

2016

Financial Trend Monitoring



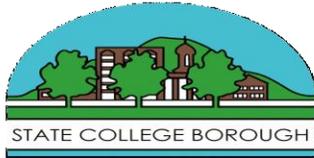
STATE COLLEGE BOROUGH

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Borough of State College
July 18, 2016

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Trend Monitoring Dashboard



FINANCIAL TREND MONITORING DASHBOARD
Years 2005-2015

FINANCIAL MEASURE	TREND
COMMUNITY DEMOGRAPHICS	
Age Cohorts	18-24 Group growth from 65% to 71% (2000-2010)
Population Growth	Slower than Centre Region Average (1970-2010)
Number of Family Households	Declining while adjacent municipalities experience growth
Per Capita Income	Rate of growth lags behind the Centre Region Average
Median Household Income	Lowest among Centre Region Municipalities
REVENUES	
Real Estate Taxable Assessed Value	Average annual growth of less than 1%
Real Estate Taxes	Revenue growth through rate increases
Earned Income Taxes	Average annual growth of 1.5%
Local Services Taxes	Average annual growth of 1.8%
Real Estate Transfer Tax	Varies based on sales of property (\$625,536 - \$1,093,844)
EXPENDITURES	
General Fund Expenditures	Average annual growth of 7.4%
Salaries & Wages	Average annual growth of 4.67%
Employee Benefits	Average annual growth of 12.5%
Structurally Balanced Budget	Budgeted Deficits 9 of the last 10 years
General Fund Operating Performance	Deficits during 4 of last 6 years
DEBT MANAGEMENT	
Annual Debt Service as Percent of Revenue	Declining (Actual = 4.47% , Policy = 10%)
Outstanding Governmental-Type Debt	\$17.2 million compared with Unit Debt Act limit of \$83.7 million
Unassigned Fund Balance	Growth to maintain a 12% reserve by policy

Executive Summary

State College is located in Centre County in central Pennsylvania and is home to The Pennsylvania State University. According to US Census 2014 estimates, Centre County's total population was 158,742, while the Borough's population was 42,100, of which almost 30,000 are under the age of 25. In 2013, per capita income for Centre County was \$25,545 and \$15,257 in the Borough of State College. Median family income for Centre County was \$70,654 while the median family income in the Borough was \$68,160.00 making it the lowest of the major municipalities in the Centre Region. Commercial and residential development opportunities in the townships surrounding the Borough has contributed to affluent households moving out of the Borough and encouraged population growth in the outlying townships.

Like most urban core communities in Pennsylvania, the Borough of State College possesses a limited number of options for generating revenue. The major sources of revenue for funding general governmental operations include; Real Estate taxes, Earned Income taxes, Local Services taxes, and Realty Transfer taxes. The last real estate re-assessment in Centre County took place in 1995 and uses a Common Level Ratio of 50%. As the Borough is land-locked by the townships surrounding it, the opportunities for development are limited which has caused stagnation in Real Estate Assessed Values. In addition, 41.5% of the assessed value in the Borough represents tax exempt property. An additional 6% is exempt from tax under the Borough's Homestead Exclusion. With the flight of affluent income-generating households to the outlying townships, Earned Income Tax revenues have also stagnated. Realty transfer taxes are unpredictable as they rely on property sales.

General Operating Expenses generally increase at or slightly above inflation while there has been significant increases in the cost of employee benefits due to growing pension obligations and health care cost increases. Personnel costs represent 69% of the General Fund Expenditures. In four of the most recent six years, the Borough has used one-time sources of revenue including bond refunding savings and fund balance to balance the General Fund Budget. The General Fund Operating Performance chart measures the Excess (Deficiency) of Revenues over Expenditures before Other Financing Sources and reports deficits in four of the last six years. The average deficit was \$642,148.

Urban core communities like State College are faced with only a few options in order to build long-term sustainability. Given the current taxing structure, the Borough's only controllable revenue generating opportunity is real estate tax rate changes because of the lack of developable land and stagnating assessed values. The flight of affluent income-generating households diminishes any opportunities to grow Earned Income Taxes. Because the majority of General Fund expenditures are related to personnel, reductions in staff would be required to make meaningful reductions in expenditures. Corresponding reductions in service to citizens would be required in order to achieve the cost savings.

Municipalities like the Borough of State College need flexibility in creating revenue opportunities in their communities. Legislative changes are required in Pennsylvania in order to provide municipalities with the needed revenue-generating opportunities.

Community Demographics

This section of the trend analysis explores the changes in community make-up through age composition, overall population, and income statistics. The data is derived from the 2010 and 2012 US Census and subsequent US Census estimates.

The data indicates that the population of the Borough continues to shift younger. The 18-24 age cohorts grew from 65% of the population in 2000 to 71% in 2010. All other cohorts reflect a corresponding reduction with no significant shift among them as a percent of the total population.

The Centre Region population grew from 53,795 in 1970 to 92,096 in 2010 representing growth of \$38,301 or 71.2%. During the same period, the population of the Borough grew from 33,778 to 42,034 representing growth of 8,256 or only 24.4%. Ferguson, Patton, and Halfmoon Townships grew the most at 167.5%, 242.7%, and 391.2% respectively.

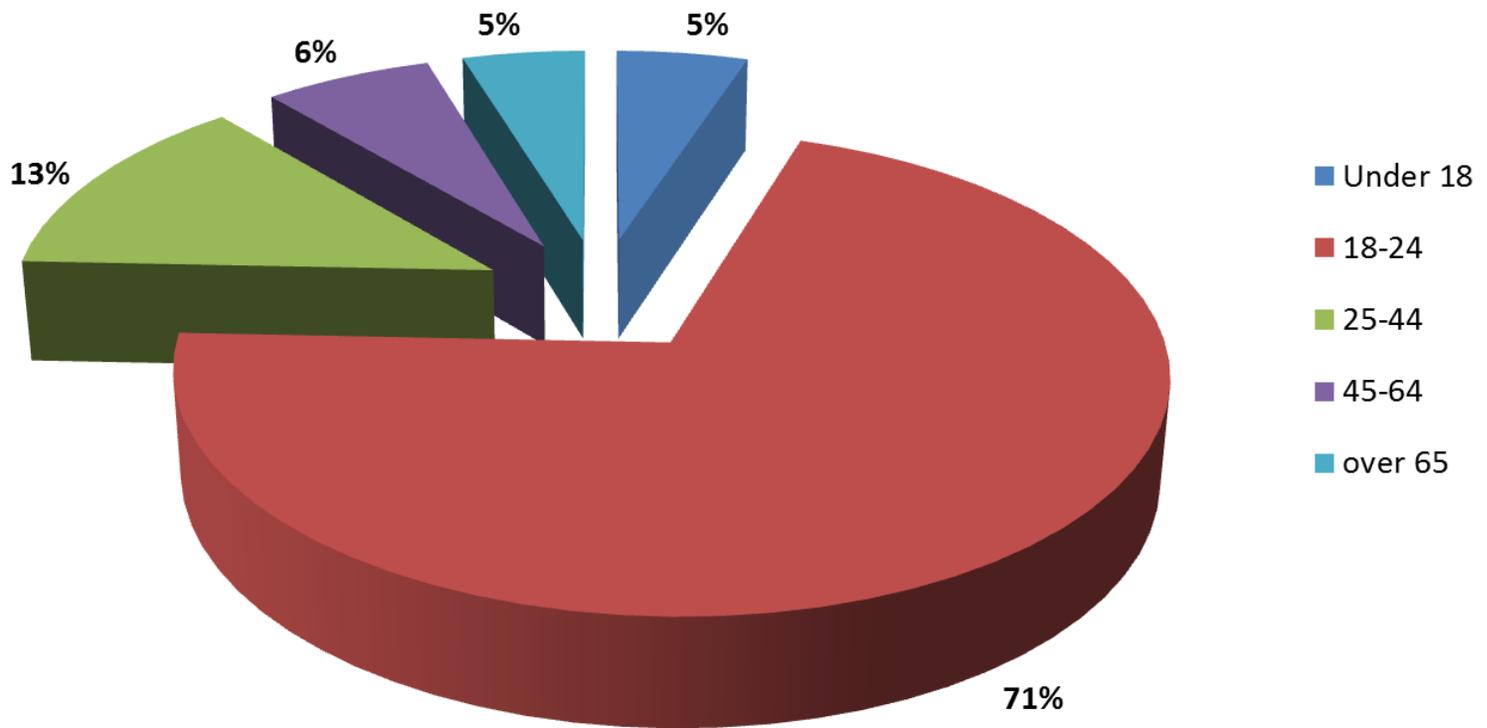
During the period from 1970 through 2010, the number of family households dropped from 4,412 to 3,026, representing a decline of 31.4%. During that same period, family households in contiguous townships grew by 6,416 or 123.8% suggesting a shift from the Borough to other Centre Region municipalities.

While the total population grew in the Borough from 1970 to 2010, there was a marked change in the types of households. Total households increased by 586 or 59.5%, while family households declined by 227 or 31.4%. This trend indicates that families are moving from the Borough to the outlying communities.

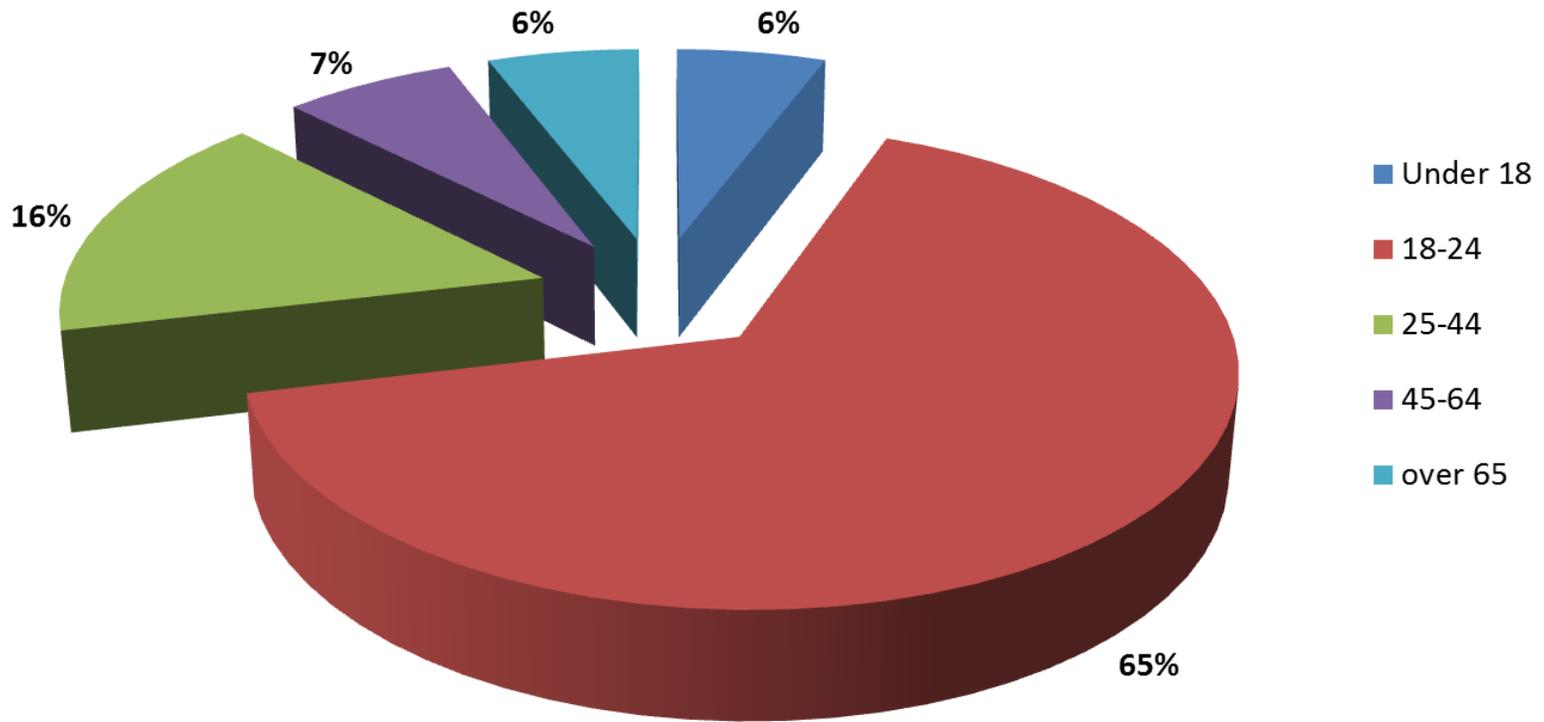
The trend in per capita income indicates a similar shift in income-producing individuals. The per capita income has grown at substantially higher rate in the townships as compared with the Borough. From 1990 to 2013, the per capita income in the Centre Region grew by 115.5%, while the per capita income in the Borough grew by only 75.5%. Median Household Income during the same period grew by 93.2% in the Centre Region and only grew by 42.4% in the Borough.

The demographic trends suggest that families and more affluent residents of the Centre Region are choosing to live outside the Borough. The trends also suggest that the Centre Region population and income growth is also taking place in the outlying communities of the Borough.

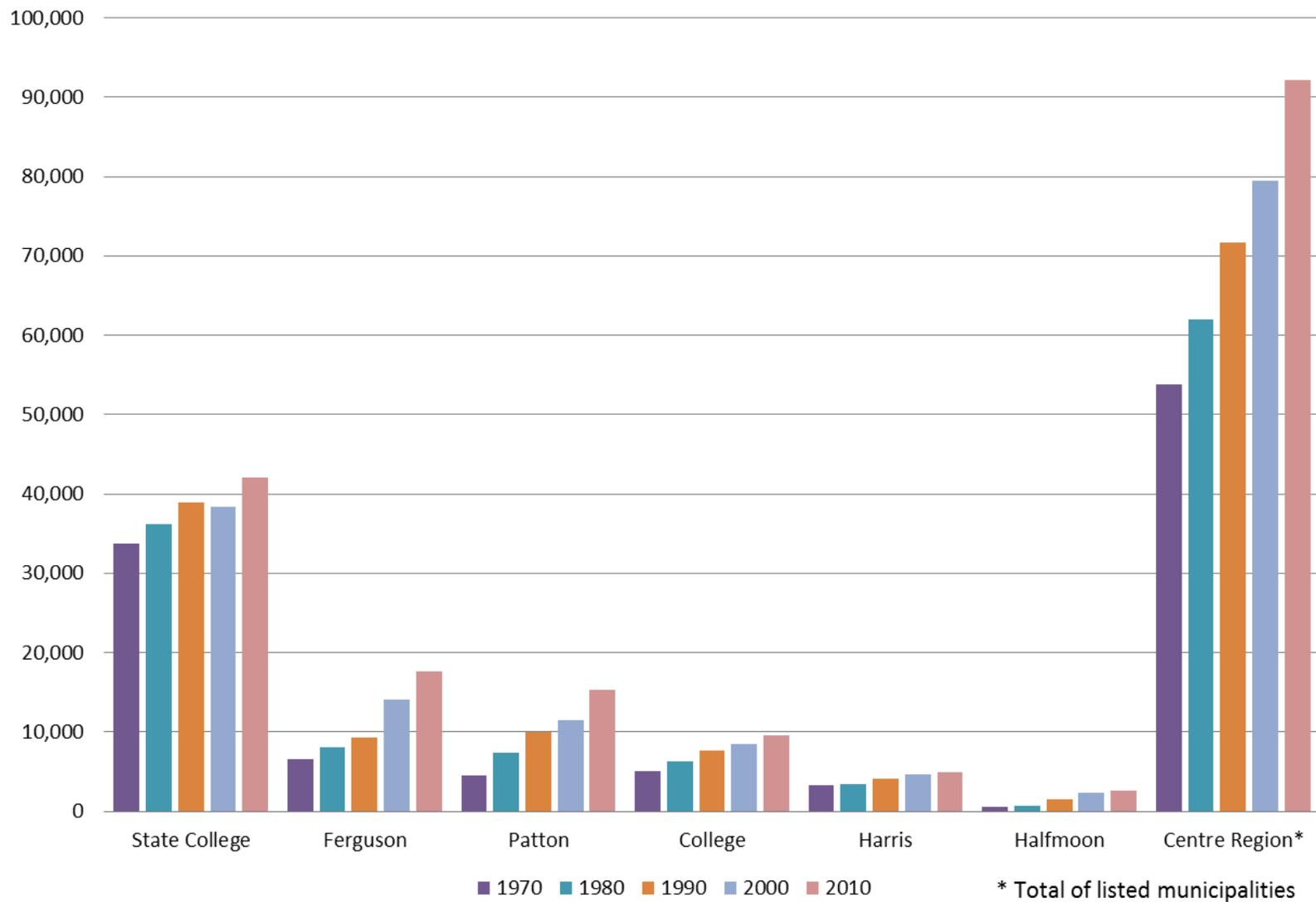
**Borough of State College
Age Cohorts
(2010 Census)**



