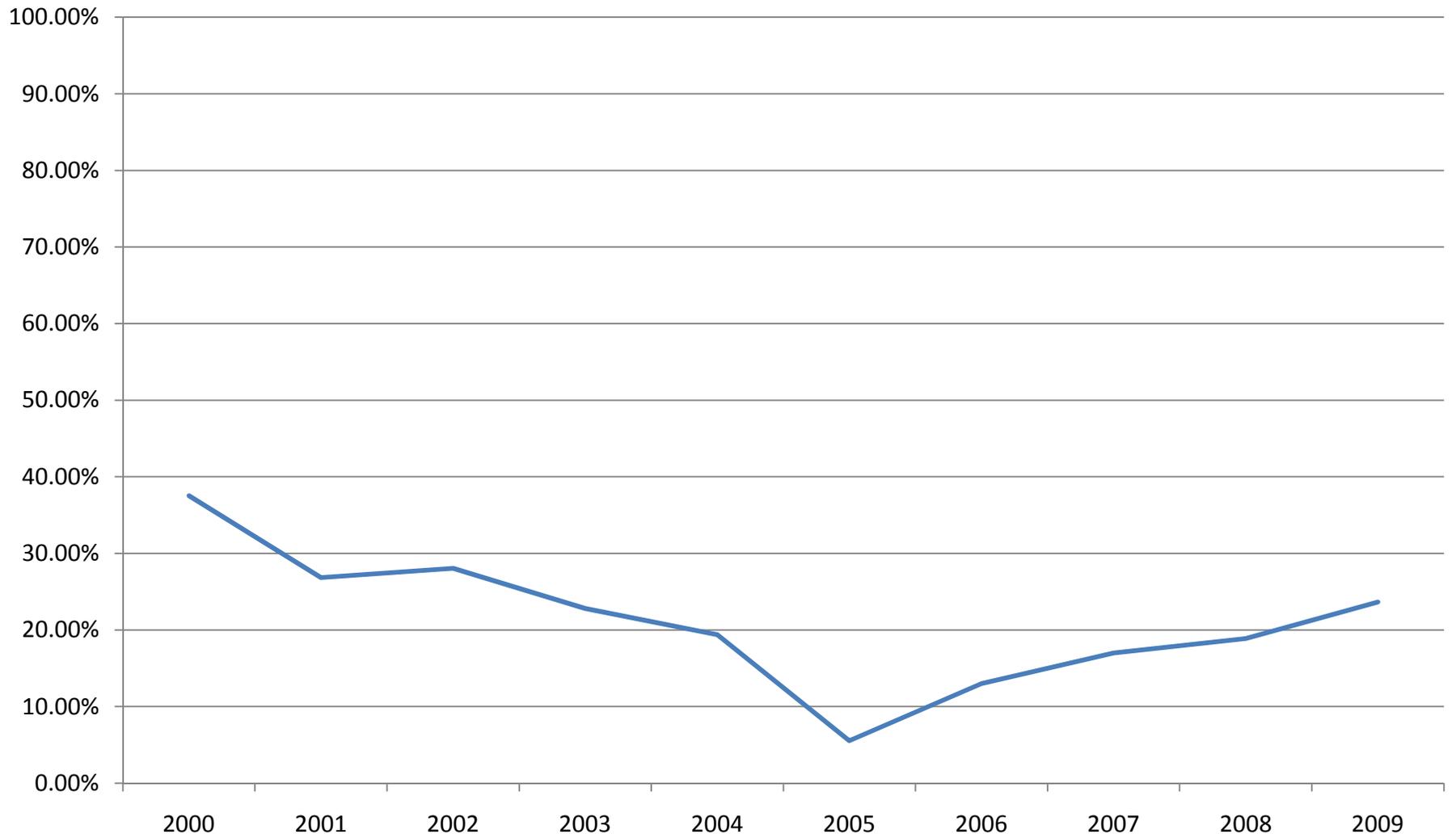
SOURCE: State College Borough Finance Department Annual reports, adjusted using Municipal Cost Index; 2000 US Census Bureau Population Data

