

2007 PROPOSED BUDGET
FOR THE
BOROUGH OF STATE COLLEGE



MAYOR..... Bill Welch

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November 13, 2006

Catherine G. Dauler, President of Council
Borough of State College
243 S. Allen Street
State College, PA 16801

Dear Ms. Dauler:

As required by Section 904 of the State College Borough Charter, I am transmitting herewith the proposed 2007 operating budget for the Borough of State College.

The general fund budget is balanced with revenues of \$15,302,225, allocation of \$549,874 from unreserved fund balance, and expenditures of \$15,852,099. The total budget for the Borough after adjustments for interfund transfers is \$28,004,243. In presenting this budget, I want to acknowledge the dedicated work of the Borough's staff. Their hard work, dedication and professional competence is evident throughout the budget document.

Earlier this year, Borough Council engaged in a planning session to identify and prioritize its goals for 2007. Two clear themes emerged from this process, and they are addressed in the budget. Several other issues were also identified as being important to include in the 2007 budget. A single page summary of Council's 2007 goals is attached with this transmittal.

The first major theme centered on neighborhood preservation and quality of life issues. The Borough has been working on developing programs to improve response to neighborhood issues for the past year. The 2006 budget included funds for this purpose, and staff with ordinance enforcement responsibility has been reorganized to consolidate these activities in one place. Borough staff is also working on other organizational plans and preparing for the development of additional programs to respond to neighborhood issues. Funds have again been included in the 2007 budget to continue this work.

A second major theme identified by Council is the need for affordable housing in the community. Affordable housing and programs to increase home ownership opportunities have long been a part of the Borough's operating budget. The affordable housing issue continues to be one of the more important issues not only for State College, but for the entire region. The 2007 Borough budget reflects this concern with a doubling of the budget for the homeowner program, including a grant application for \$186,776 under the Pennsylvania Core Communities Housing Program, \$90,000 in the 2006 budget and \$90,000 in the 2007 budget. The budget proposal also calls for continued funding for housing and shelter programs through the Community Development Block Grant and HOME programs, and continued support for the State College Community Land Trust.

Among the other issues identified by Council, the Borough has started a benchmarking program in 2006. This program will continue to receive funding in the 2007 budget. During 2007, the Borough will begin to collect data for comparison with other communities participating in the ICMA Center for Performance Measurement. Staff is supporting an effort to develop a better national network for town/gown relations. Many of the communities involved in this effort would be ideal benchmark communities for State College.

Council also asked staff to provide information on the Penn State University In-Lieu agreement and explore new ways to fund programs that are significantly impacted by Penn State students. Although this is not specifically addressed in the 2007 budget document, it continues to be a focus of staff. Additional discussion will be planned to develop this issue in 2007.

Council also addressed other important issues in the Goals document. Although I will not elaborate on each one here, there will be discussion over the next few weeks as Council reviews the 2007 proposed budget.

The Borough is entering 2007 in relatively good financial shape. Over the past few years, Council has implemented a financial plan to bring stability to the Borough's finances and shift the tax burden from home owners. However, there is still concern about the long term financial health of the Borough. The 2007 budget does not include a tax increase, but it is balanced by relying on unreserved fund balance that results primarily from the continued collection of the full Emergency and Municipal Services Tax (EMST) in 2006. As has been the case for the past three years, the future of the EMST is still uncertain. The 2007 budget has been prepared with the assumption that the legislature will modify the tax and revenue will be reduced by about \$500,000 in 2007.

Although no tax increase is recommended in 2007 for Regional Parks, it is important to note that 0.23 mills of Real Estate Tax is earmarked for this program. This earmark is up from 0.1 mills in the 2006 budget reducing property tax revenues for other General Fund expenditures by an equal amount. The long term funding arrangements for this program are still uncertain.

Additional issues that have not been fully resolved include funding for capital improvements and pensions. These issues will need to be explored in 2007 before the 2008 budget is prepared. The Parking Fund also presents concern for the future. Although there has been some improvement in cash flow as the year progressed, there is an urgent need to consider alternatives for increasing cash flow early in 2007. Staff will present a comprehensive recommendation on the Parking Fund during the first quarter of 2007.