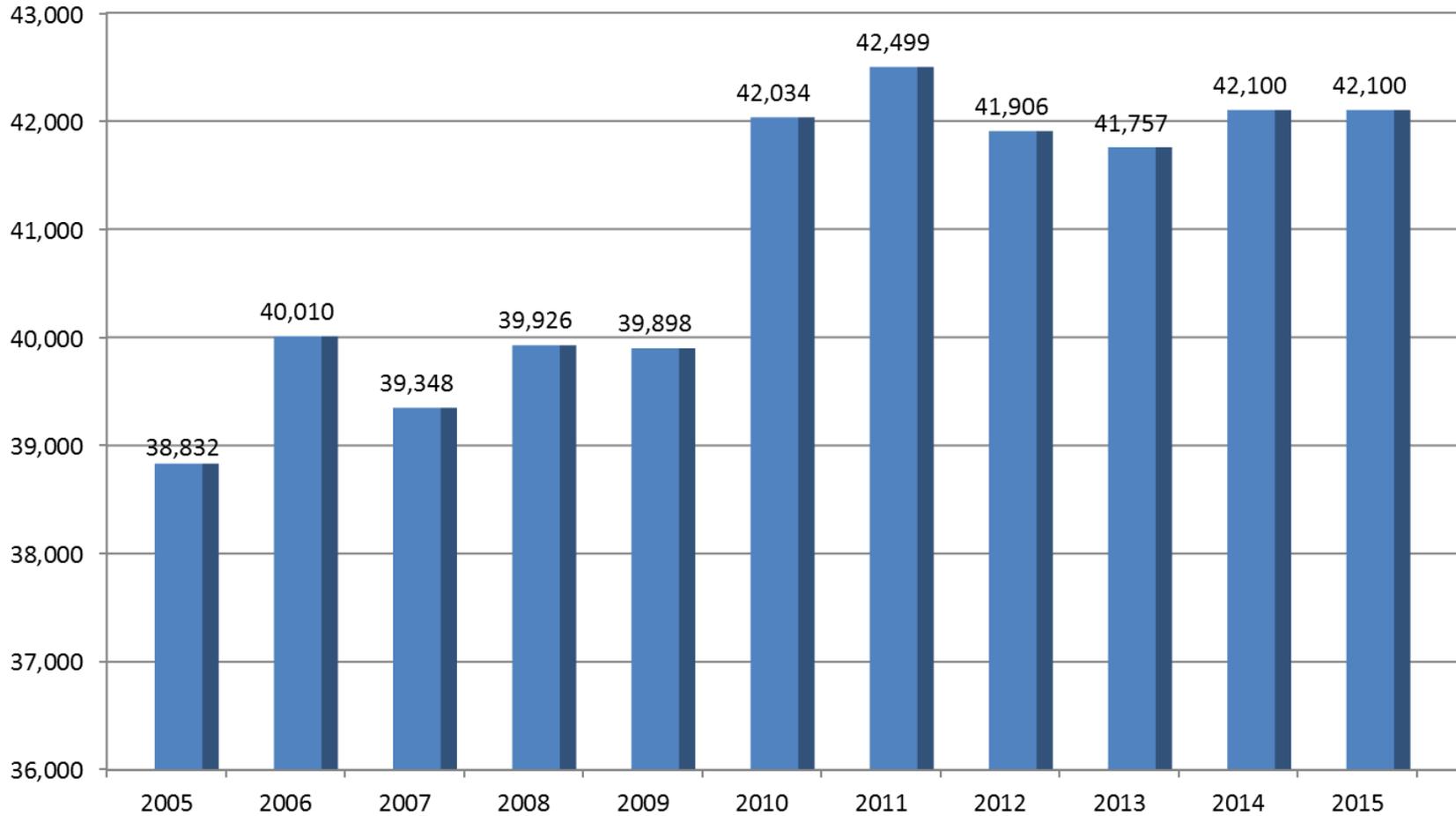
**Borough of State College
Age Cohorts
(2000 Census)**



Population of Centre Region Municipalities 1970-2010



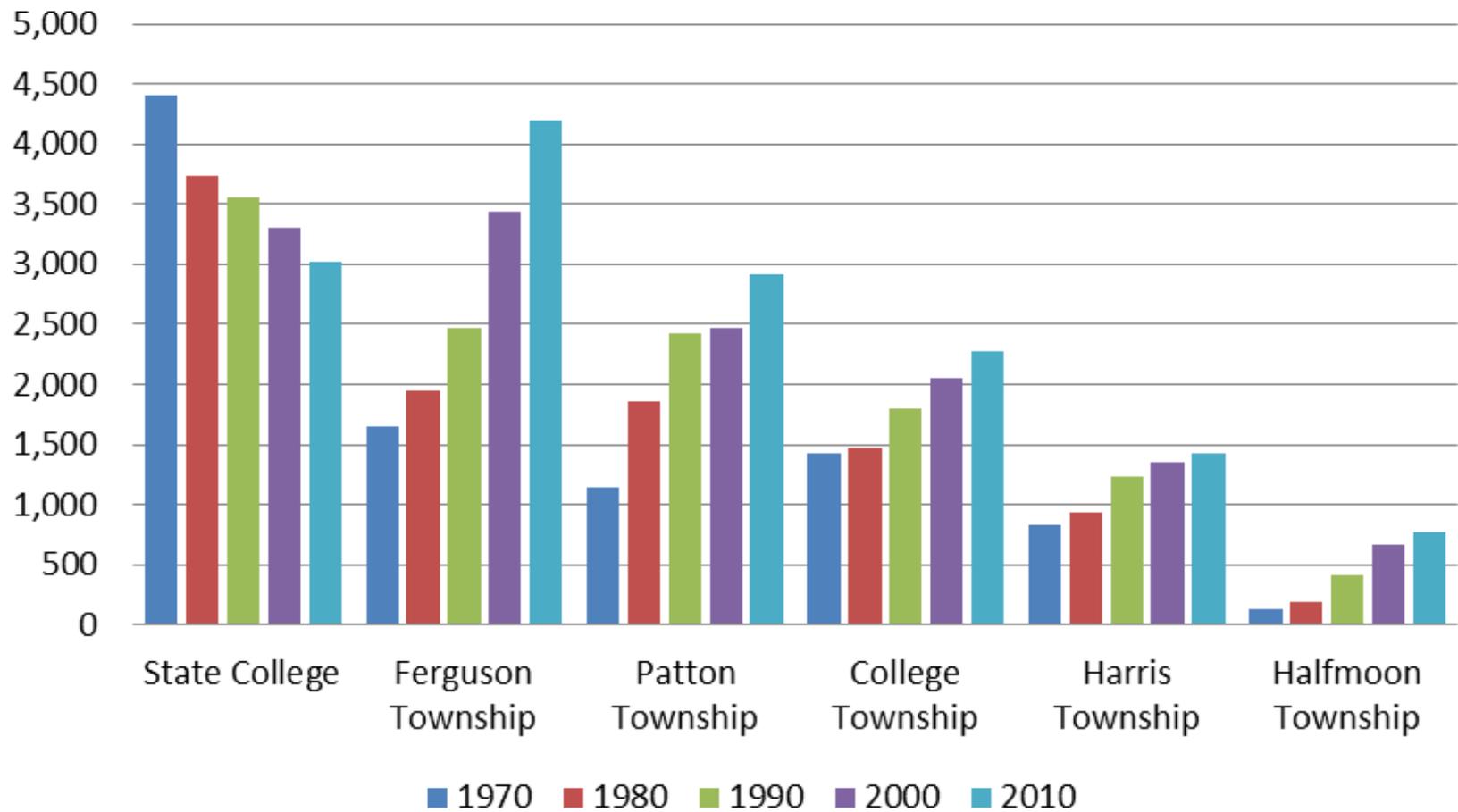
State College Borough Population



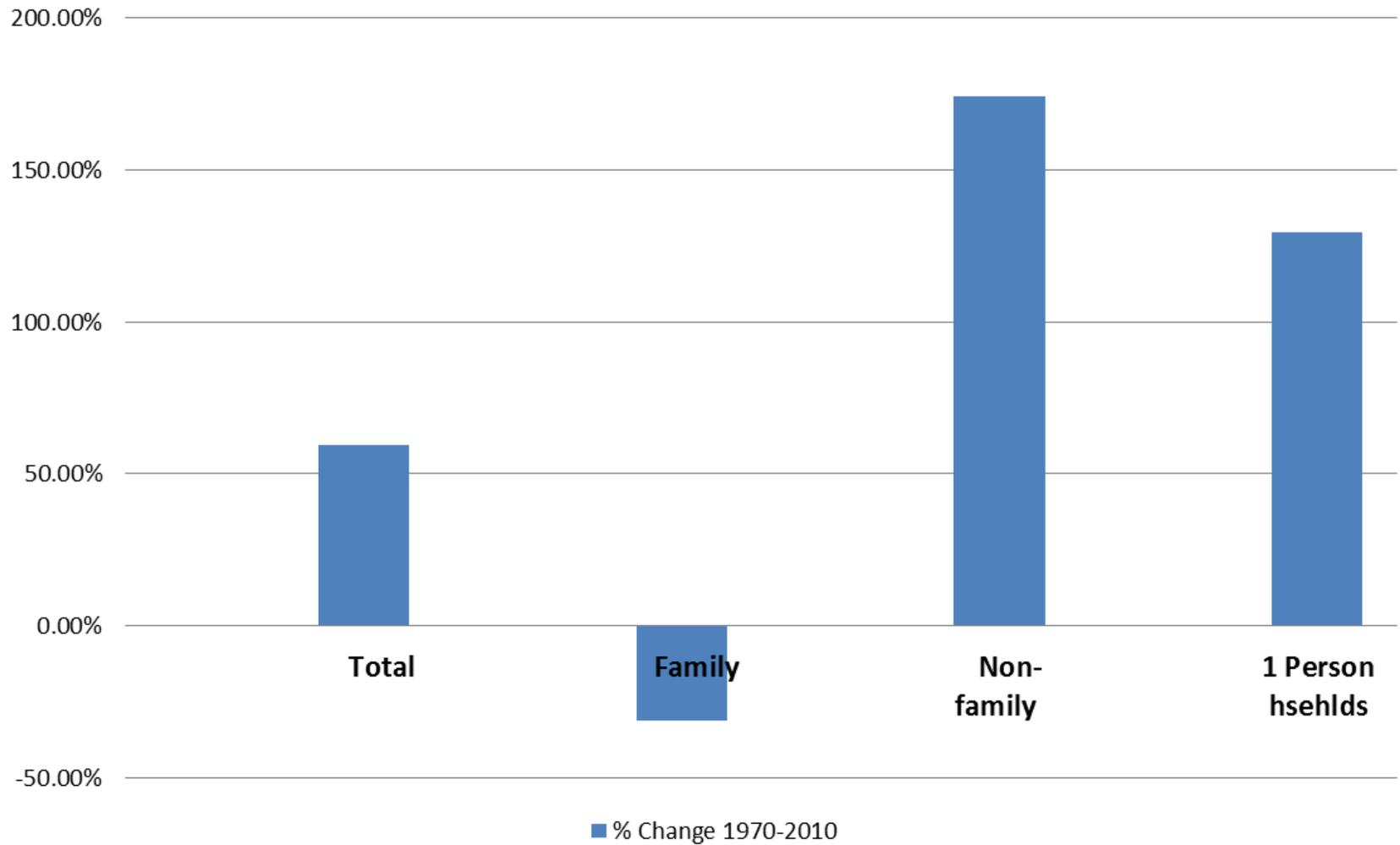
Source: US Department of Commerce Census Bureau

Note: Includes Students Residing on Campus

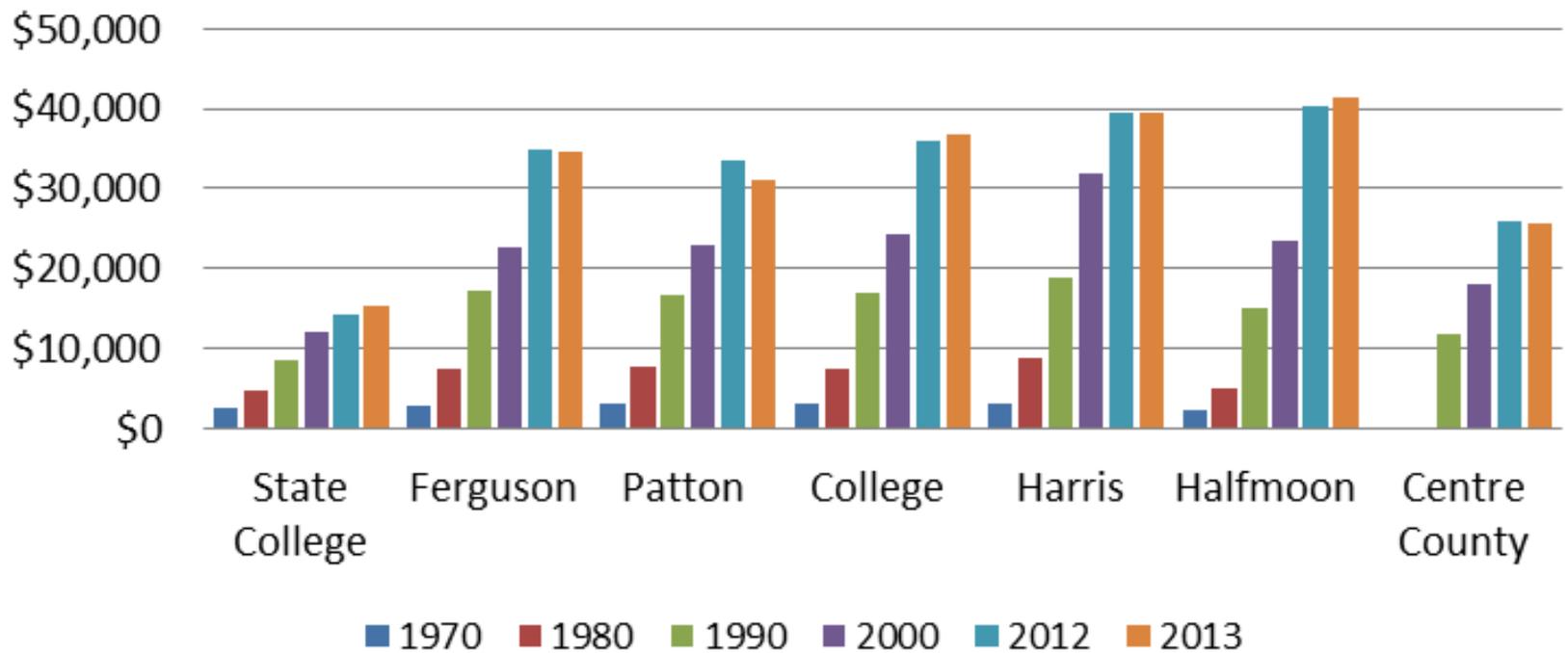
Number of Family Households in Centre Region Municipalities 1970-2010



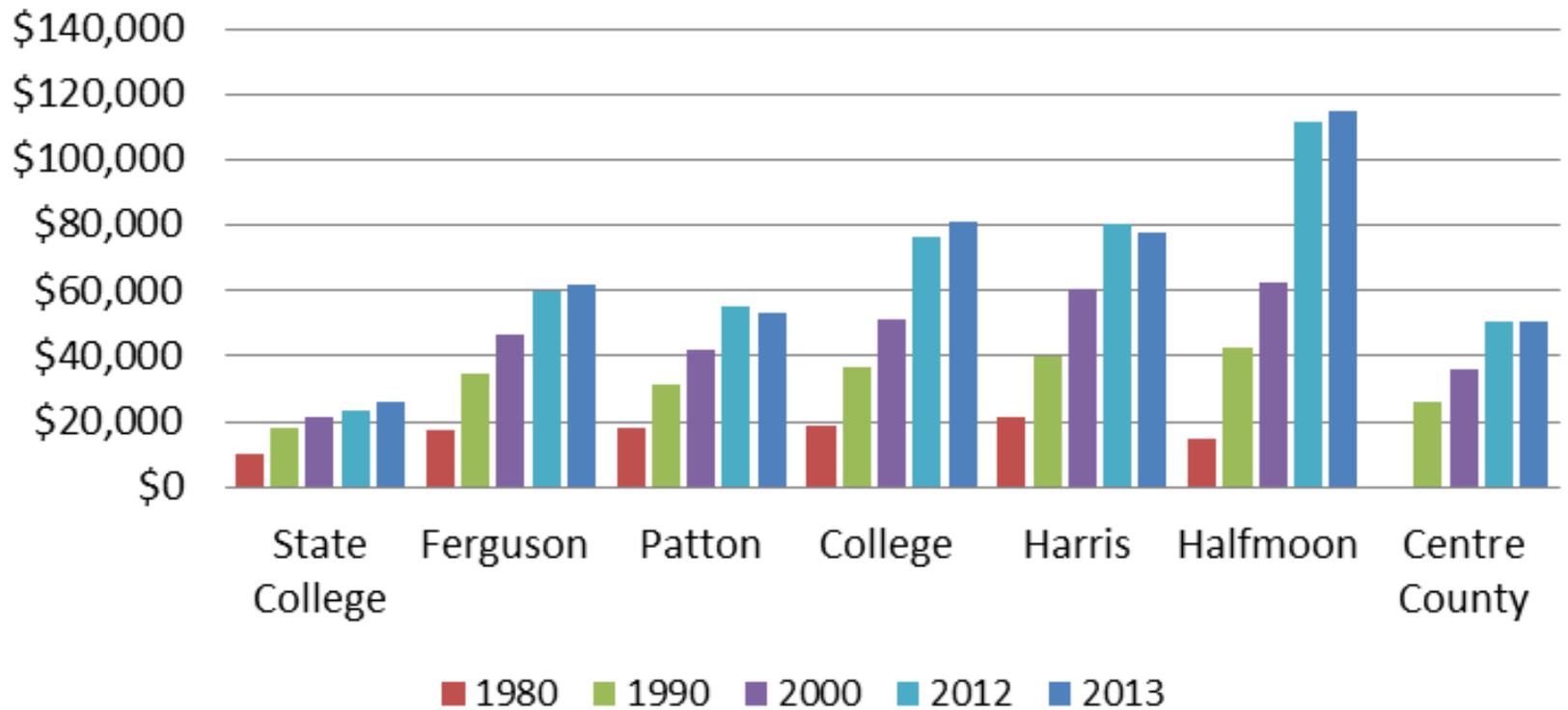
Change in Household Type in State College 1970-2010



Per Capita income in Centre Region Municipalities 1970-2013



Median Household Income in Centre Region Municipalities 1980-2013



Revenue Trends

The Borough General Fund revenue primarily consists of Real Estate Taxes, Earned Income Taxes, Local Services Taxes, Realty Transfer Taxes, and Fees for Public Services to other municipalities.

