

Meeting Minutes
State College Borough Council
Work Session
Monday, September 12, 2005

The State College Borough Council met in a work session on Monday, September 12, 2005, in the State College Municipal Building's Council Chambers, 243 South Allen Street, State College, PA. Mr. Daubert called the meeting to order at 7:06 p.m.

Present: Thomas E. Daubert, President of Council
Catherine G. Dauler
Elizabeth A. Goreham
Craig R. Humphrey
Jeffrey R. Kern
Richard L. McCarl
James H. Meyer

Also present: Thomas J. Fountaine, II, Borough Manager; Thomas King, Chief of Police; Carl R. Hess, Planning Director; Mike Groff, Finance Director; Linda Welker, Tax Administrator; Amy R. Miller, Recording Secretary; members of the media; and other interested observers.

Public Hour. There were no comments from the public of items on the agenda.

Fire Safety Code Amendments. Mr. Fountaine said Council has been considering the fire code amendments for a few weeks. Enclosed with the agenda was an updated draft of the ordinance which should be ready for public hearing on September 19. Mr. Fountaine explained that most of the changes included adding definitions to identify items more clearly. The code proposed installing smoke detectors in each sleeping room and in common areas and allows for six months of permanent retrofitting of all rental units or the installation of battery operated within two years to comply fully with the outfitting of smoke detectors according to code. A second means of egress is required for units that occupy a third story. Inspections will be required once every three years and those units that do not receive satisfactory inspection would move in to an annual inspection schedule until the unit is inspected with three consecutive satisfactory annual inspection ratings.

Mr. Daubert feels some of the definitions are too broad; for example, the Life Safety Violations at the top of page 4. Mr. Fountaine said staff is working with the Solicitor to draft the ordinance to address some of the wordsmithing issues although content will not be changed.

Mr. Daubert added that within the ordinance there are references to the Property Maintenance Code in parentheses which means nothing because it might mean a tiny crack in the plaster or it could be something falling down and would be up to the inspector to determine the problem. If you have a lenient inspector verses a hard-nosed inspector, you will have different results. Mr. Daubert thought this should be further clarified. Ms. Dauler felt that this would not happen because the way the ordinance was written; if there are infractions it will mean more frequent inspections. The inspector will make more work for the staff so most times they will not be out to get someone for something trivial. Mr. Fountaine indicated that after this was written there was a clause added to the final version which Council will receive before the public hearing, where a property owner is allowed to appeal the finding of an unsatisfactory inspection. This would eliminate the trivial claims.

Ms. Gorehman asked what the definition was for an unsatisfactory inspection; Mr. Fountaine said an unsatisfactory inspection would be a property that has three or more life safety violations or six or more property maintenance violations. Mr. Daubert asked for references to be included for clarity; Mr. Fountaine recommended including a layman's guide prepared by Code.

Mr. Kern agreed that a layman's guide for the public was a great idea; however there is no level of consistency with Regional Code inspectors and the different property owners. Mr. Fontaine said inconsistency of inspectors occurs at all levels; but hopefully Borough Staff will work with Code officials to alleviate the problems. Unfortunately when there are different inspectors there will always be some degree of inconsistency.

Mr. Kern suggested creating a check list for the property owners that will specify what will be inspected. Mr. Fontaine said staff is developing such a list that will be more helpful than referencing the Property Maintenance Code. He also said staff will summarize the content before the public hearing and before public comment is received.

Ms. Goreham asked if there were exceptions to Section 704, Smoke Alarms. Mr. Fontaine replied Section 704 will be clarified to read more clearly; specifically connectivity is per unit, not each apartment.

2nd Quarter Financial Report. Mike Groff presented the Borough's second quarter financial report. Included with the agenda were three graphs for discussion purposes. Also included with the agenda was a memo to highlight the report. Mr. Groff began with a comparison from last years second quarter. Employer withholding was down 7.2 percent from last year which meant a decline in revenue of about \$110,000 which Mr. Groff did not feel was a problem at this time. Real estate transfer taxes were right on par with last year. Earned income tax was a bit of concern because of a decline of 7.2 percent compared with 2004. The remainder of the year will show a decline in finals and declarations and the decline in tax revenue will be more evident. Mr. Groff said the primary reason for the decline is because the school district no longer conducts the annual census the Borough used for tracking personal state income tax information not only to build tax roll, but for compliance purposes. The Borough then sent letters to residents that showed compensation on the state's list but was not reported for local purposes; which generated unhappiness with the residents mainly because the state data is always 3 years old. Mr. Groff said without the school census there is no accurate way of maintaining tax rolls.