Major provisions in the proposed 2007 budget include:

- Expanded Affordable Housing Program
- Continuation of the \$25,000 Homestead Exclusion
- Additional services via the Borough's web page
- Update land use goals & begin re-write of Borough's zoning ordinance
- Complete Centre Region Cable consortium franchise agreement
- Establish redevelopment plan for Urban Village
- Implementation of Neighborhood Program

Ms. Catherine G. Dauler

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- Establish benchmarks via the Performance Measurement Institute
- Capital Improvement Program

Organizational change will also occur in 2007. Several key staff members will be retiring early in the year. The budget accounts for the retirements and it also shifts the Budget Officer to the Department of Administration. As previously noted, ordinance enforcement and field inspection has been consolidated in the Health Department by shifting the budget for zoning enforcement investigations to Health. A planning technician position has been added to the Department of Planning and Community Development to replace a position that was eliminated from the budget in 2005, and to assist with redevelopment activity in the Borough.

The Borough's Enterprise Funds are also experiencing increased costs. In addition to the Parking Fund concerns previously noted, the Sanitary Sewer Fund is experiencing capital demands to maintain an aging sewer system. Approximately 16% of the Sewer Fund Budget is dedicated to capital costs. Over the past six years, the Borough has used fund balance substantially for sewer capital projects. As result, a rate increase is recommended in 2007.

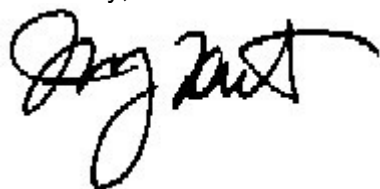
The Refuse Fund is balanced with revenues from user fees and unappropriated fund balance expected to cover costs in 2007. No rate increase is proposed for this fund.

As Council reviews the proposed budget prior to its adoption on December 18, 2006, it is recommended that Council focus its attention on the following issues:

- Is 12% of total annual budget an appropriate General Fund balance?
- How should the long term issue of funding Capital Improvements be addressed?
- How should the long term issue of funding employee Pension Costs be addressed?

As always, as Council reviews the proposed budget over the next several weeks, I will provide additional information on the details of the budget.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tom Fountaine', written in a cursive style.

Thomas J. Fountaine, II
Borough Manager

Council Special Meeting 10/9/06
Goals for 2007

Do more to promote intermunicipal cooperation beyond COG	●
Determine how we get in lieu money from Penn State and how much	●●●
Impact of possible changes to EMST and other state tax legislation	
Clear understanding of what CATA faces, especially in State College (trends in ridership and funds [note: this can be done in March as part of CATA's budget review])	
Change presentation/location of "hidden" funds; one page summary in the front of the budget. [For example: parking and sewer fund, working reserves, fund balances]	
Include long-range costs of 2007 projects showing the expected budget impact over the long-term, especially in regards to long-term license fees for software	●●
Maintain an affordable housing stock with links to owner occupants	●●●●●●
Provide data on annual maintenance and operating costs for roads and sewers	●
Quality of life issues: cooperation between Penn State and the District Justice office on enforcing nuisance complaints; policing of neighborhoods; create a neighborhood task force; health and code issues in regards to enforcement.	●●●●●●●
The total number of people paying the earned income tax; show historical and prospective trends	
Delineation of asset replacement	●
Self insurance: How are we doing? Is there enough in reserve?	
Measures of effectiveness: e.g., police, public works. Benchmarks from similar communities.	●●
Provide a report on challenging assessment appeals	
More detail/summary for debt service for future years	●
Estimate of what reassessment would do for Borough tax base	●

2007 BUDGET SUMMARY

The 2007 Operating Budget for the Borough's General Fund is balanced with revenues of \$15,302,225, use of unappropriated fund balance of \$549,874 and expenditures of \$15,852,099. The 2006 General Fund revenue and expenditure year-end outlook are both favorable when compared to budget estimates. The 2006 budget estimated adding approximately \$67,000 to fund balance during the year. The 2006 year-end projections now call for that amount to be \$1,027,000 by year's end, an increase of about \$960,000 when compared to budget. This is due to revenues exceeding estimates by \$540,000 (3.6%) and expenditures less than projected by \$420,000 (2.8%).