# General Fund Operating Performance



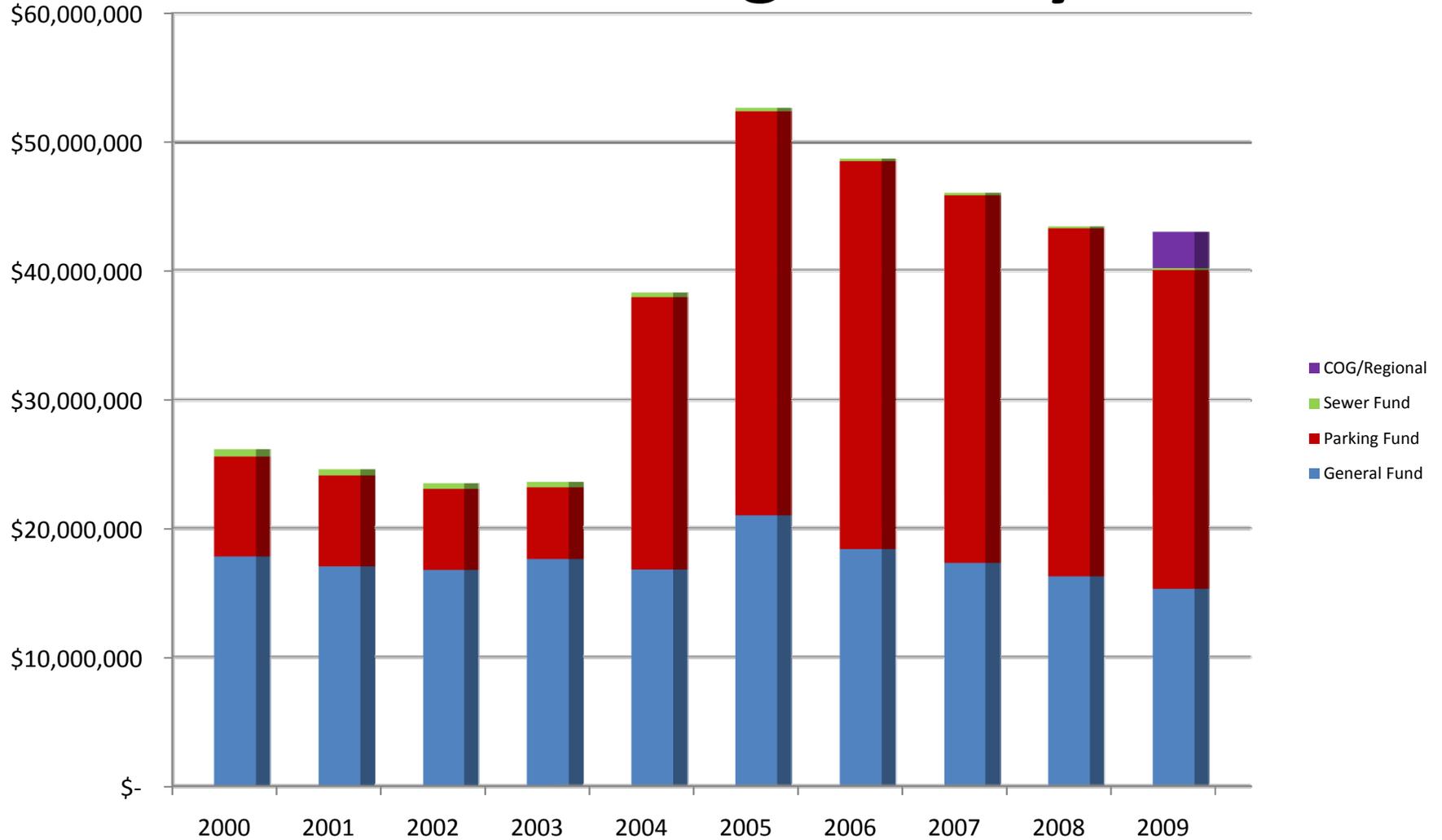
SOURCE: State College Borough Finance Department Annual Reports