Mr. Meyer asked if the Borough collects income tax for other townships; Mr. Groff replied the Borough collects for Halfmoon Township. However, Mr. Groff contacted other municipalities to compare figures and they too are seeing a decline in withholding about 3-4% below last years figures with the exception of Ferguson Township's increase because of an increase in population.

Mr. Groff feels it is safe to say that the number of residents employed in the Borough that are subject to withholding taxes has declined. Last year there were 166 fewer employees working at the end of the second quarter of 2004 verses the second quarter of 2003; in 2005 the trend is continuing.

Mr. Daubert asked if the list that is given to Borough residents naming the things that must be claimed is made by Borough staff; he believes the Borough does not tax enough of what is allowed to be taxed. Mr. Groff disagreed. Mr. Fontaine said he is not aware of any item that is not included, but Staff will look in to this matter further. Mr. Groff said all tax payers within the State College Area School District are treated uniformly paying the same taxes.

Next Mr. Groff discussed the EMST tax and how the tax was is a little higher because the university is cooperating with implementing the change in tax; the Borough gets 75 cents of every dollar collected at Penn State. He also stated the BPT tax is down because payments from many major construction projects have been completed.

Mr. Groff then referred to the General Fund Other Revenues comparison. Licenses and permits revenue was up slightly from last year. In addition fines and costs were up 7 percent. Interests and rents were up significantly because the Federal Reserve continues to monitor interest rates which resulted in an increase of 111 percent from last year. The intergovernmental revenue shows a decline from last year.

As mentioned in his memo, Mr. Groff stated the Borough issued refunds to College and Harris Townships totaling about \$77,000 for overpayment of police contracts in 2004. Mr. Daubert questioned if the townships have a minimum requirement for police services. Chief King responded that the townships budget a number of hours they project they will need and the actual numbers used are reconciled at the end of year as well as the Borough's overall police budget. Mr. Fontaine added that some years the townships owe the Borough and other times the Borough issues a refund.

Mr. Kern asked if the Borough is looking into a regional police force. Chief King replied the Borough has a 30 year history of partnership with the townships. If a township is in need of finances we draw from the Borough's budget and vice versa because the need is based on urgency. Consultants have tried three times to improve this contract but have not come up with anything; which explains the 30 year history. Mr. McCarl asked how many hours the \$77,000 represents. Chief King responded that last years hourly rate was \$60 an hour. Mr. Fontaine said figures are averaged over a period of a number of years just like with snow removal and that police service contracts tend to average themselves out. Mr. Meyer asked if prepayment of services could be worked in to next year's budget. Mr. Fontaine said overall the system has worked well; if staff feels refunds are happening year after year then the formulas and how costs are calculated should be reviewed.

Mr. Groff said another issue to point out is that a big chunk of departmental earnings will come in later from police services for details at Beaver Stadium.

Another item Mr. Groff pointed out was the meter revenue from on-street meters and the increase of the hourly rate from \$.75 per hour to \$1 per hour. The revenue has only gone up about 10 percent. Patronage from all on and off street facilities, with the exception of Fraser Garage, has been declining the past two years and staff continues to watch these trends.

Miscellaneous revenue has been somewhat higher because of the reimbursement from Pepper Mill for the services provided to them when their parking deck collapsed a few years ago; in addition we received a lump sum payment from back rent for the property adjacent to the municipal building.

Inter-fund transfers are less at this time from last year; reason being the Borough received a large refund last year for the eastern inner loop payment and has not made the transfer for the one time transfer coming in from the insurance reserve and asset replacement fund.

Mr. Groff concluded with the General Fund Expenditures table. Departmental expenditures are half of what was budgeted which reflects staff vacancies as well as all department directors managing and controlling their expenses. Debt service is low because the Borough will not make a payment until November. In closing, Mr. Groff does not foresee any major problems with the budget, but he is troubled by the earned income tax; which may result in rate increases as opposed to relying on the natural growth of the tax base.