The primary revenue items that are projected to exceed budget estimates in 2006 are the Emergency and Municipal Services Tax, Interest Earnings, Intergovernmental Revenue (grants) and indirect cost reimbursement from the enterprise funds. These items more than offset lower than expected receipts from the Real Estate Tax, Licenses and Permits and Departmental Services. Departmental expenditures and the transfer to the Highway Aid Fund were below budget for 2006. The General Fund Summary of receipts and expenditures lists the details on these items.

As a result of this better than budgeted performance in the General Fund in 2006 and recommended changes to the 2007 Capital Budget as outlined below, an additional transfer of \$155,175 in 2006 from the General Fund will satisfy the capital funding obligation for 2007. In addition, it is recommended \$549,874 of 2006 fund balance be used to offset the reduction in EMST revenue in 2007. This will bring the General Fund balance in line with the target of 12% of total annual budget; eliminate the need for a General Fund transfer to support capital improvements in 2007 and designate approximately \$290,000 to be reserved for 2008 operating expenses.

The 2007 General Fund Budget totals \$15,852,099, a 6.7% increase when compared to the 2006 budget. A summary of the expense categories that comprise the budget are listed below and compared to the 2006 budget.

	<u>2006 Budget</u>	<u>2007 Budget</u>	<u>Change</u>
Salaries and Wages	\$7,799,508	\$8,128,545	\$329,037
Employee Benefits	\$2,180,634	\$2,354,579	\$ 173,945
Operating Expenses	\$2,670,255	\$2,986,696	\$ 316,441
Debt Repayment	\$ 940,165	\$ 980,130	\$ 39,965
Regional Programs	\$1,107,158	\$1,243,889	\$ 136,731
First-Time Homebuyer	\$ 90,000	\$ 90,000	\$ -0-
Highway Aid Transfer	<u>\$ 70,486</u>	<u>\$ 68,260</u>	<u>(\$ 2,226)</u>
Total	\$14,858,206	\$15,852,099	\$ 993,893

The following assumptions have been used in preparing estimates for the 2007 Budget:

1. Effective January 1, 2007 the EMST will be eliminated and replaced with a Local Services Tax that is estimated to generate \$500,000 less than 2006 EMST revenue.
2. Reorganization in the Health and Planning Departments has replaced one full-time position that was eliminated in 2005.
3. Pension obligation costs in 2007 will be funded by a transfer of \$256,000 from the Insurance Reserve Fund.
4. Use of \$549,874 of 2006 fund balance (primarily EMST unbudgeted revenue) will be used to offset 2007 expenditures.
5. Capital improvements to municipal facilities totaling \$121,400 will be delayed until at least 2008 and the \$65,000 contribution to the municipal facilities reserve will be eliminated in 2007.

6. The Musser Gap expenditure of \$76,100 in 2006 and the \$10,000 Millbrook Marsh Capital contribution for 2007-2009 will be funded through parkland acquisition funds in the Capital Projects Fund.
7. Adequate funds are available from 2005 bond proceeds to fund the balance of library land acquisition costs.
8. Sanitary Sewer user fees will increase from \$5.20 to \$5.90 per 1,000 gallons. (approximately \$10/quarter/residence)

In addition to the 2007 General Fund Budget, budgets for Highway Aid, Capital Projects and the various enterprise funds are included as follows:

Highway Aid Fund Budget

The Highway Aid Fund is balanced in amount \$675,294. Because the state appropriation has not kept pace with eligible highway aid expenditures, it is projected \$42,950 will be needed from the General Fund in 2006 and \$68,260 is budgeted for transfer in 2007.

Capital Projects Budget

The Capital Projects Budget totals \$1,417,810 in 2007. These funds will be combined with prior authority totaling \$1,423,390 to cover new and on-going capital projects. The revenue from the Penn State University impact fee, interest earnings and grants cover a portion of these costs. The transfer of \$155,175 in 2006, in addition to \$404,880 of previously designated funds will provide adequate funds for the scheduled projects without a 2007 General Fund contribution.

Parking Fund Budget

The Parking Fund Budget totals \$3,035,467. The budget reflects use of fund balance in amount \$846,199 in 2007. This is in addition to the use of \$648,538 of fund balance in 2006. Revenue, primarily from daily customers, has not met expectations in 2006 and is projected to grow only slightly in 2007. Increasing the number of monthly rentals in all facilities serves to offset a portion of that income but falls short of replacing it. A revenue enhancement proposal will be provided for consideration and implementation early in 2007.