# Unreserved General Fund Balances as a Percentage of General Fund Operating Expenditures



SOURCE: State College Borough Finance Department Annual Reports

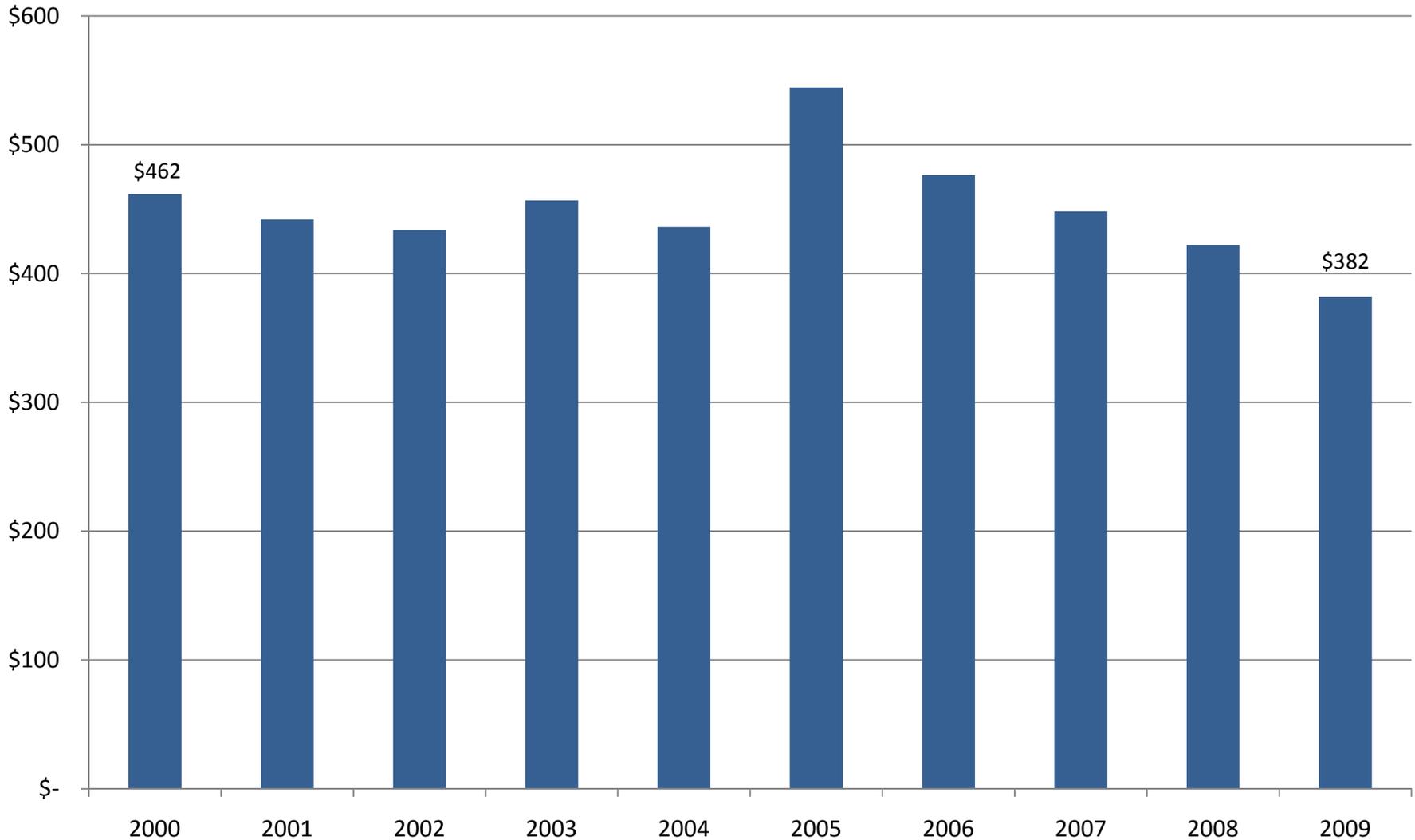
# Total Outstanding Debt by Fund



SOURCE: State College Debt Service Schedules