Total General Fund Revenue grew from \$14.5 million in 2005 to \$23.2 million in 2015. When adjusted for inflation, the 2015 revenue was \$18.2 million or an increase of 25.5% over the ten-year period. The inflation-adjusted per capita General Fund revenue grew from \$373 in 2005 to \$433 in 2015 or 16%.

Real Estate Taxes represent 27.6% of the General Fund Revenue and are based on the Assessed Value as determined by Centre County. The Assessed Value is 50% of the 1995 market value, also known as the “base year.” The tax rate for the Borough as of 2016 is 16.4 mills. The Borough also allows a Homestead Exclusion of up to \$25,000 for owner-occupied properties. Over the period from 2005 to 2015, the taxable assessed value declined from \$486.02 million to \$454.6 million. In conjunction with the elimination of the Business Privilege Tax and a significant Real Estate tax increase, the Homestead Exclusion was implemented in 2006 which accounts for the entire decline.

From 2006 to 2015, the taxable Assessed Value increased from \$428.13 million to \$454.6 million representing an increase of 6.2% over the nine years or an annual average increase of only 0.69%. The annual average inflation rate from 2006 through 2015 was 1.98%. Tax exempt properties represent 41.5% of the total Assessed Value. After accounting for the implementation of the Homestead Exclusion, the Borough’s Taxable Assessed Value has remained relatively stagnant as compared with other Centre Region Municipalities. The Taxable Assessed Value in Ferguson Township has surpassed that of the Borough while both College and Patton Townships have grown to nearly equal levels with the Borough. The stagnation of the Taxable Assessed Value in the Borough prohibits natural growth in revenue.

Borough Real Estate Tax Revenue grew from \$3,460,678 in 2005 to \$6,402,262 in 2015. The largest increases took place in 2015 when the rate increased from 11.04 mills to 14.4 mills. When adjusted for inflation, tax revenue grew from \$3.46 million in 2005 to \$5.03 million in 2015 representing an increase of 45.4% or an inflation-adjusted annual average of 4.54%.

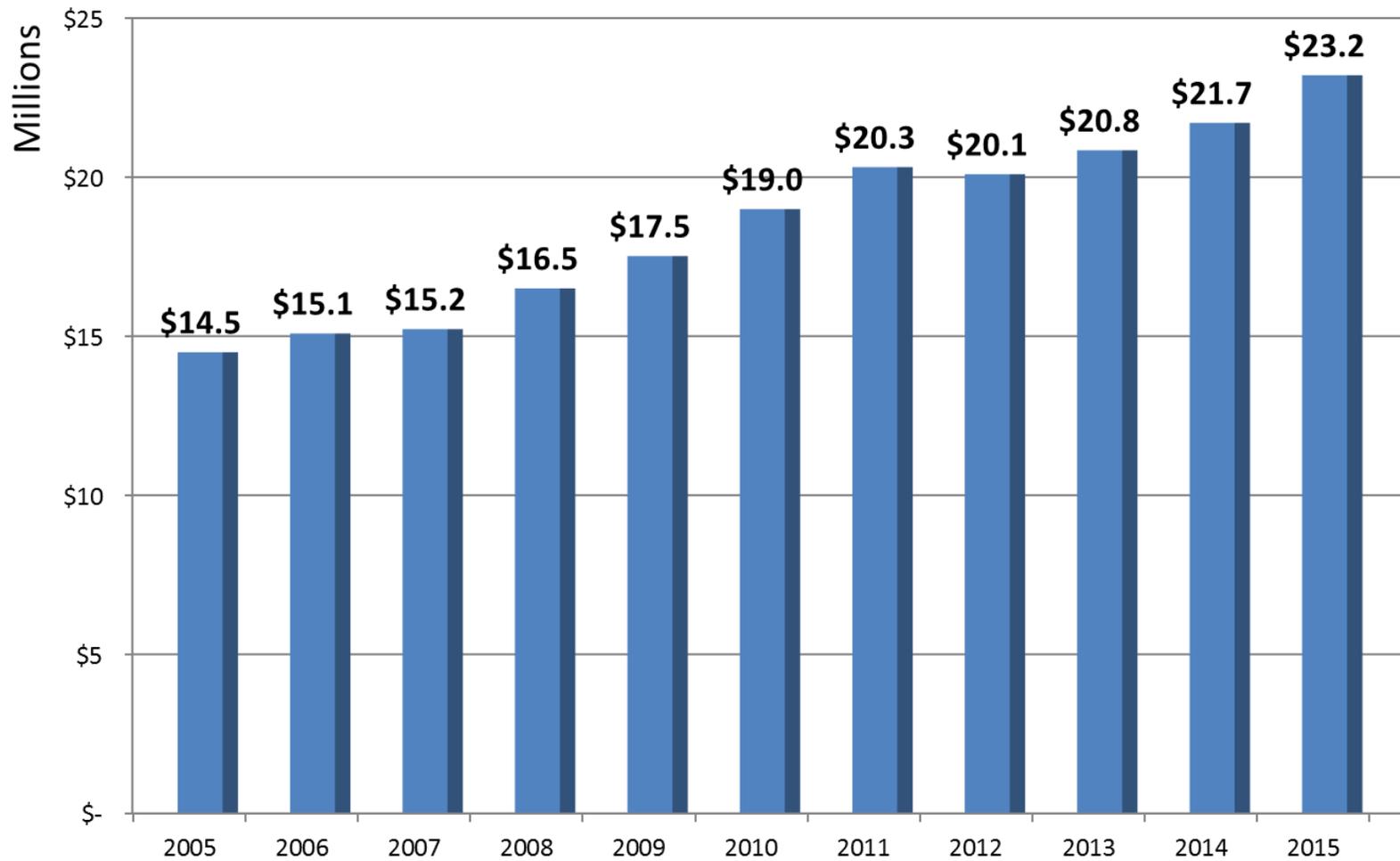
Earned Income Tax made up 16.9% of General Fund Revenue in 2015. EIT revenue grew from \$3.64 million in 2005 to \$3.92 million in 2015. In 2015, Penn State University changed from monthly tax deposits to quarterly deposits creating a decline in recognized revenue of \$0.56 million because of the timing difference. After adjusting for inflation, EIT revenue declined from \$3.64 million in 2005 to \$3.08 million in 2015, which shows that EIT revenue did not keep pace with inflation. On a per capita basis, EIT revenue remained relatively stagnant from \$93.62 in 2005 to \$93.17 in 2015. After adjusting for inflation, the per capita revenue in

2015 declined to \$73.26. The combination of population growth and inflation adjustments compounds the decline in adjusted dollars.

The Local Services Tax, once known as the Occupational Privilege Tax represented 4.1% of the General Fund Revenue in 2015. The Local Services Tax is a fixed annual tax of \$52, of which \$47 remains with the local municipality. Citizens with an annual income of less than \$12,000 are exempt from the tax. OPT/LST revenue has remained relatively flat from 2005 through 2015. The change from monthly to quarterly filing by Penn State University caused a timing difference that resulted in a lower revenue recognition in 2015. The LST tax revenue recognized in 2014 was \$1.44 and \$0.94 million in 2015. The average of the two years is consistent with the trend. The increase from \$10 to \$52 annually was imposed in 2005.

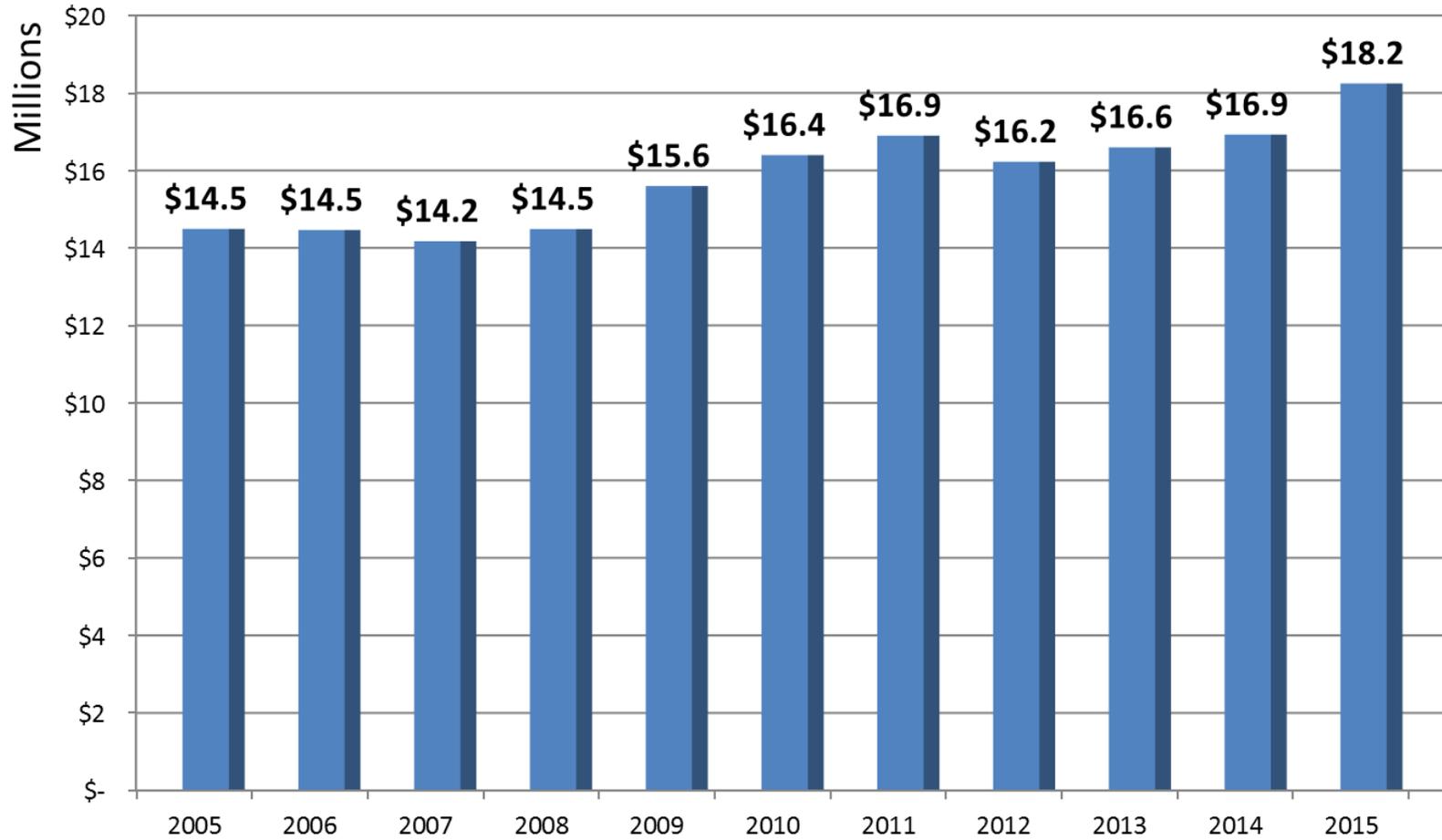
The Realty Transfer Tax represents another revenue source for the General Fund. The Realty Transfer was 1.25% of the sales price of the property until 2015, when it was increased to 1.5%. The 2015 increase was dedicated to covering the expenses of the State College Borough Redevelopment Authority. Because the Realty Transfer Tax is only collected on sales, it fluctuates annually and does not provide a consistent source of revenue.

General Fund Revenue



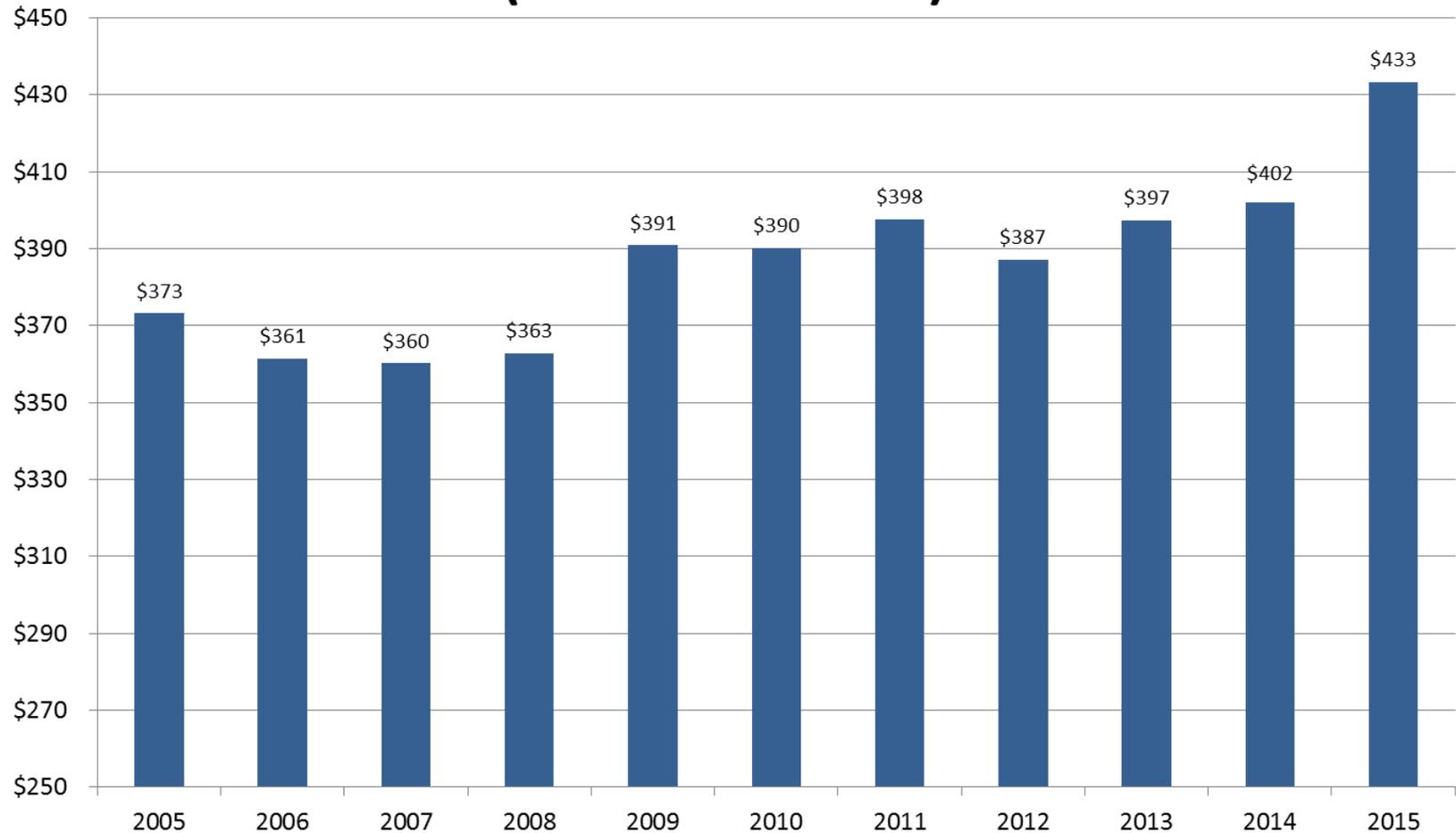
Source: State College Borough Annual Financial Reports

General Fund Revenue (constant dollars)