Sanitary Sewer Fund Budget

The Sanitary Sewer Fund budget totals \$4,514,574. Seventy percent of this budget is for sewage treatment and maintenance of the interceptors and pump stations. Another 16% represents capital costs associated with maintaining an aging sewer system, increasing

capacity where the need exists and replacing equipment. Use of substantial fund balance in the past six years necessitates a rate increase in 2007. A rate increase from \$5.20 to \$5.90 per 1,000 gallons is recommended.

Refuse Fund Budget

The Refuse Fund budget totals \$3,309,158 in 2007. Revenue from service charges, grants and other fees will cover the projected costs with a budgeted use of \$51,194 of fund balance. Approximately 40% of this budget is for tipping and recycling fees at the Centre County Solid Waste Authority.

Bellaire Court Fund Budget

The Bellaire Court Fund Budget totals \$72,045 in 2007. Use of \$5,776 in fund balance is budgeted in 2007, primarily for building improvements.

Bus Terminal Fund Budget

The Bus Terminal Fund budget is balanced in amount \$16,456 in 2007. Revenue from rental income and vending commissions cover the operating costs at this facility.

Budget Review

The following budget review schedule is suggested:

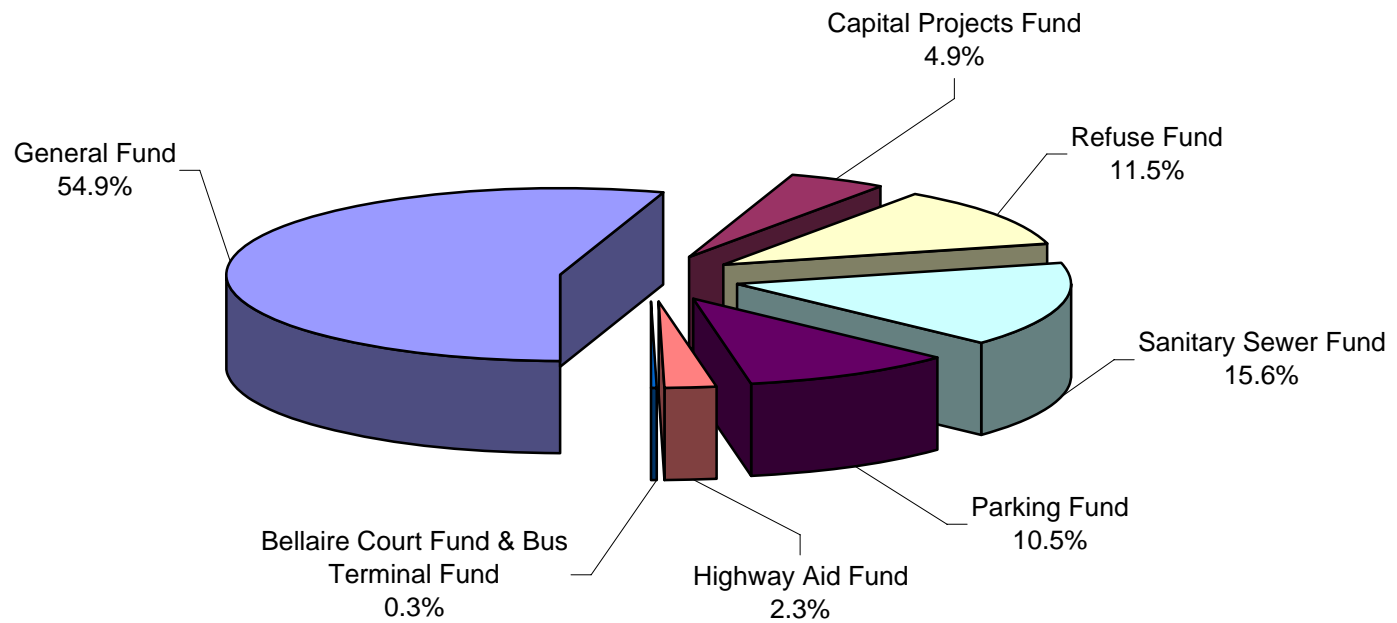
Friday	November 17	(Noon)	Work Session
Wednesday	November 29	(Noon)	Work Session
Friday	December 1	(Noon)	Work Session
Monday	December 4	(Evening)	Public Hearing
Monday	December 11	(Evening)	Work Session
Friday	December 15	(Noon)	Work Session
Monday	December 18	(Evening)	Regular Meeting – Adopt Budget