NOTE: Debt Reported at Year End

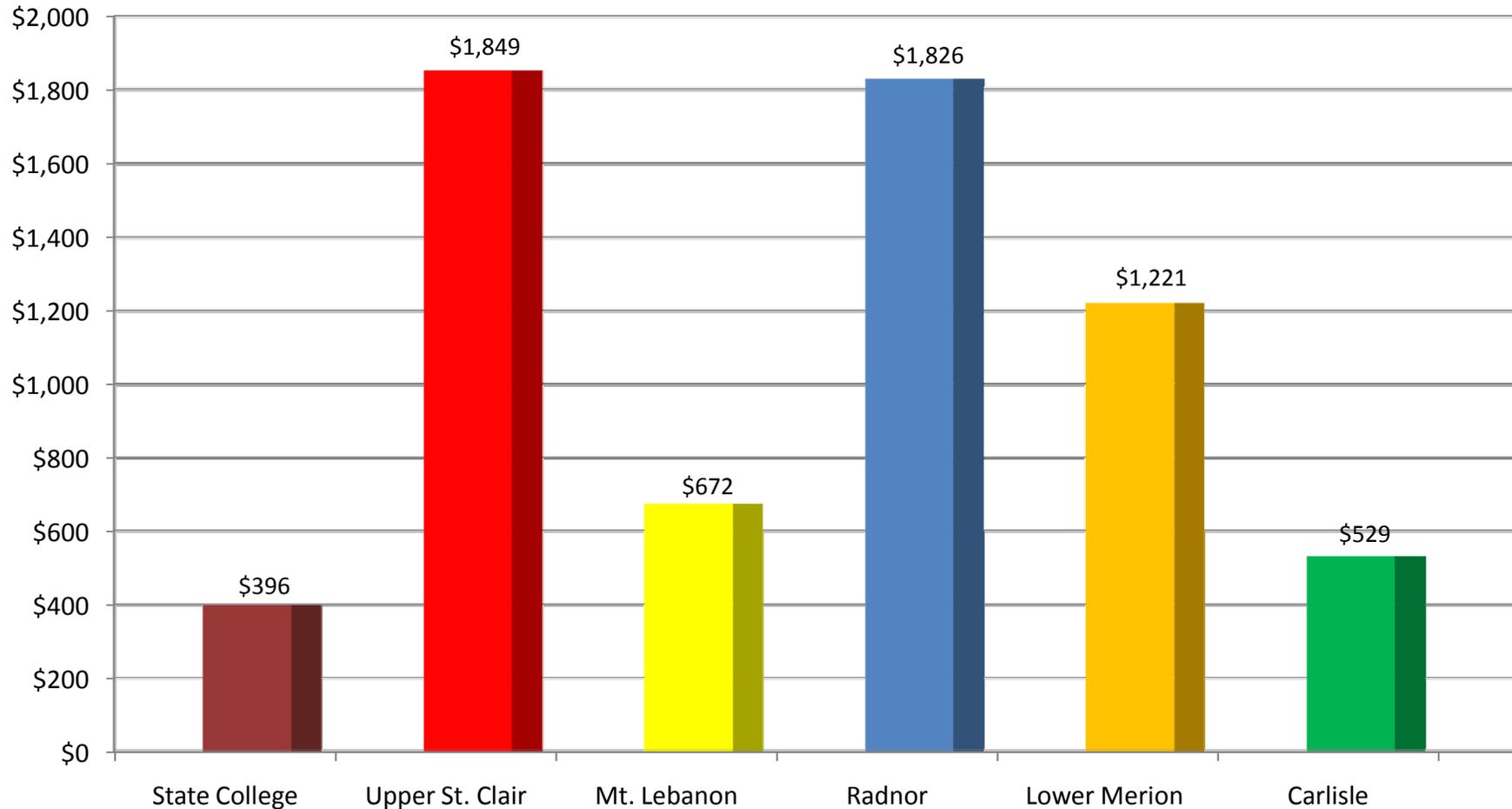
# Outstanding General Fund Debt per capita



SOURCE: State College Borough Debt Service Schedules

NOTE: Debt Reported at Year End; includes principal and interest; 2000 US Census Population Data