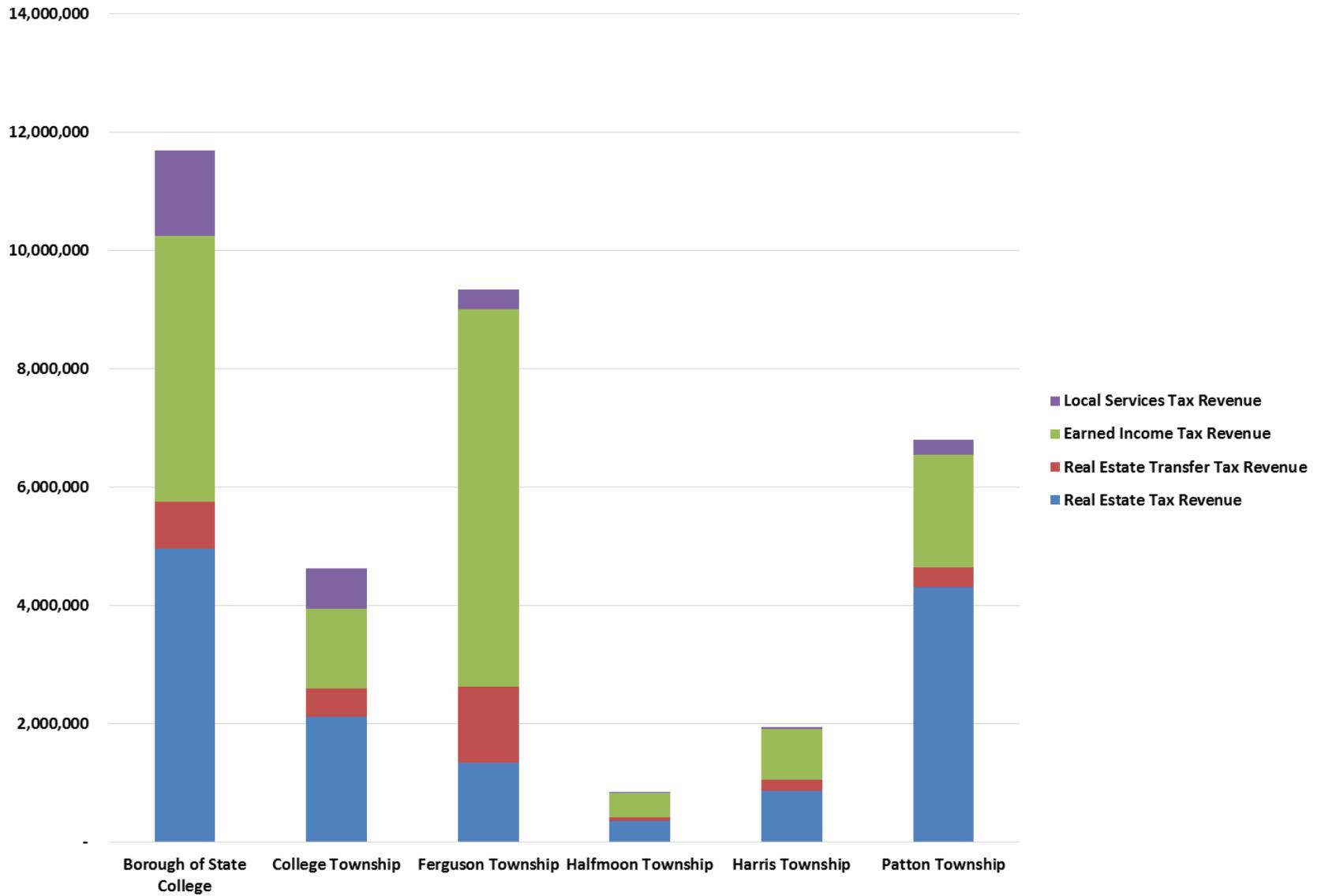
Source: State College Borough Annual Financial Reports, adjusted using Municipal Cost Index

General Fund Revenue per capita (constant dollars)

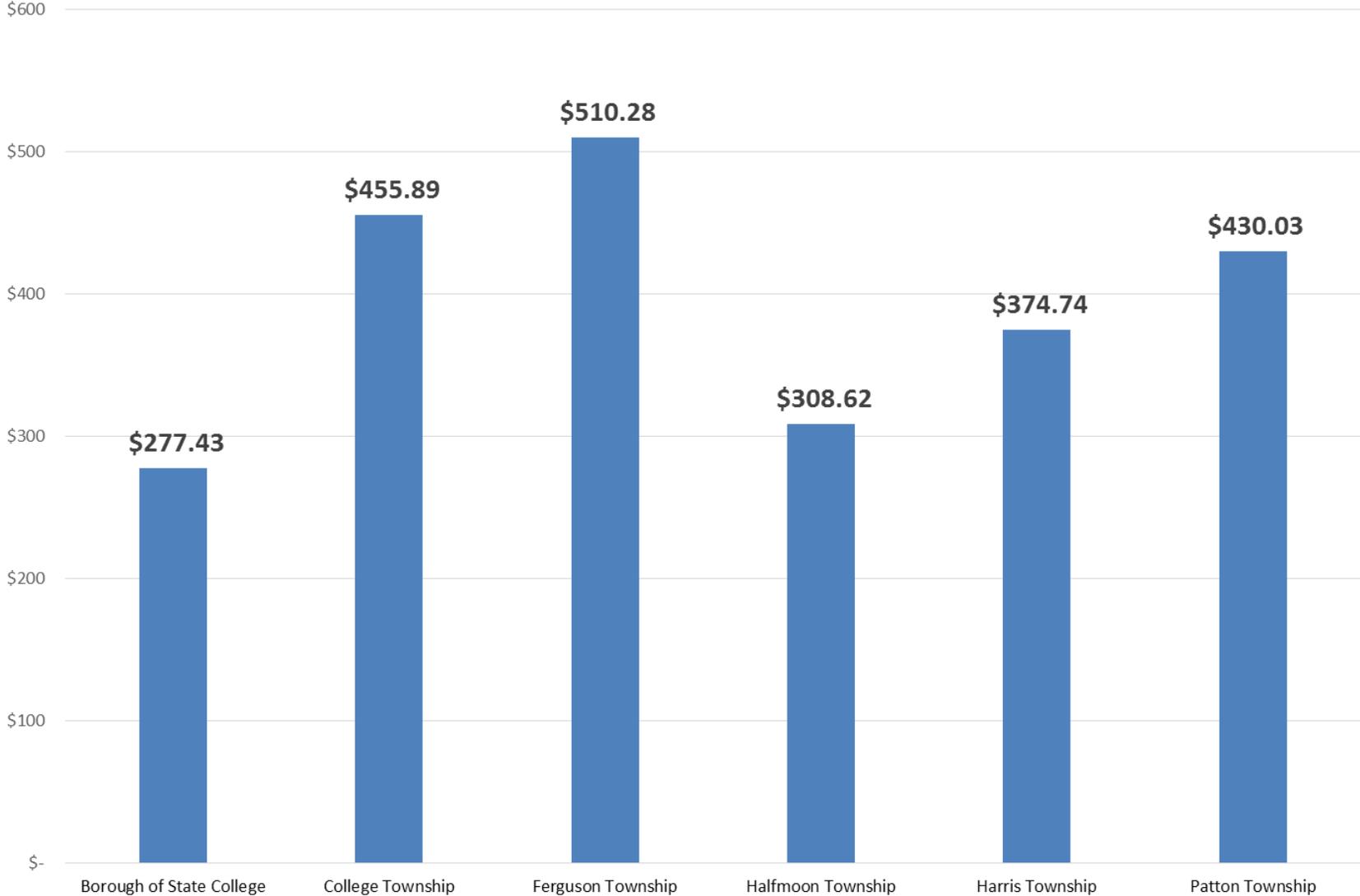


SOURCE: State College Borough Annual Financial Reports, adjusted using Municipal Cost Index; 2010 U.S. Census Bureau Population Data

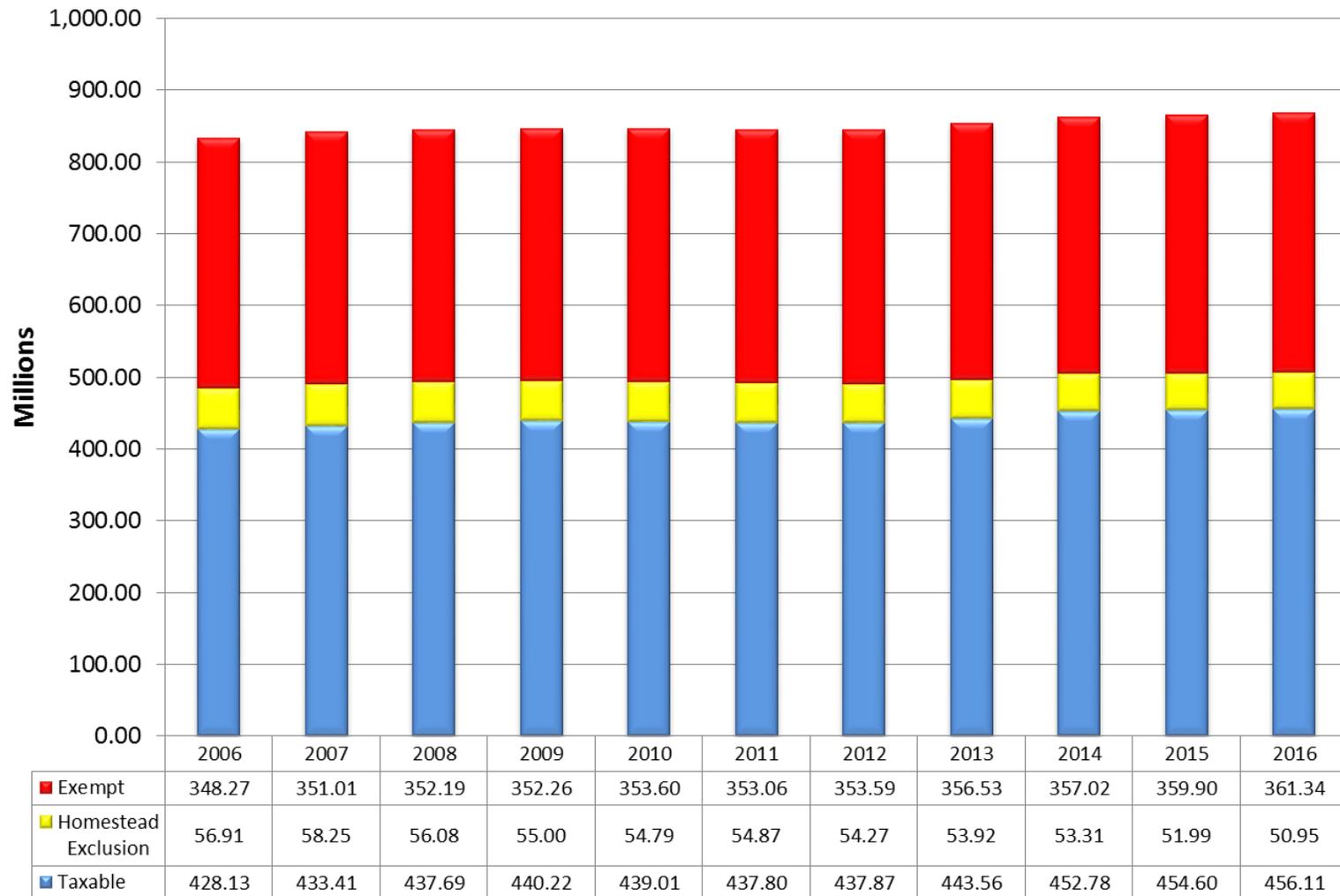
2014 Tax Revenue



**2014 Total Tax Revenue
per capita**

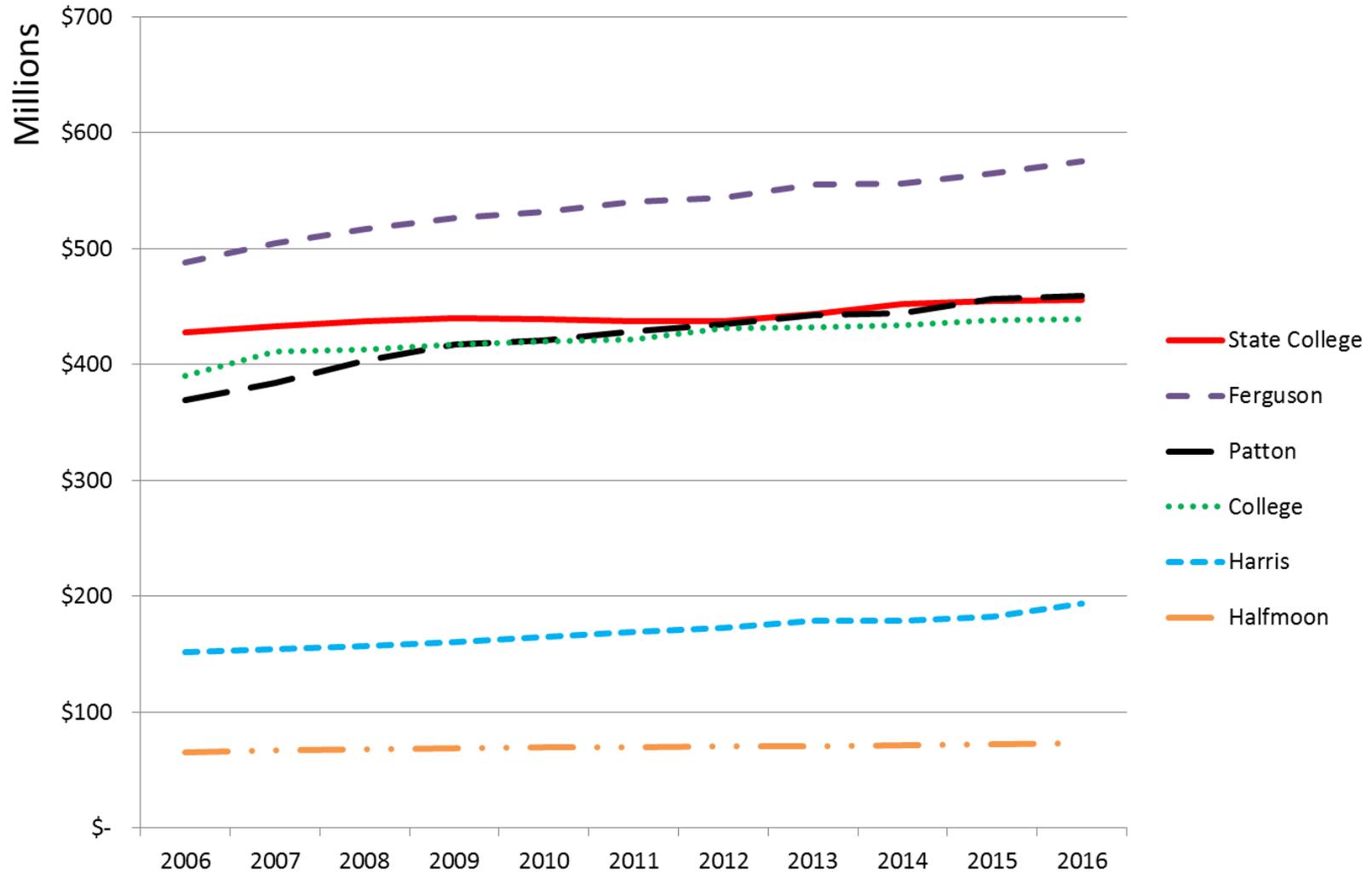


Total Borough Assessed Valuation



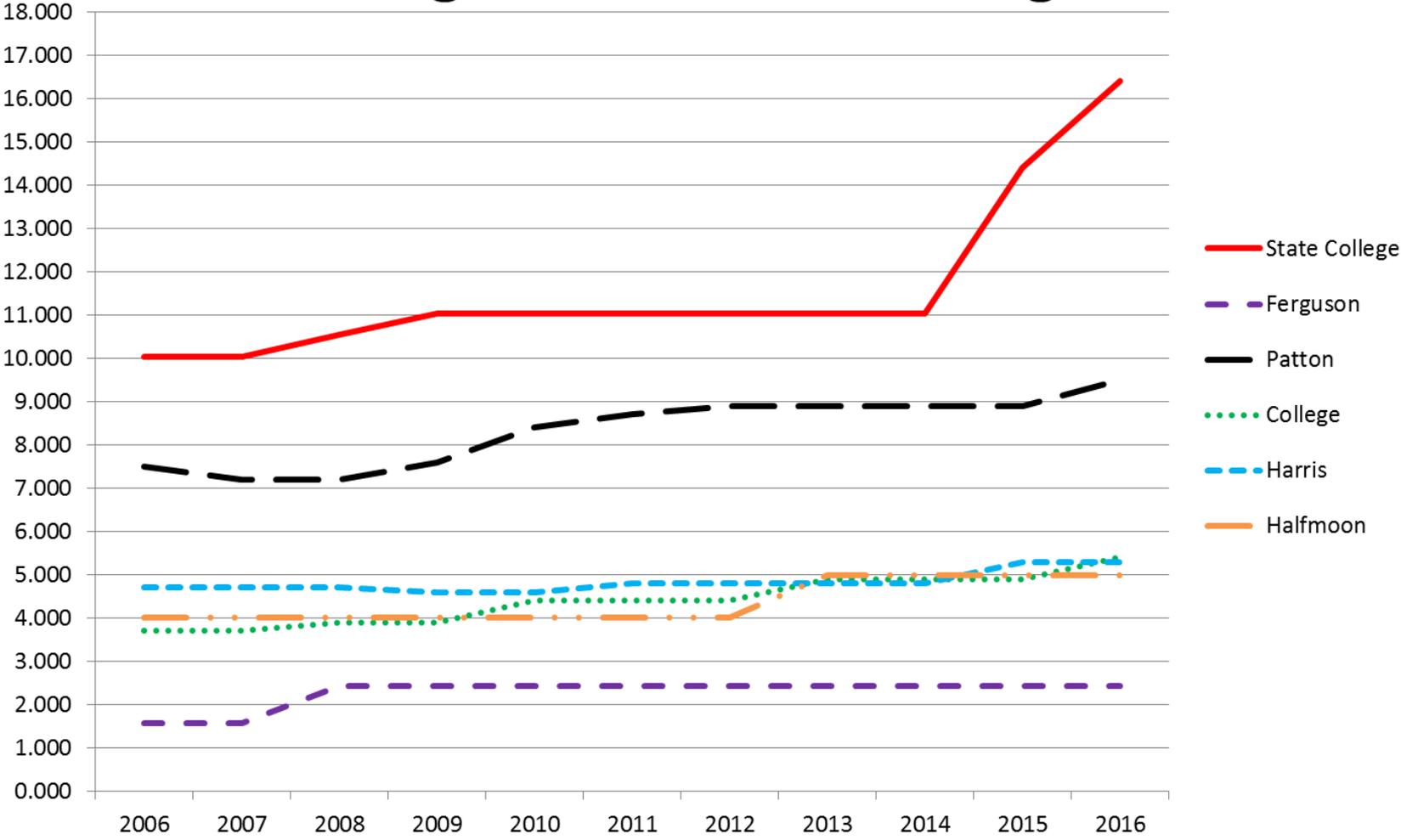
SOURCE: State College Borough Tax Records