Policy Issues and Priorities. Last year at Mr. Fontaine's suggestion Council developed 2-year and 5-year program/project priority lists. Results on how well Council is meeting these objectives were discussed beginning with the 2-year goals. The number one priority was to deliver a balanced budget with no planned use of reserves beginning with the 2006 budget which was achieved. The second priority was to maintain Welch Pool in the Borough; Borough staff is working with COG's Centre Region Parks as well as the School District to establish this goal. Staff believes there is no question the pool will remain in the Borough which means this goal will be achieved. The third goal was to increase the frequency of rental housing inspections; progress has been made as Council will conduct a public hearing next week on the issue. The fourth goal was to complete the UV changes in early 2005; although the project was started this project may be well over a two-year project and staff hopes to move forward quickly. The fifth

goal was to expedite the South Fraser Street development which has also been moving along. The Borough has secured funding from Hometown Streets and hopes to apply for additional funding to build the project and Staff will also meet with representatives from the Governor's office to discuss other funding opportunities. Mr. Fountaine feels that good progress has been made throughout the year on these particular goals. He then asked Council if they had any issues concerning these two-year cycles they wished to discuss; Council had no major concerns.

Ad hoc Tax Study Committee Report. Council received recommendations from the ad hoc Tax Study Committee on August 1 and discussed the recommendations on August 8. Questions raised by Council were compiled by staff and distributed on September 6. Recommendations from the Committee, staff's modifications to those recommendations, and a revised recommendation as submitted by Council member Elizabeth Goreham was attached to the agenda. A recap is below.

Recommendations from the committee include:

- Enact a Homestead Exclusion in 2006 to exclude the first \$30,000 of assessed value on owner occupied real estate;
- Repeal the Business Privilege Tax in 2006 and levy 2 mills of property tax to replace the revenue from the Business Privilege Tax;
- Freeze the Borough's Earned Income Tax Rate at the current 1.3% rate;
- Lobby the Pennsylvania legislature for meaningful tax reform aimed at changing the income tax base to personal income and authorizing a local sales tax; and
- Adopt a more aggressive approach to defend assessment appeals in the county,

As a general statement, staff concurs with the Committee's recommendation, but recommends two modifications:

- Staff recommends that the Homestead Exclusion should be explicitly linked to revenue generated by the Emergency and Municipal Service Tax, resulting in a 2006 Homestead Exclusion of \$20,000; and
- Staff recommends that Council discuss an increase in the Earned Income Tax to offset part of the lost revenue from the repealed Business Privilege Tax, resulting in an increase in the Earned Income Tax of .1% and reducing the property tax increase to 1 mill.

Ms. Goreham's proposal calls for the Borough to retain the Business Privilege Tax and dedicate \$400,000 from the tax for the following purposes:

- \$200,000 would go to the following activities:
 - Reimbursement of business start-up or business expansion costs
 - Recruitment of targeted businesses
 - Marketing assistance/Market Research
- \$200,000 would go to the following activities:
 - Subsidy for public transportation
 - Parking subsidies for employees
 - Market Research

A public hearing has been scheduled for September 19; however Mr. Fountaine believes October 3 was a more realistic date for the hearing.

Ms. Goreham began explaining her proposal and asked Council to have an open mind and remember everyone wants a healthy downtown. She thought there was a way to redistribute the tax and could provide for a healthy business community. Businesses downtown pay within 3 and 5 mils a year for their membership in the Downtown Improvement District (DID) membership and Ms. Goreham does not believe another mil or mil and a half would be too much to ask. Ms.

Goreham also proposed to offer businesses deeply discounted parking rates in the garages because parking is always at the top of everyone's list of problems. The business privilege tax has been used to recruit development outside the municipality; realtors have used this to deter people from residing in the Borough. The perception would change and there would be two different taxpayers: businesses and rental housing owners. The Borough could double property tax over the next few years. Ms. Goreham explained how the Borough could subsidize a public shuttle that would go to the outlying hotels and bring people in to town as well as shuttling employees to outlying parking areas.

Mr. Daubert asked how the shuttle would be funded. Ms. Goreham said by raising the business privilege tax by 1 mil; the Borough would be much more proactive in support of the downtown businesses.

Mr. Meyer said Ms. Goreham was suggesting a new tax program of 1 mil but at the same time cannot have the homestead exemption kick in so the residents will not realize their \$435,000 based on the \$30,000 exemption real estate tax reduction. In addition by raising the real estate taxes 1 mil, the residents will lose that \$400,000 plus adding another \$200,000 plus because residents pay real estate taxes. Mr. Meyer concluded that in reality residents would pay \$600,000 plus for the privilege of having the government finance a program where they determine how the money is funneled.