BOROUGH OF STATE COLLEGE

2007 Budget SUMMARY OF ALL FUNDS

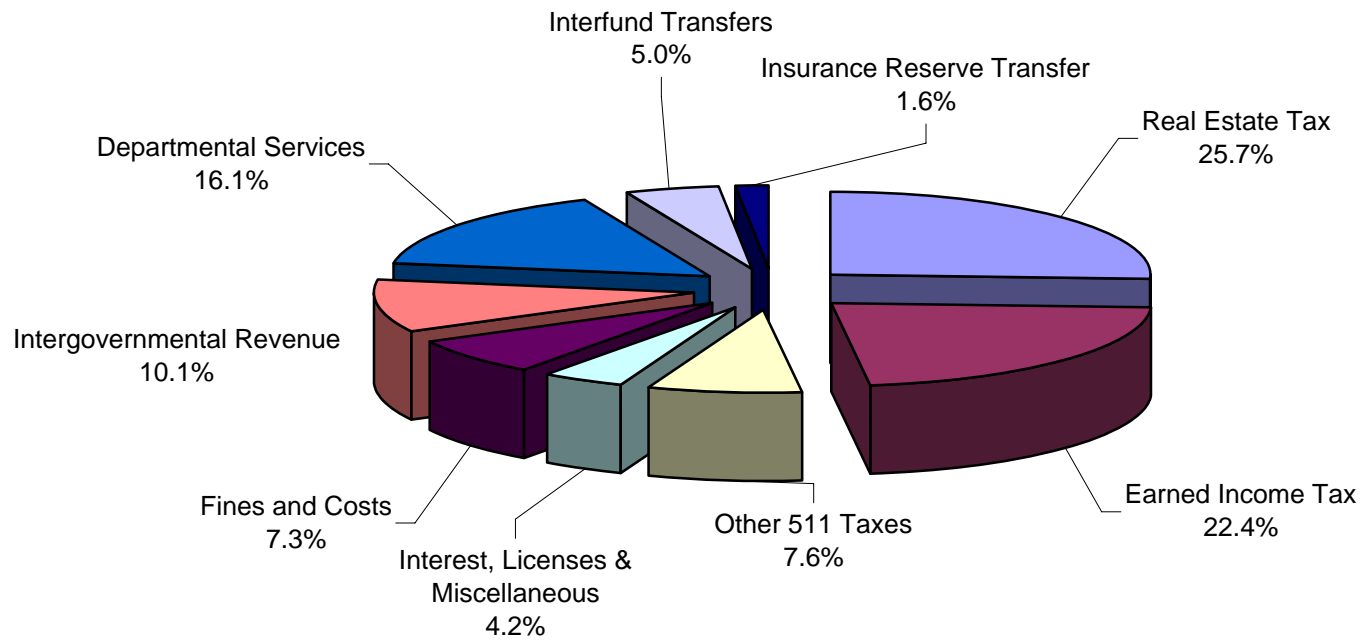
	2007	2006	Change from 2005
General Fund	\$ 15,852,099	\$ 14,858,206	\$ 993,893
Capital Projects Fund	1,417,810	1,137,440	280,370
Refuse Fund	3,309,158	2,894,193	414,965
Sanitary Sewer Fund	4,514,574	4,815,461	(300,887)
Parking Fund	3,035,467	2,861,508	173,959
Highway Aid Fund	675,294	648,831	26,463
Bellaire Court Fund	72,045	54,740	17,305
Bus Terminal Fund	16,456	15,820	636
Adjustment for Interfund Transfers	(888,660)	(836,011)	(52,649)
TOTAL ALL FUNDS	<u>\$ 28,004,243</u>	<u>\$ 26,450,188</u>	<u>\$ 1,554,055</u>