Centre Region Taxable Assessed Valuation



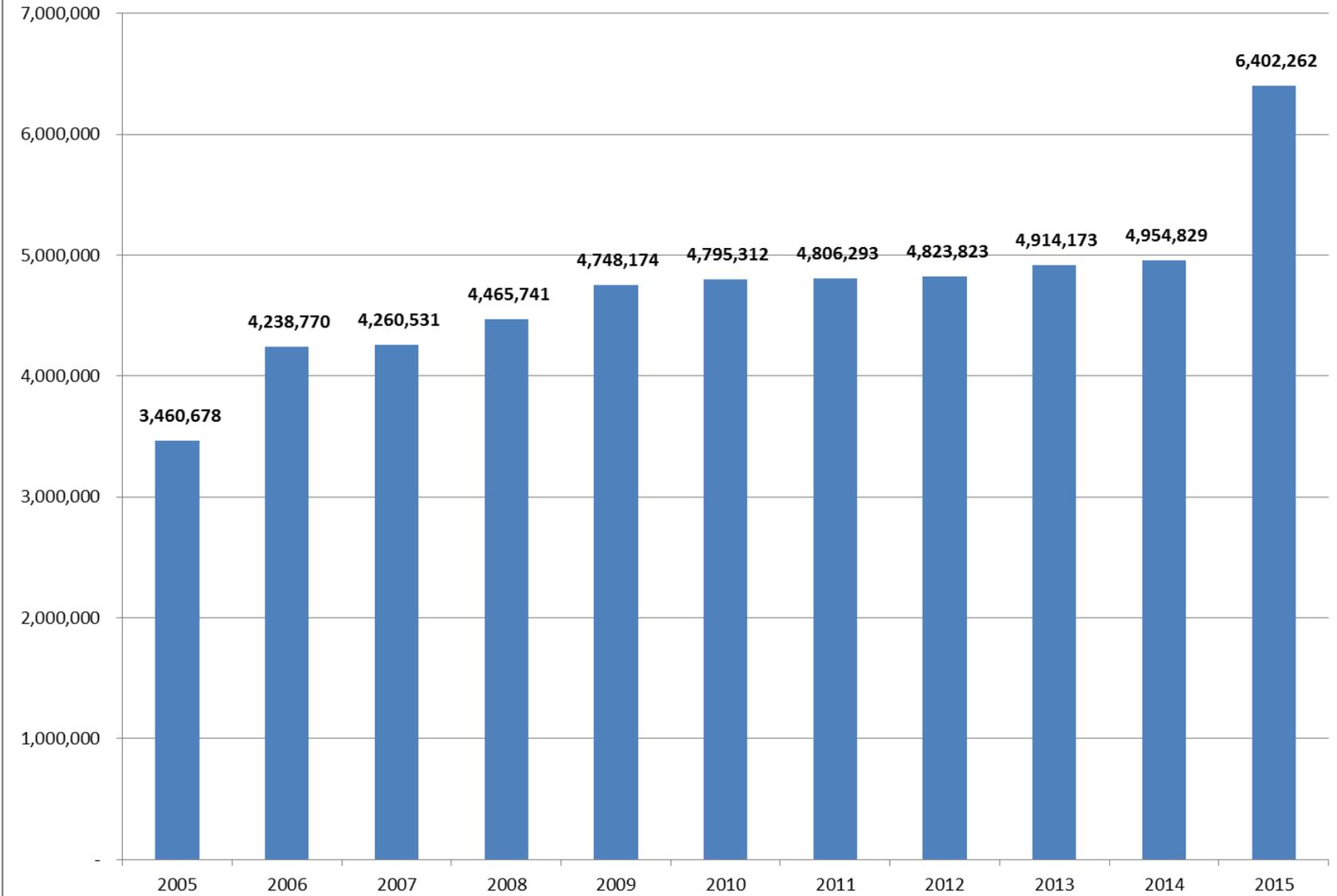
Source: State College Borough Tax Administrator (Centre County Tax Records)

Centre Region Real Estate Millage Rates



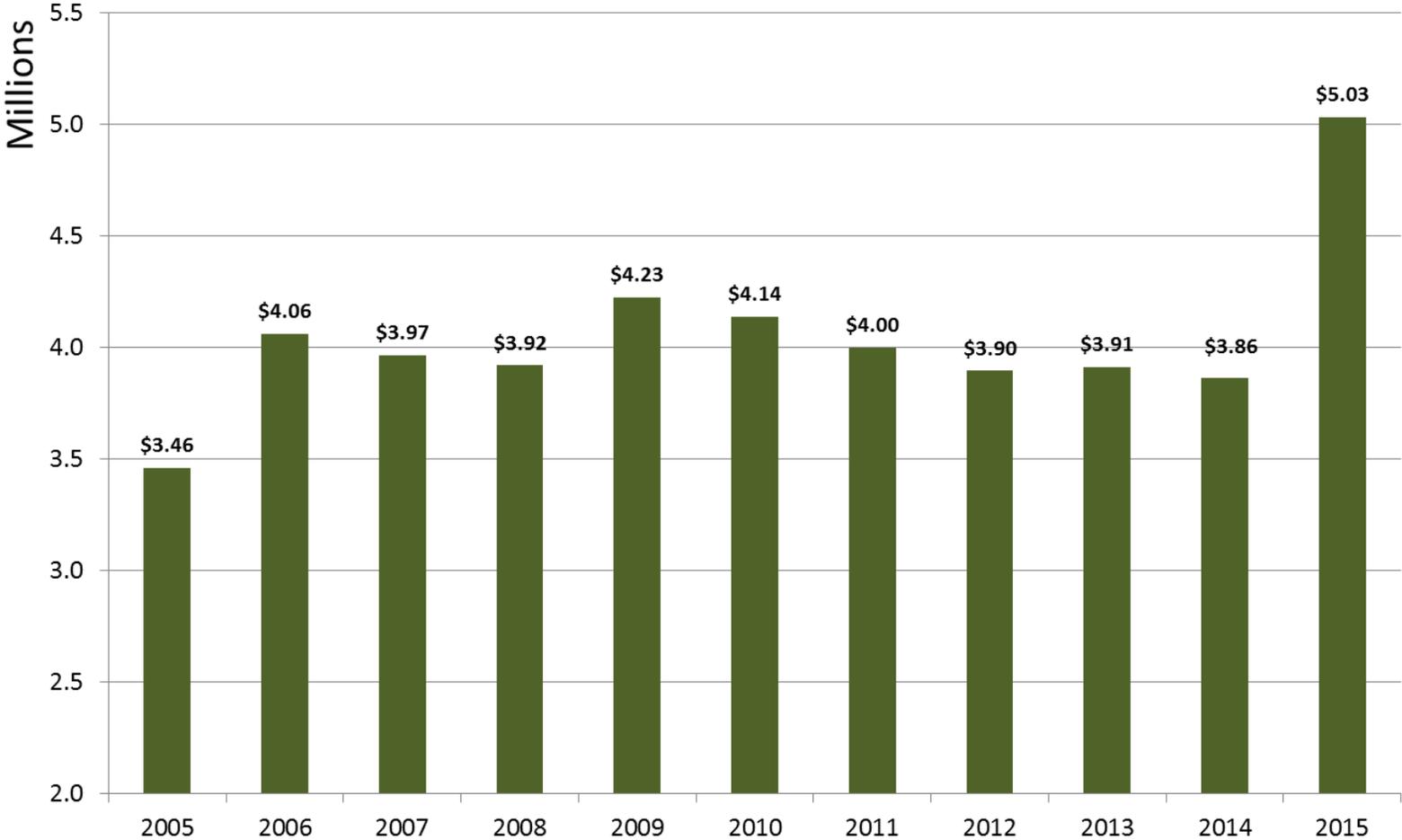
SOURCE: State College Borough Tax Administrator (Centre County Tax Records)

Real Estate Tax Revenue



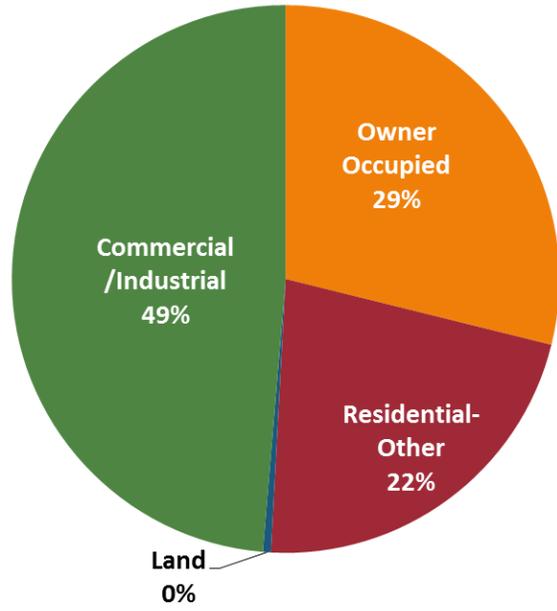
Real Estate Tax Revenue

(constant dollars)

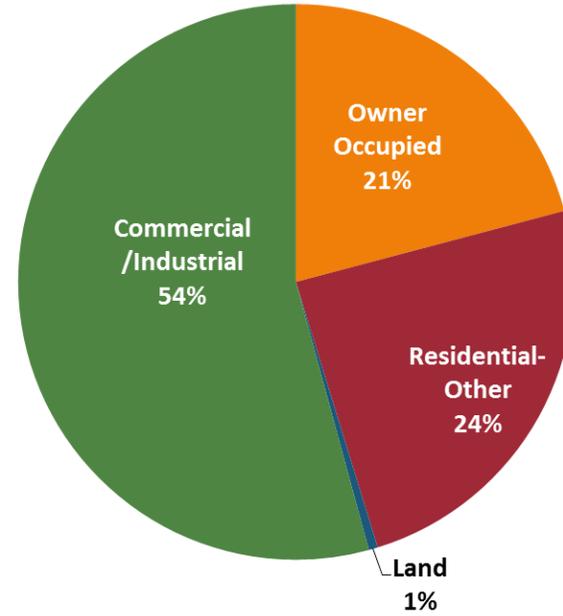


SOURCE: State College Borough Annual Financial Reports

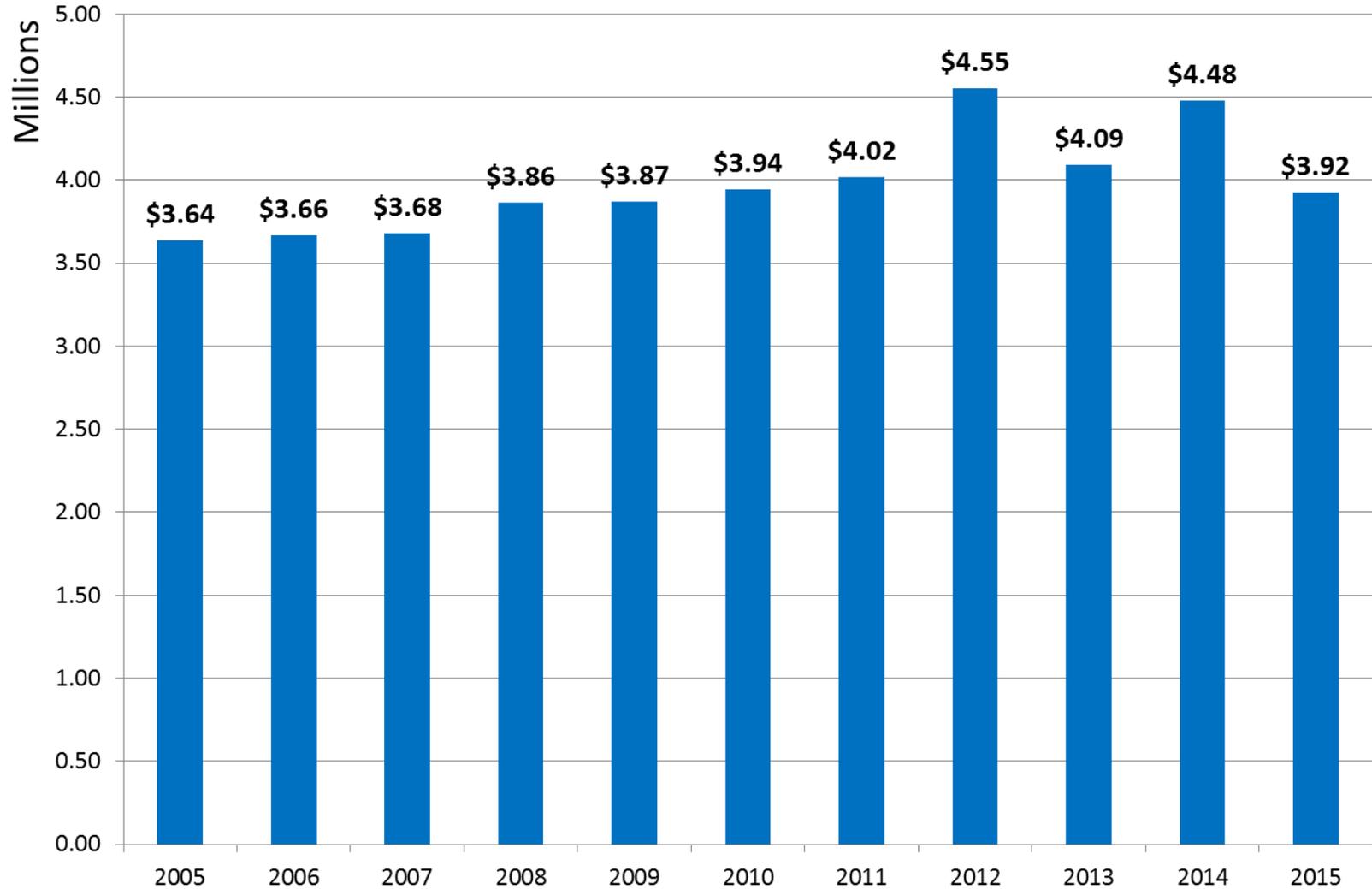
**2015 Total AV of Taxable
By Property Type**