Mr. Kern said the committee's recommendation was to tie the taxes together. He also stated as a business owner he would not vote for a double tax. If the Borough does not eliminate the business privilege tax and then raises property taxes, taxes would double which is sure to drive business out of the downtown.

Ms. Goreham said businesses pay 3-5 mil to the DID and questioned why this tax did not drive business out of the downtown.

Mr. Kern explained a letter that Council received from a property owner in downtown. Mr. Herlocker sent Council a letter because he was negotiating with a tenant. The tenant was not a tenant with a small business or student oriented business but with a tenant that was regional in scope. The tenant knew not to relocate in the Borough because of the business privilege tax. Mr. Kern also stated that there is a straight line property tax based on increased revenues and increased expenditures. The Borough must still add a mil of tax a year to cover the shortfall regardless of the BPT.

Ms. Goreham said the Borough needs to curb its spending habits. Mr. Meyer said Ms. Goreham will increase the spending habits by implementing a new program such as the one proposed which would cost \$400,000.

Mr. Daubert said there should be a proposal to read at the public hearing to know all options available. For example, does Council feel the homestead exclusion should be cut from \$30,000 to \$20,000, and if so, state it in a proposal as the public does not understand mils. Mr. Fountaine said the tax study committee thought it more appropriate to show property owners where numbers fall out based on market values of their home; with the assumption people have a general idea of the market value of their home.

Mr. Humphrey said if there is no increase in wage taxes then the increase in taxes will go to real estate; which goes against the interest of citizens. Mr. McCarl remembers citizens telling him the Borough is not getting enough tax out of rental units. Mr. Meyer said by doing the homestead exemption and raising property taxes and not raising income tax then the tax is passed on to the businesses who do not have the exemption.

Mr. Kern distributed a spread sheet for Council's review from a survey his staff conducted to ask renters what they pay on tax. The going rate per student rental is approximately \$1.40 per

square foot which is about \$450 per month per student. Gross income only generates roughly \$3,000 in BPT. The same property generates about \$17,000 in property tax which is roughly \$5 per inhabitant per month. If the Borough drops the BPT the owner would drop the \$3,000 but if property taxes were raised costs would go up to roughly \$23,000, an increased total tax on that property about \$3,500. Some of the property tax would be transferred from owner occupied residential to the commercial residential while eliminating the BPT. The commercial residential costs the Borough more in terms of services such as police calls, ordinance enforcement, etc. The tax committee proposal is a way of moving the tax around.

Mr. Meyer said he has talked to apartment owners on a smaller scale such as home rentals; those owners pay very little in BPT but if real estate taxes are raised they will pay more taxes than what they pay through BPT.

Ms. Goreham said residents will not like paying additional real estate taxes. She feels the BPT is a fair tax on businesses; when the businesses do well they pay more tax.

Mr. McCarl said he remembers the BPT as the most hated tax by business owners and should be disposed of. The BPT is not a fair tax on total income. Continuing the BPT will not make up the needed amount of money.

Mr. Daubert asked staff for relative collection costs for next weeks discussion. He also suggested Council deal with the homestead exemption and repeal the BPT. Not doing anything with earned income tax but still lobby for tax reform. He added that this is an important part of the whole review process. The fundamental purpose of a public hearing is to get comments; after listening to comments Council will vote October 3.

Mr. Kern said he received a letter from a long term regional tenant stating that given his high level of gross income his business earns, relocating to the Borough would deter him because of the BPT.

Mr. Groff corrected some numbers that were referenced. The Borough budgeted \$875,000 in 2005 for BPT revenue and by the year-end collection the Borough will probably earn \$900,000 in revenue this year. Based on the court cases on the non-residency issue, staff estimates that there is about \$205,000 at risk annually.

2006-2010 Capital Improvement Program. Council received the 2006-2010 Capital Improvement Program. The following schedule is suggested to complete the review.

September 23	Parking, Sanitary Sewer, and Parks
September 30	Streets, Storm Water, and Other Projects
October 3	Public Hearing
October 10	Final Review
October 17	Approval

Items of Information. Mr. Daubert said the CBICC special luncheon with President Spanier is coming up; any Council members wishing to attend should get registered. Mr. Fountaine confirmed which council Members would attend the National League of Cities conference in December; Mr. Humphrey; Mr. Daubert; Ms. Goreham plan to attend. Mr. Kern will decide within the next few weeks if he will attend.

There being no further business the meeting adjourned at 9:24 pm

Respectfully Submitted by:

Cynthia S. Hanscom

Assistant Borough Secretary