SUMMARY OF ALL FUNDS



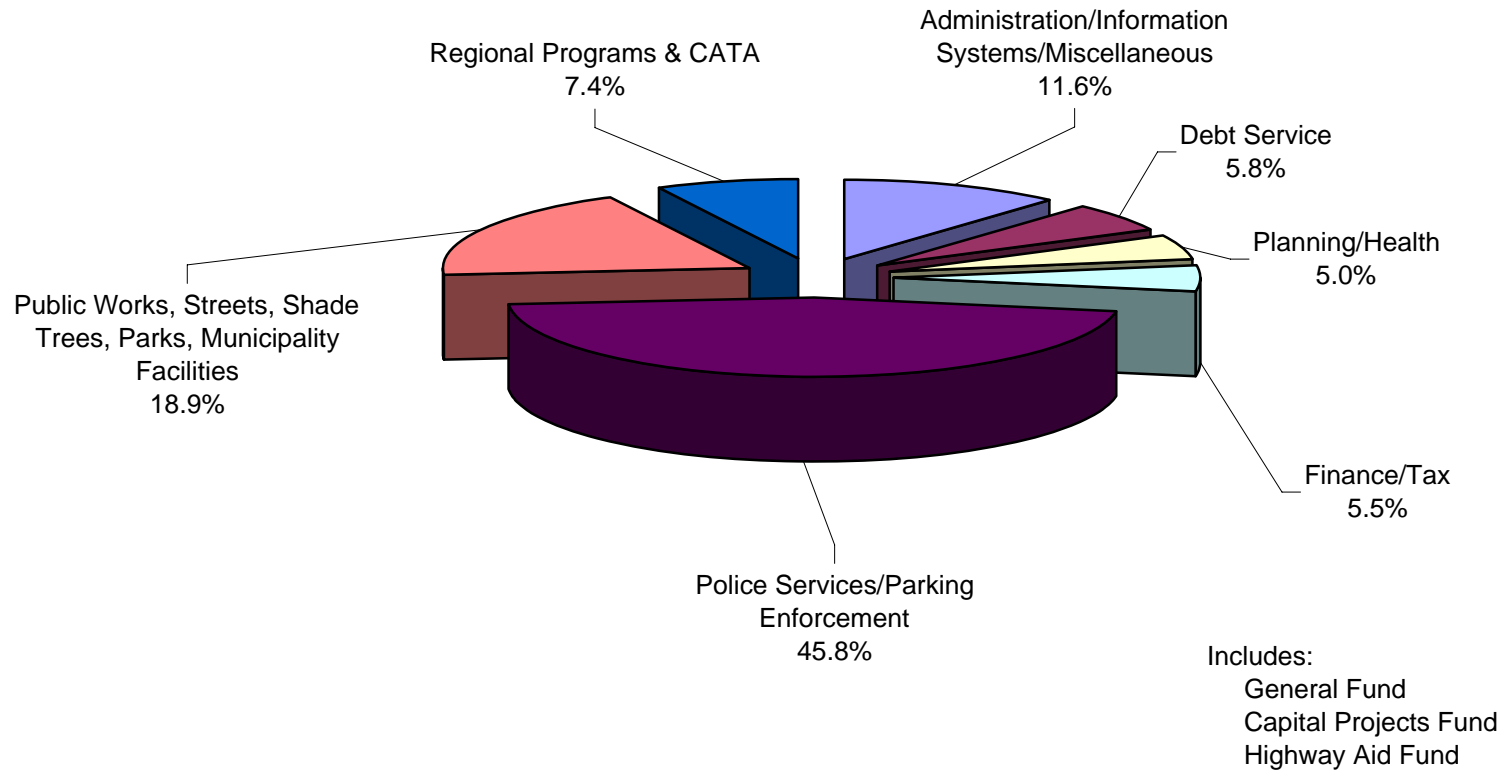
Includes:
General Fund
Capital Projects Fund
Highway Aid Fund