**2015 RE Taxes
By Property Type**



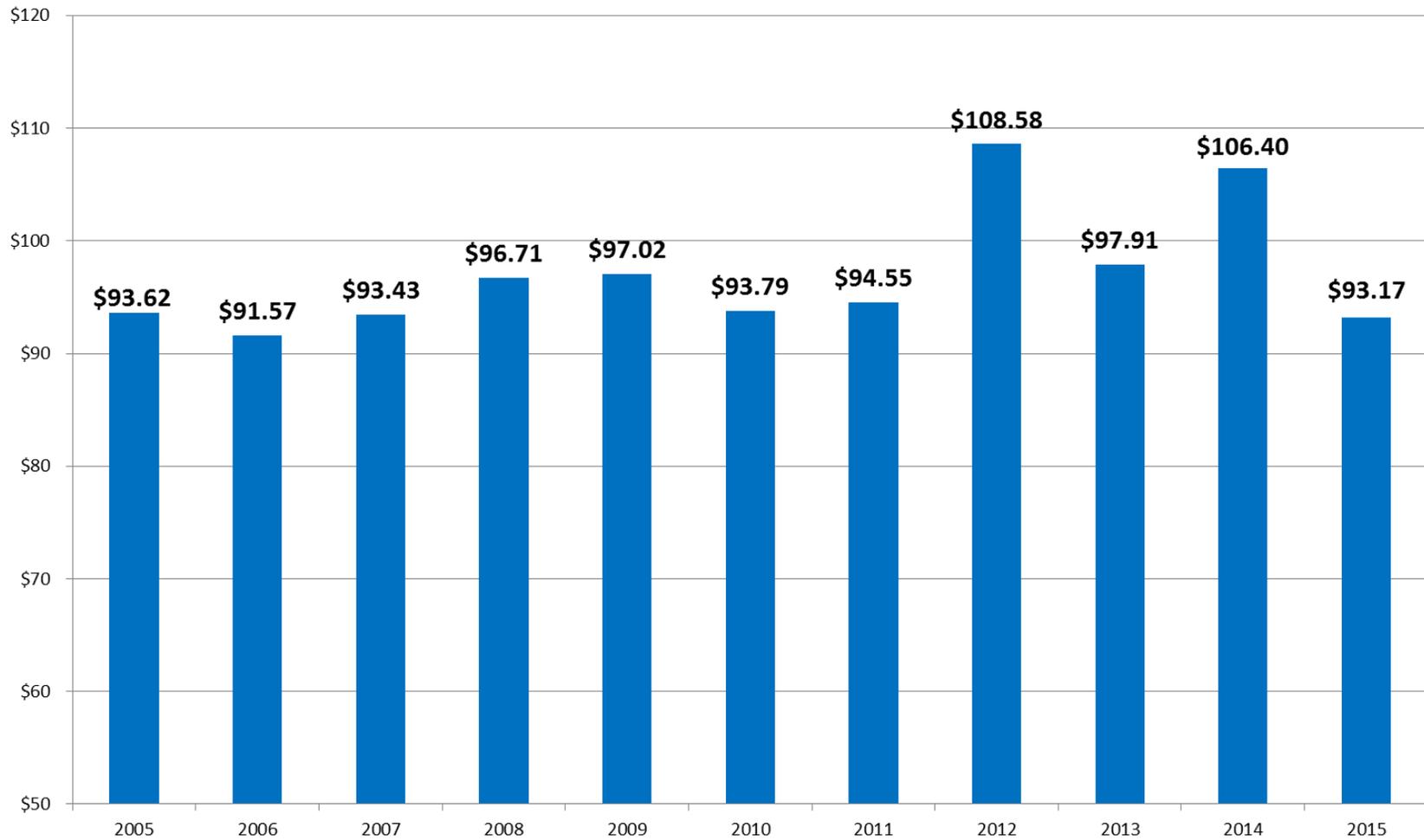
Earned Income Tax Revenue



Source: State College Borough Annual Financial Reports

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

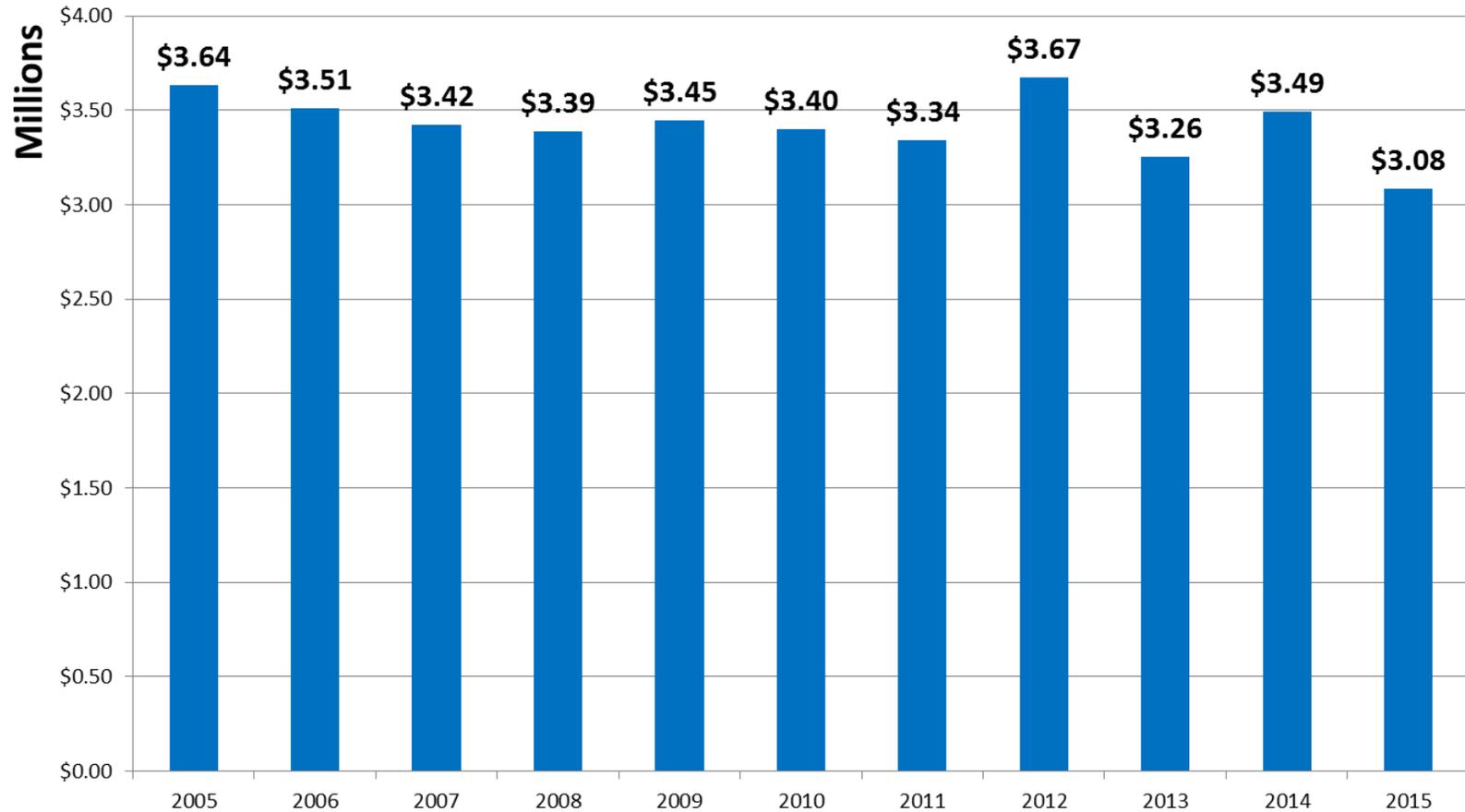
Earned Income Tax Revenue per capita



SOURCE: State College Borough Annual Financial Reports,
adjusted using Municipal Cost Index; 2010 U.S. Census Population Data

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

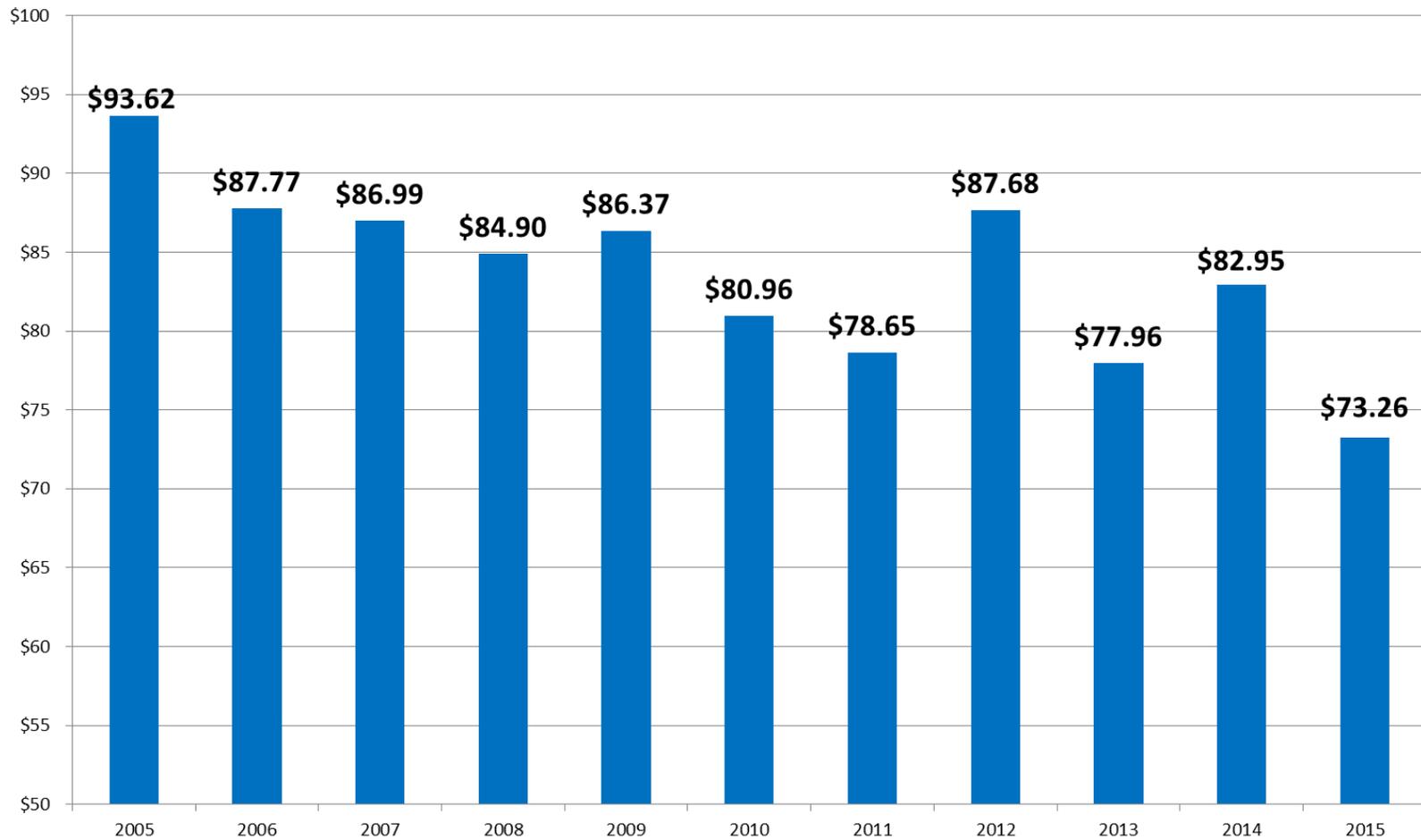
Earned Income Tax Revenue (constant dollars)



SOURCE: State College Borough Finance Department Annual Reports, adjusted using Municipal Cost Index; 2010 U.S. Census Population Data

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

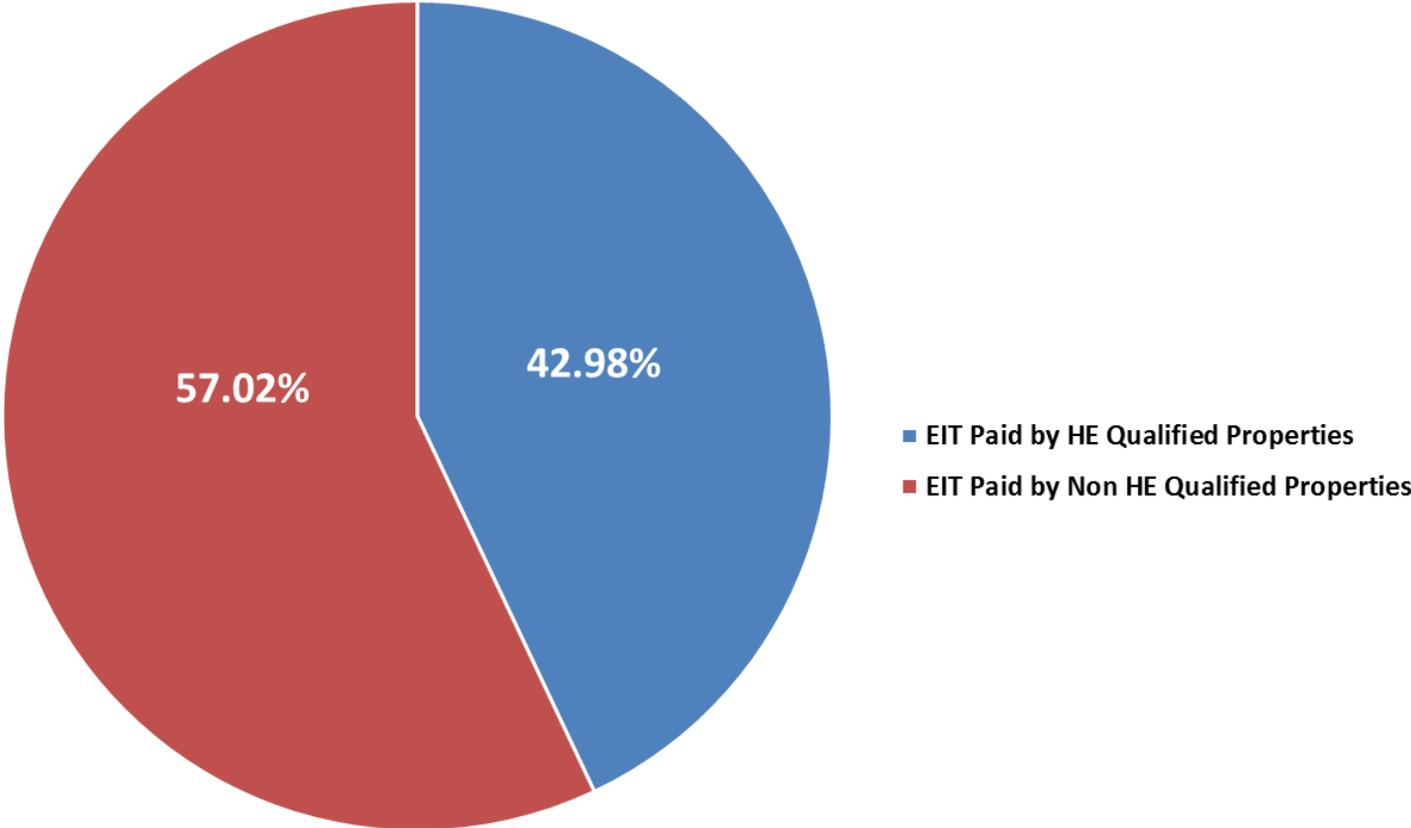
Earned Income Tax Revenue per capita (constant dollars)



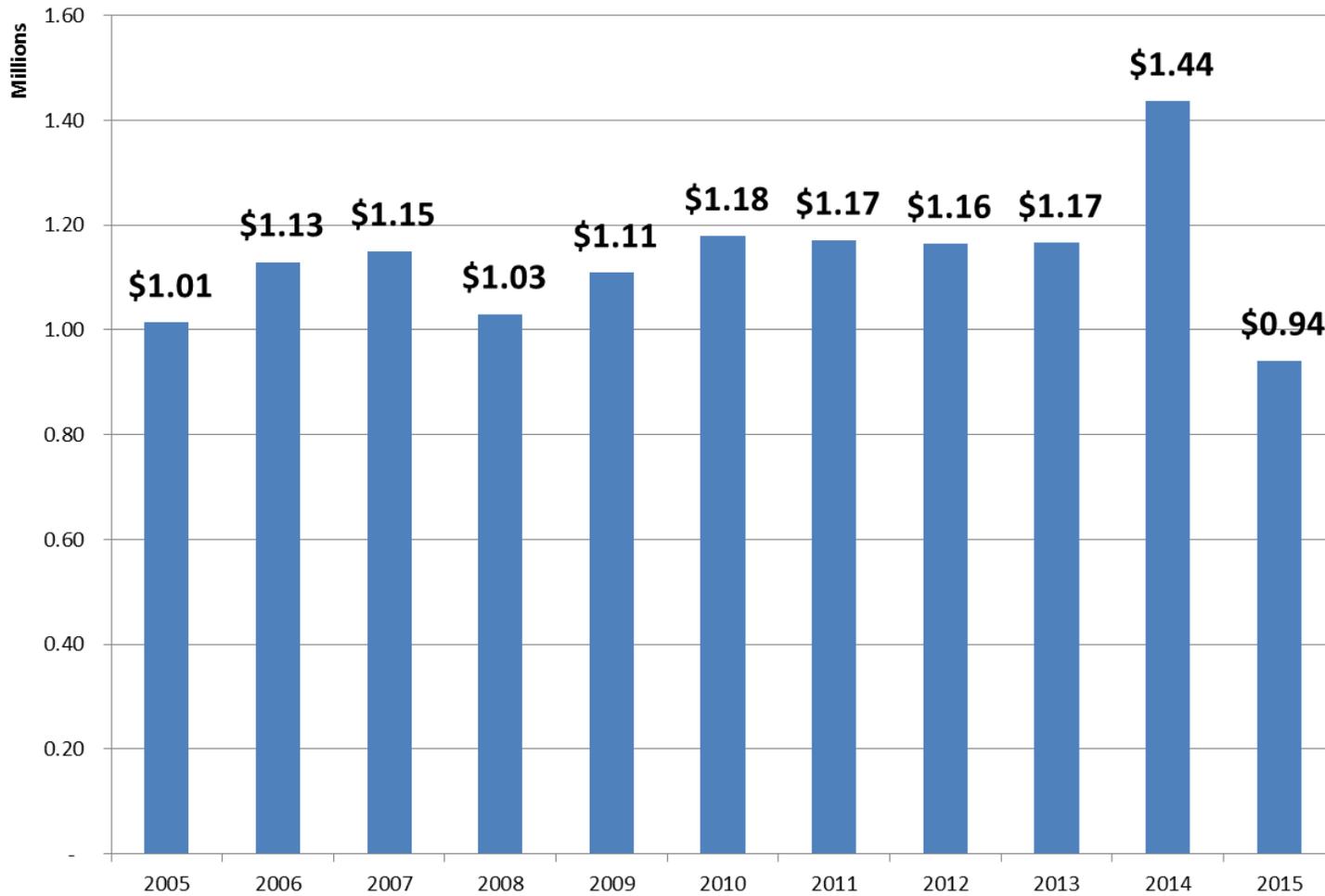
SOURCE: State College Borough Annual Financial Reports,
adjusted using Municipal Cost Index; 2010 U.S. Census Population Data