# Outstanding General Fund Debt per capita of Similar PA Municipalities

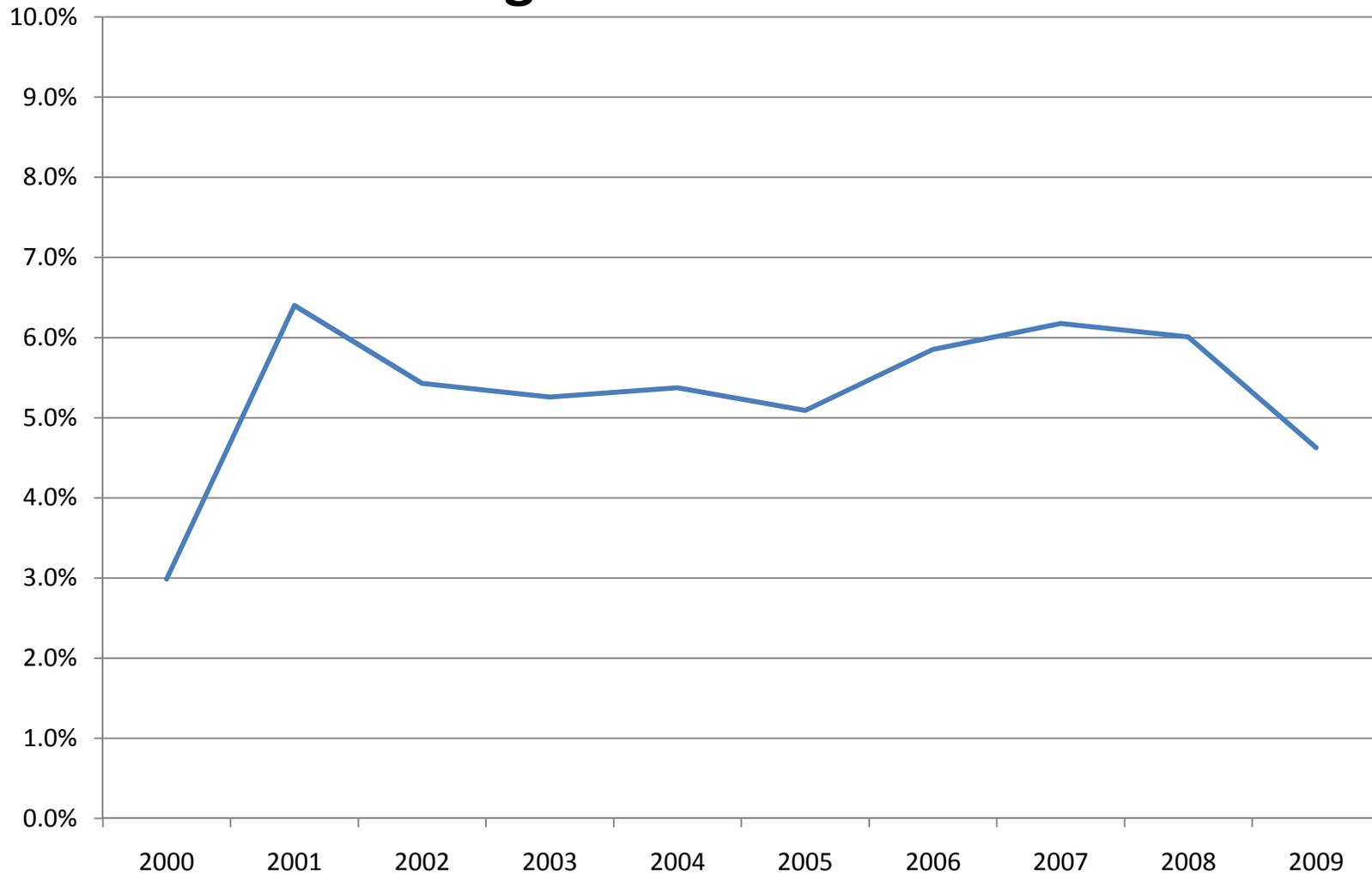


Source: Municipal Websites

Note: Population figures based on 2000 Census

Note: Outstanding Debt at year end 2009

# General Fund Debt Service as a Percentage of General Fund Revenues



SOURCE: State College Borough Debt Service Schedules