REVENUE



Includes:
General Fund
Capital Projects Fund
Highway Aid Fund

EXPENDITURES



ANNUAL BUDGET

Comparative Detail of Revenues

GENERAL	DEPARTMENT:		RECEIPTS			
Account	Actual Receipts 2004	Actual Receipts 2005	Budgeted Receipts 2006	Year End Estimate 2006	over/(under) budget	Budgeted Receipts 2007
BEGINNING FUND BALANCE	\$ 2,702,112	\$ 1,564,059	\$ 2,084,563	\$ 2,149,835		\$ 2,743,969
RESERVE FOR CAPITAL PROJECTS			\$ (212,844)	(278,115)		
OPERATING FUND BALANCE	\$ 2,702,112	\$ 1,564,059	\$ 1,871,719	\$ 1,871,720		\$ 2,743,969
RECEIPTS						
Real Estate Tax	\$ 2,731,950	\$ 3,460,678	\$ 4,248,000	\$ 4,217,000	\$ (31,000)	\$ 4,245,000
Earned Income Tax	3,605,730	3,635,639	3,660,000	3,665,000	5,000	3,700,000
Real Estate Transfer Tax	620,713	823,195	650,000	685,000	35,000	650,000
EMS Tax/Other 511 Taxes	170,631	1,013,695	700,000	1,085,000	385,000	600,000
Business Privilege Tax	913,693	855,482	20,000	25,000	5,000	10,000
Licenses and Permits	344,679	364,271	365,800	343,970	(21,830)	341,200
Fines and Costs	1,110,596	1,205,494	1,185,000	1,203,500	18,500	1,210,000
Interest Earnings/Rents	83,678	219,786	230,985	348,820	117,835	201,500
Intergovernmental Revenue	346,030	342,778	476,300	567,094	90,794	607,720
Departmental Services	2,094,527	2,283,946	2,614,747	2,520,860	(93,887)	2,651,225
Miscellaneous Revenue	12,605	22,357	9,140	14,087	4,947	9,180
Indirect Cost Reimbursement	764,429	765,415	765,525	790,030	24,505	820,400
Insurance Reserve Fund Transfer	-	240,050	-	-	-	256,000
TOTAL RECEIPTS:	\$ 12,799,261	\$ 15,232,786	\$ 14,925,497	\$ 15,465,361	\$ 539,864	\$ 15,302,225

ANNUAL BUDGET

Comparative Detail of Appropriations and Expenditures

GENERAL Account	DEPARTMENT:		EXPENDITURES			
	Actual Expenditure 2004	Actual Expenditure 2005	Budgeted Approp. 2006	Year End Estimate 2006	over/(under) budget	Budgeted Approp. 2007
EXPENDITURES						
Administration	\$ 785,269	\$ 763,116	\$ 820,928	\$ 816,035	(4,893)	\$ 969,341
Finance Department	469,764	491,641	508,375	497,391	(10,984)	486,172
Tax Collection	378,068	397,231	401,806	400,793	(1,013)	433,525
Information Technology	345,321	417,869	497,923	508,304	10,381	516,819
Police Department	6,050,023	6,421,211	6,971,215	6,750,933	(220,282)	7,290,943
Parking Enforcement	293,830	308,920	359,179	336,535	(22,644)	393,477
Planning/Zoning	291,100	342,802	373,445	330,238	(43,207)	413,597
Health Department	243,680	250,949	276,692	273,204	(3,488)	339,027
Public Works Administration	549,528	567,707	608,669	567,758	(40,911)	700,383
Street Division	375,457	333,369	385,868	357,190	(28,678)	420,502
Municipal Facilities	426,877	466,238	616,137	588,655	(27,482)	581,832
Shade Tree/Park Maintenance	373,102	403,896	439,327	412,797	(26,530)	467,056
Debt Service	687,950	775,380	940,165	907,700	(32,465)	980,130
Regional Programs	936,634	1,040,031	1,107,158	1,108,752	1,594	1,243,889
Miscellaneous	287,261	287,268	390,833	448,702	57,869	457,146
Transfers:Capital Projects	705,150	1,264,585	-	155,175	155,175	-
First Time Homebuyers	36,200	25,000	90,000	90,000	-	90,000
Highway Aid	95,100	89,797	70,486	42,950	(27,536)	68,260
Library Project	607,000	-	-	-	-	-
TOTAL EXPENDITURES:	\$ 13,937,314	\$ 14,647,010	\$ 14,858,206	\$ 14,593,112	\$ (265,094)	\$ 15,852,099
Add (Use) Reserve	\$ (1,138,053)	\$ 585,776	\$ 67,291	\$ 872,249		\$ (549,874)
GRAND TOTAL:	\$ 12,799,261	\$ 15,232,786	\$ 14,925,497	\$ 15,465,361	\$ (265,094)	\$ 15,302,225
ENDING FUND BALANCE	\$ 1,564,059	\$ 2,149,835	\$ 1,939,010	\$ 2,743,969		\$ 2,194,095