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

2014 Reconciled Earned Income Tax

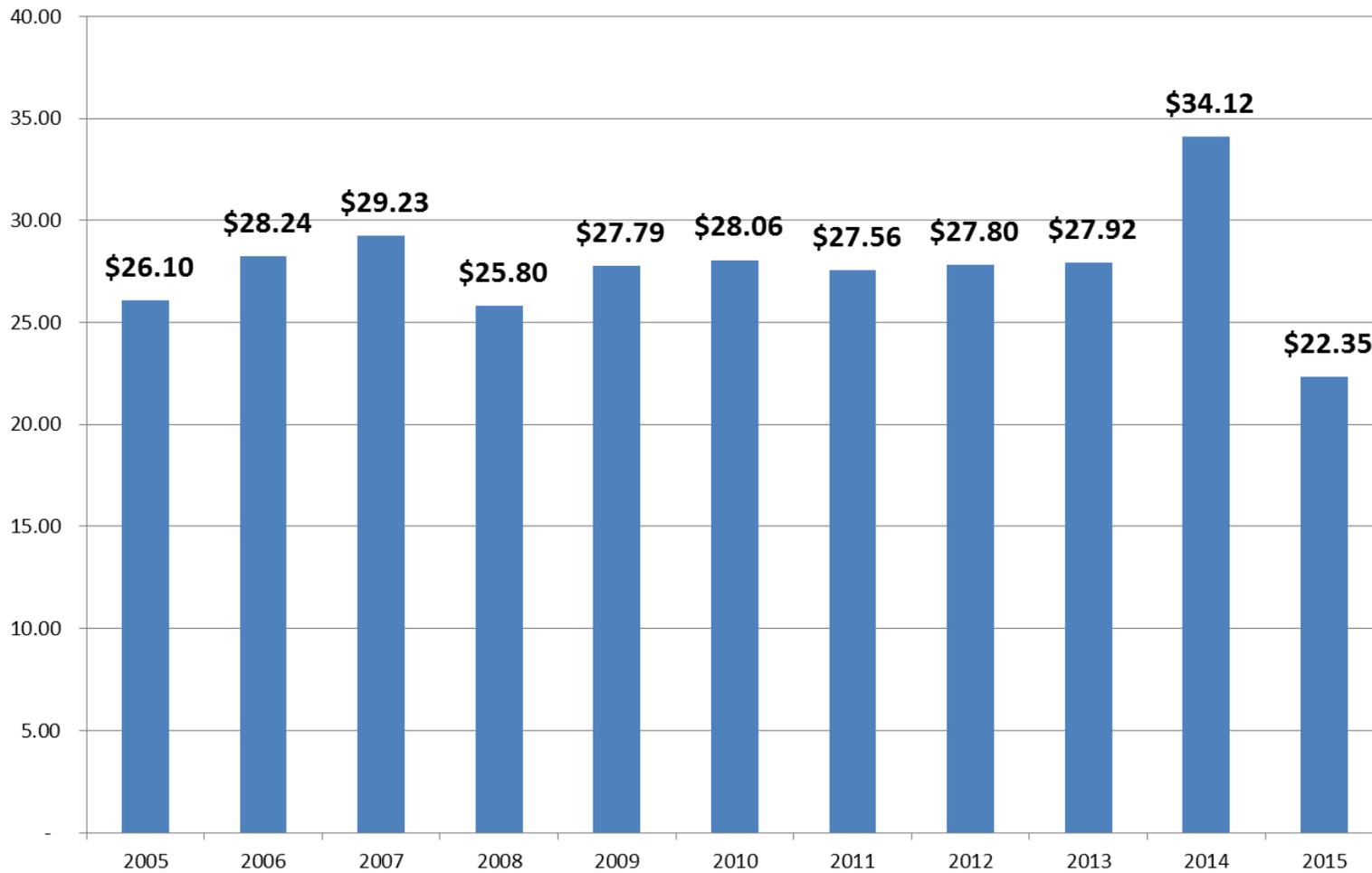


Occupational Privilege/Local Services Tax Revenue



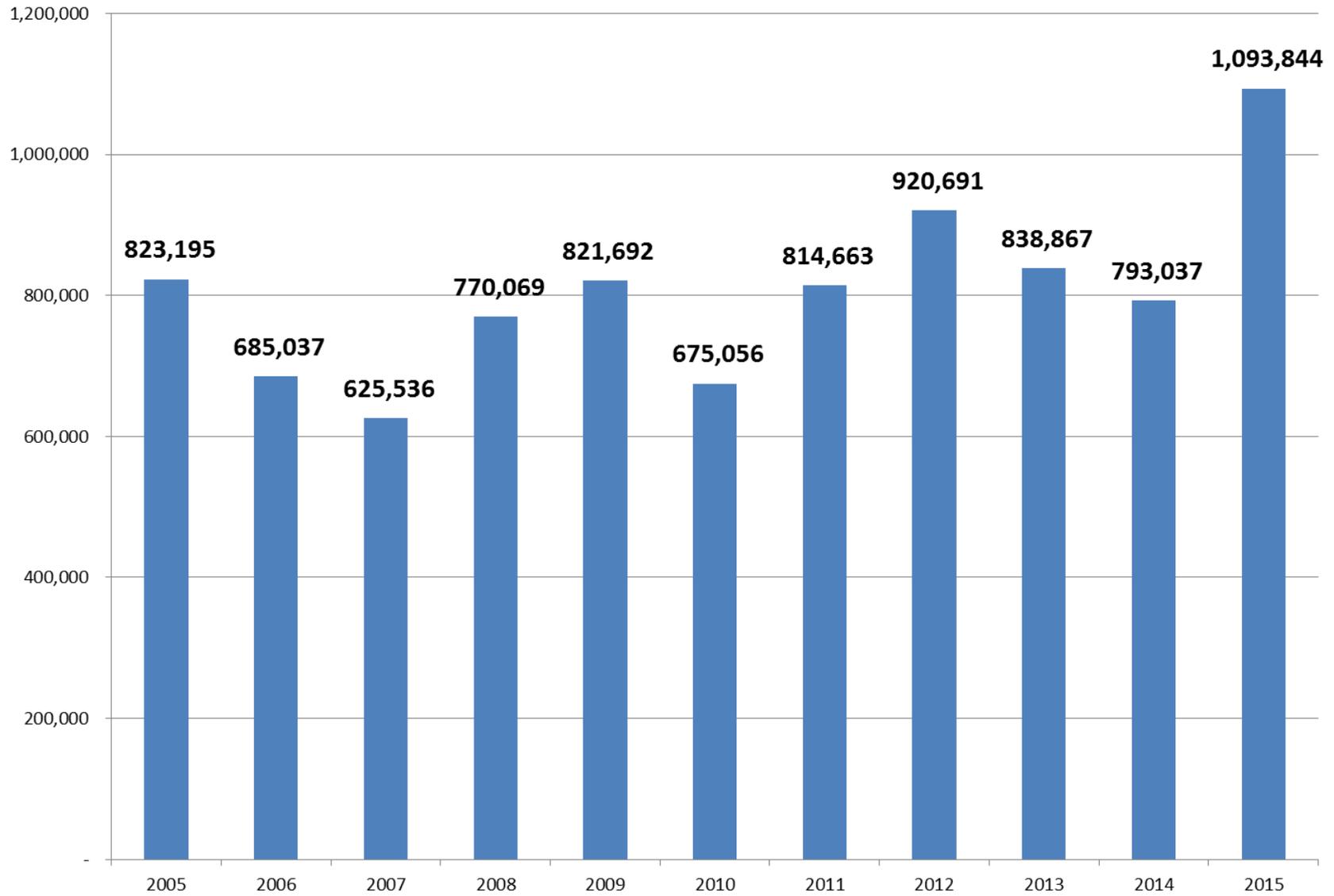
Accrual entry of \$249,587 was made in 2014 to adjust Accounts Receivable

Occupational Privilege/Local Services Tax Revenue (per capita)

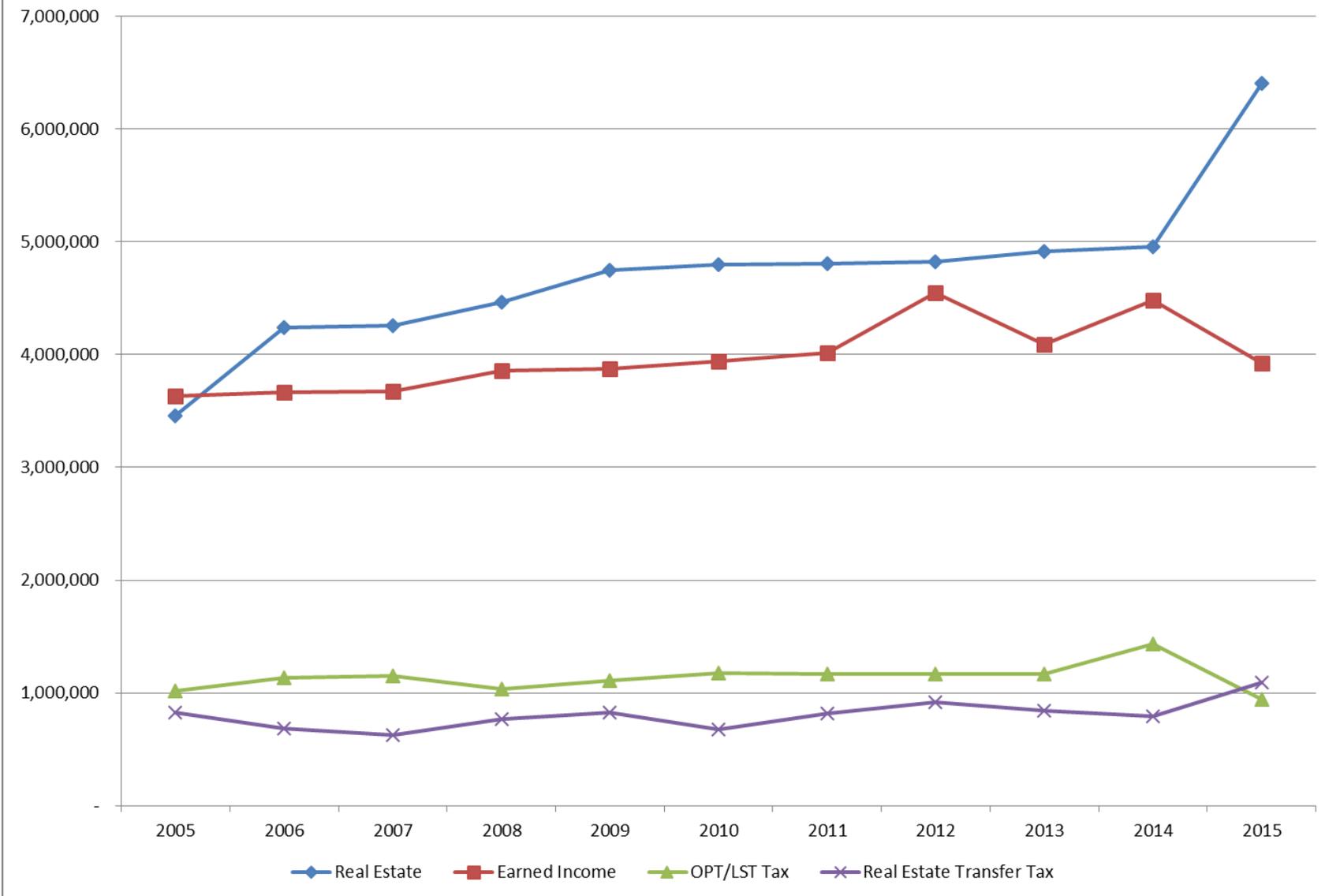


Accrual entry of \$249,587 was made in 2014 to adjust Accounts Receivable

Real Estate Transfer Tax Revenue



Tax Revenue Trend



Expenditure Trends

The General Fund accounts for the general governmental activities of the Borough including; Public Safety, Community Development, Economic Development, Planning, Public Works Streets, Parks, Regional Programs, and General Administration. The General Fund activities are covered by the taxes outlined in the previous section and are not funded with fees from the business-like activities of the Borough like Parking, Refuse, and Sanitary Sewer, which are funded through user fees.

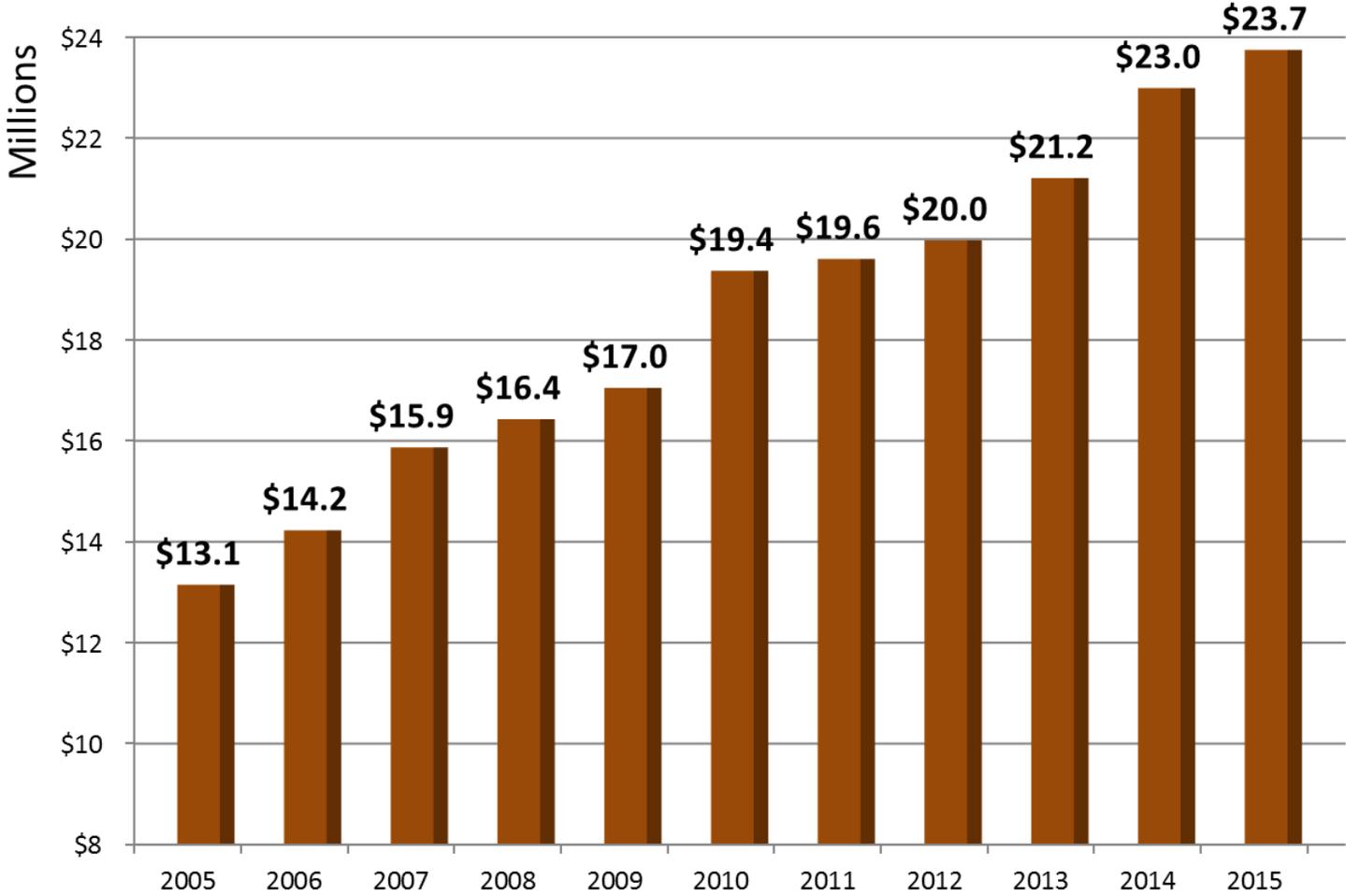
Total General Fund Expenditures increased from \$13.1 million in 2005 to \$23.7 million in 2015 representing an increase of \$10.6 million or 80.1% increase. After adjusting for inflation, Total General Fund Expenditures for 2015 were \$18.7 million or an increase of 42.7% over the ten-year period. On a per capita basis, after adjusting for inflation, the average cost per citizen increased from \$339 in 2005 to \$444 in 2015. In 2010, the Borough began allocating Public Works charges to other General Fund departments by developing a fully-costed hourly rate and making inter-departmental charges for services provided by Public Works employees. These inter-departmental charges contribute to the recorded expenditure increases.

Borough-wide Salaries and Wages increased from \$9,370,255 in 2005 to \$12,280,819 in 2015 representing an increase over the ten years of 46.7%. After adjusting for inflation, salaries and wages were \$9,656,396 in 2015 representing an inflation-adjusted increase of 15.4%, or an annual increase of 1.54%. Employee benefits increased from \$2,405,247 in 2005 to \$5,413,288 in 2015. Pension and Health Care cost increases over the ten-year period have caused the significant increase in Employee Benefits. After adjusting for inflation, the adjusted benefits in 2015 were \$4,256,463 representing an inflation-adjusted increase of 77%.

Non-Police payrolls increased from \$3,921,356 in 2005 to \$6,277,048 in 2015. The 2015 inflation-adjusted Non-Police payroll was \$4,935,637 representing an inflation-adjusted increase of 25.9% or an annual average increase of 2.6%. Police payrolls increased from \$4,448,899 in 2005 to \$6,003,771 in 2015 which represents an increase of \$1,554,872 or 35%. After adjusting for inflation, the 2015 police payrolls were \$4,720,759 representing an increase of 6.1%.

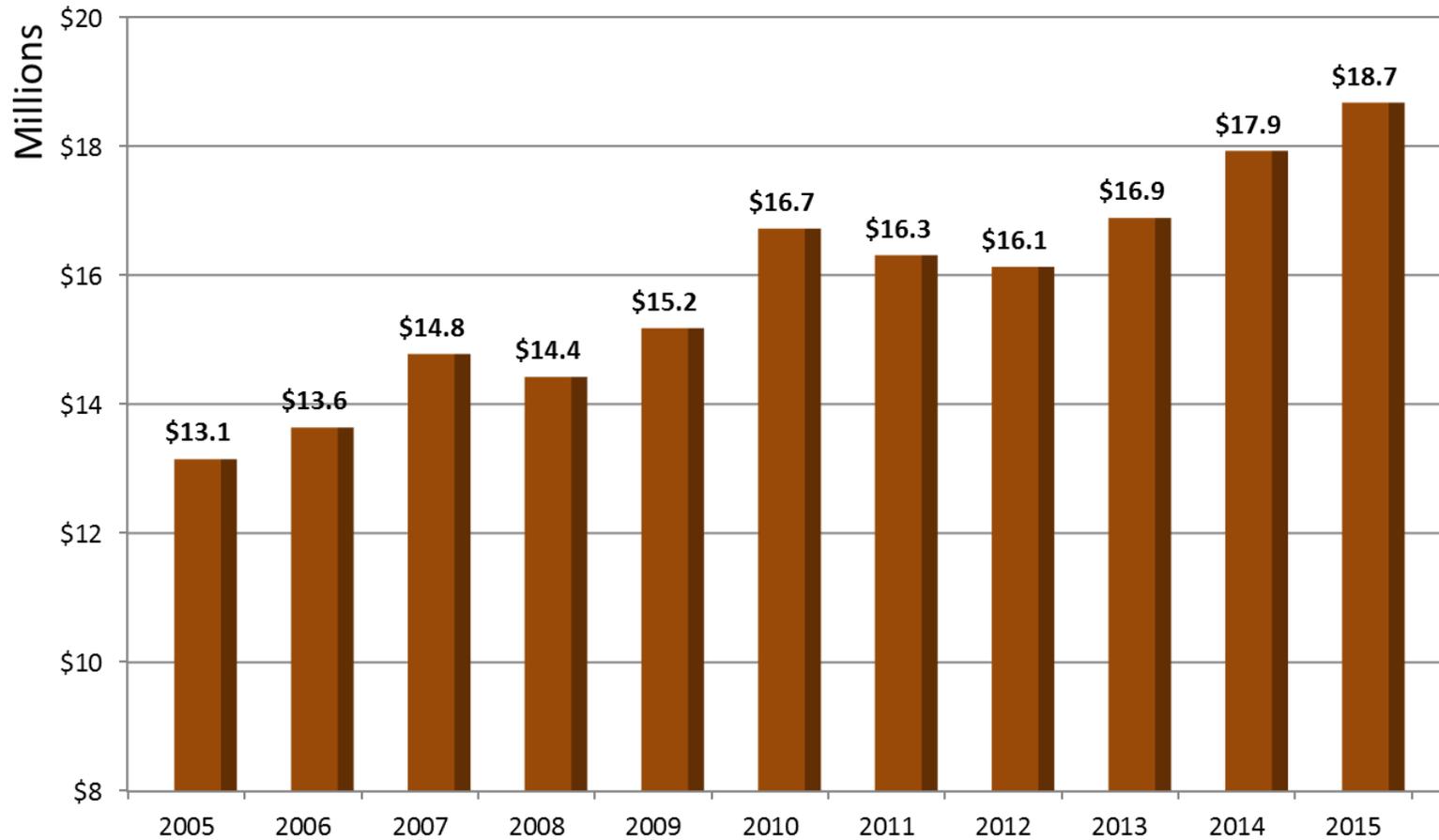
General Fund Net Operating Performance has declined in recent years. In four of the last six years, the General Fund has produced a deficit in Revenues over Expenditures before use of Fund Balance and Inter-Fund Transfers. The General Fund Operating Performance chart on page 47 plots the results of the General Fund. The lack of natural growth in revenues combined with increasing costs continues to cause operating deficits in the General Fund. The one-time use of Fund Balance to cover the deficit is pushing the Fund Balance near the minimum Operating Reserve. Continued deficits will also limit the Borough's ability to invest in infrastructure improvements and other capital investments.

General Fund Expenditures



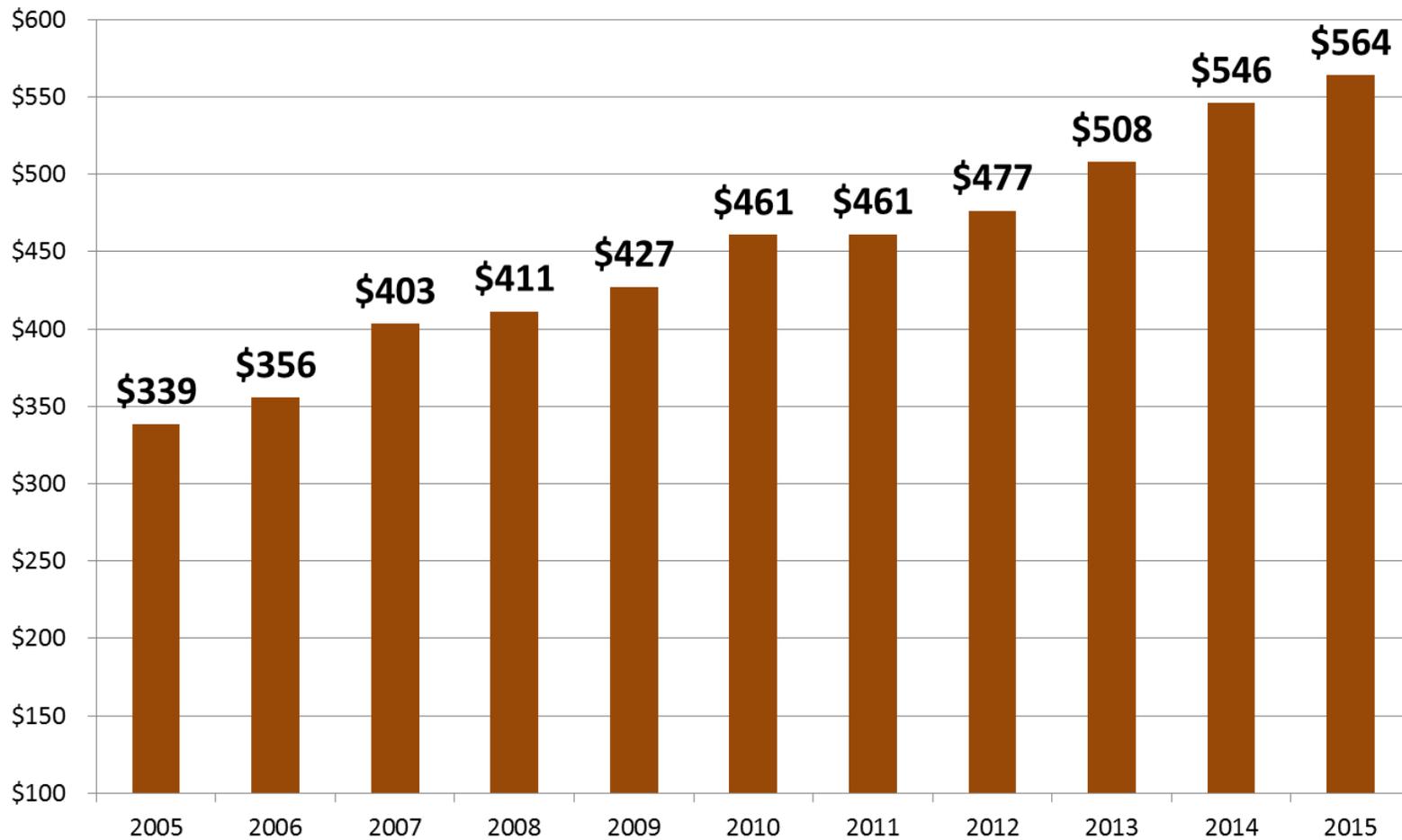
Source: State College Borough Annual Financial Reports

General Fund Expenditures (constant dollars)



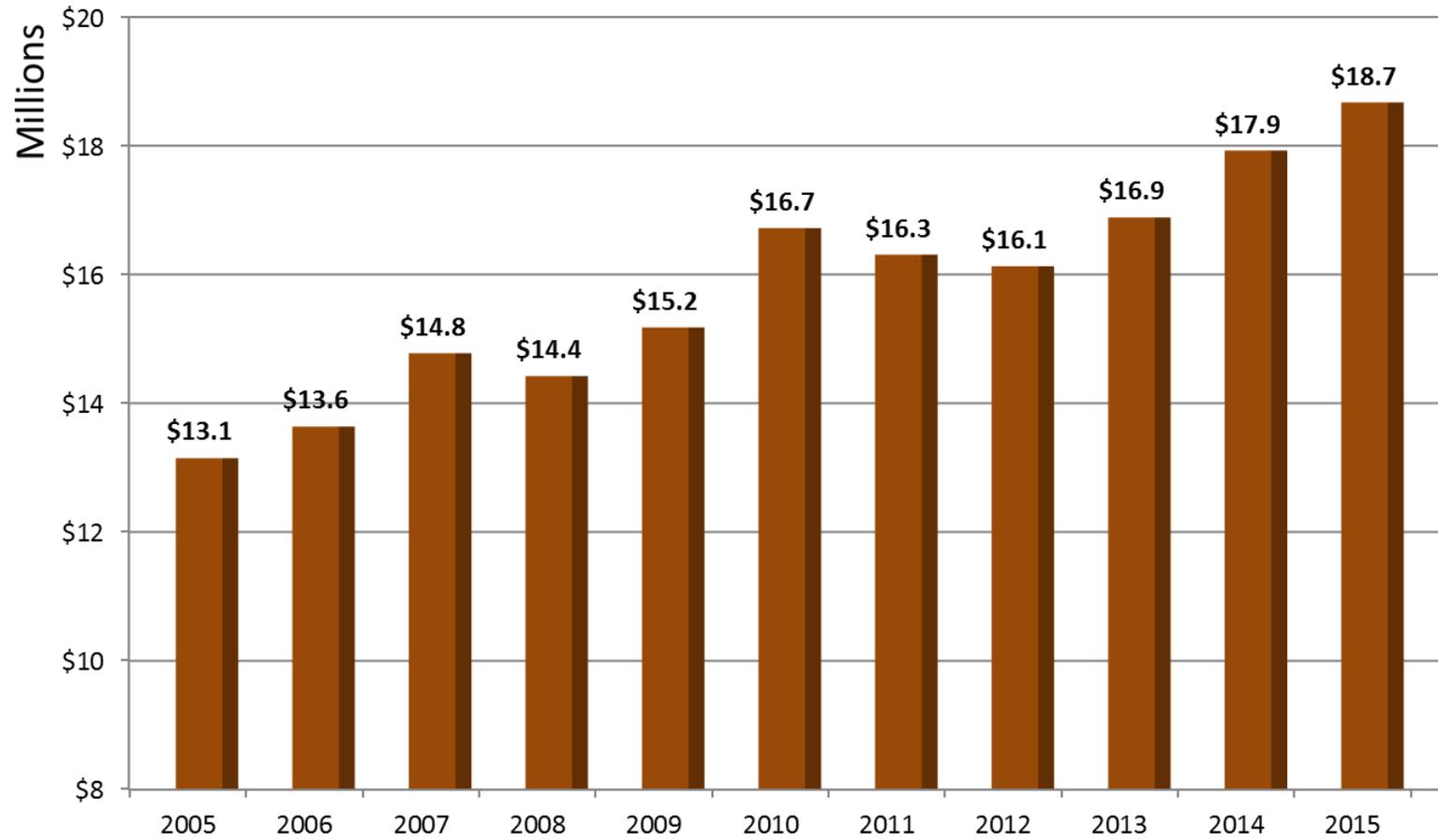
Source: State College Borough Annual Financial Reports, adjusted using Municipal Cost Index

General Fund Expenditures per capita



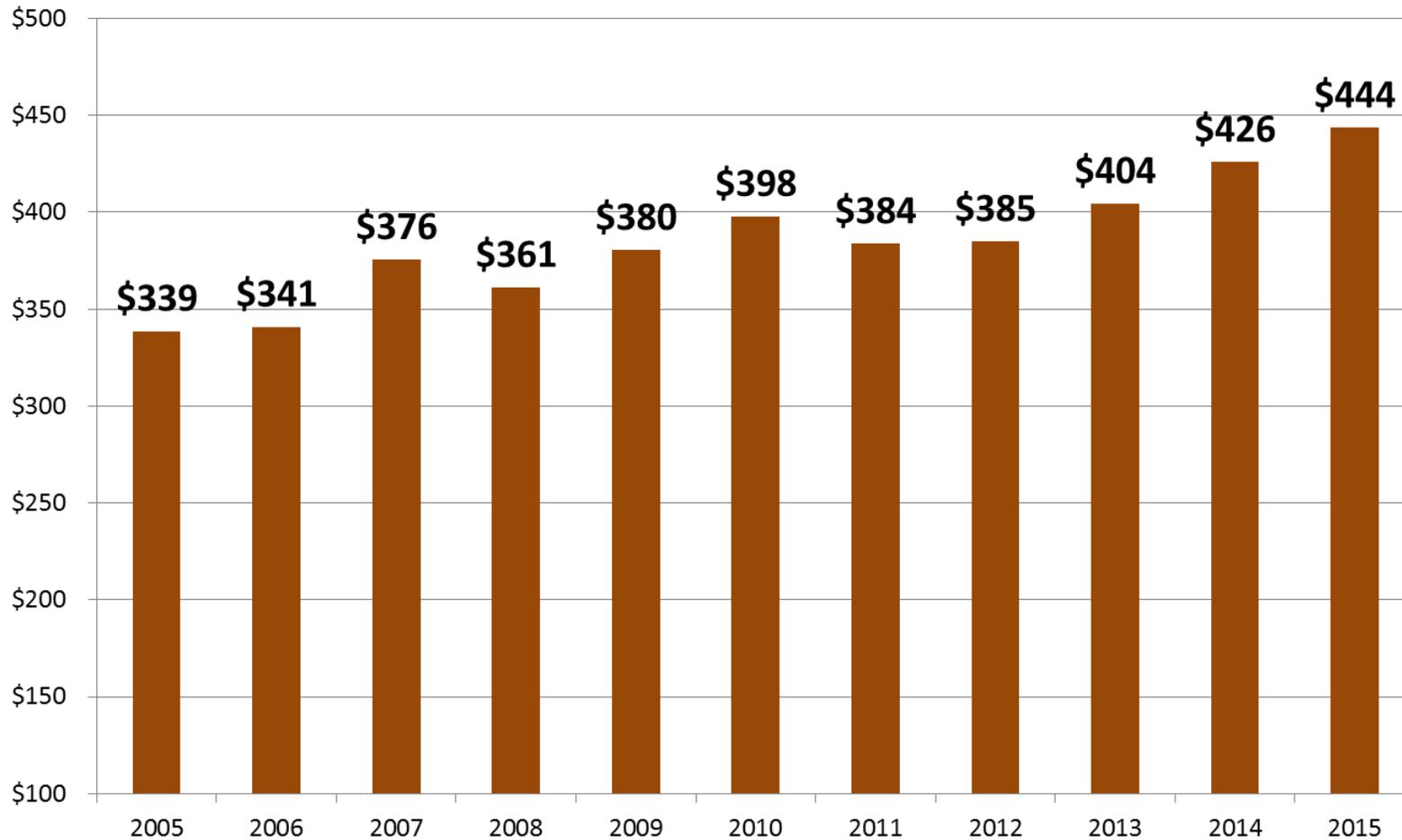
SOURCE: State College Borough Annual Financial Reports, adjusted using Municipal Cost Index; U.S. Census Bureau Population Data

General Fund Expenditures (constant dollars)



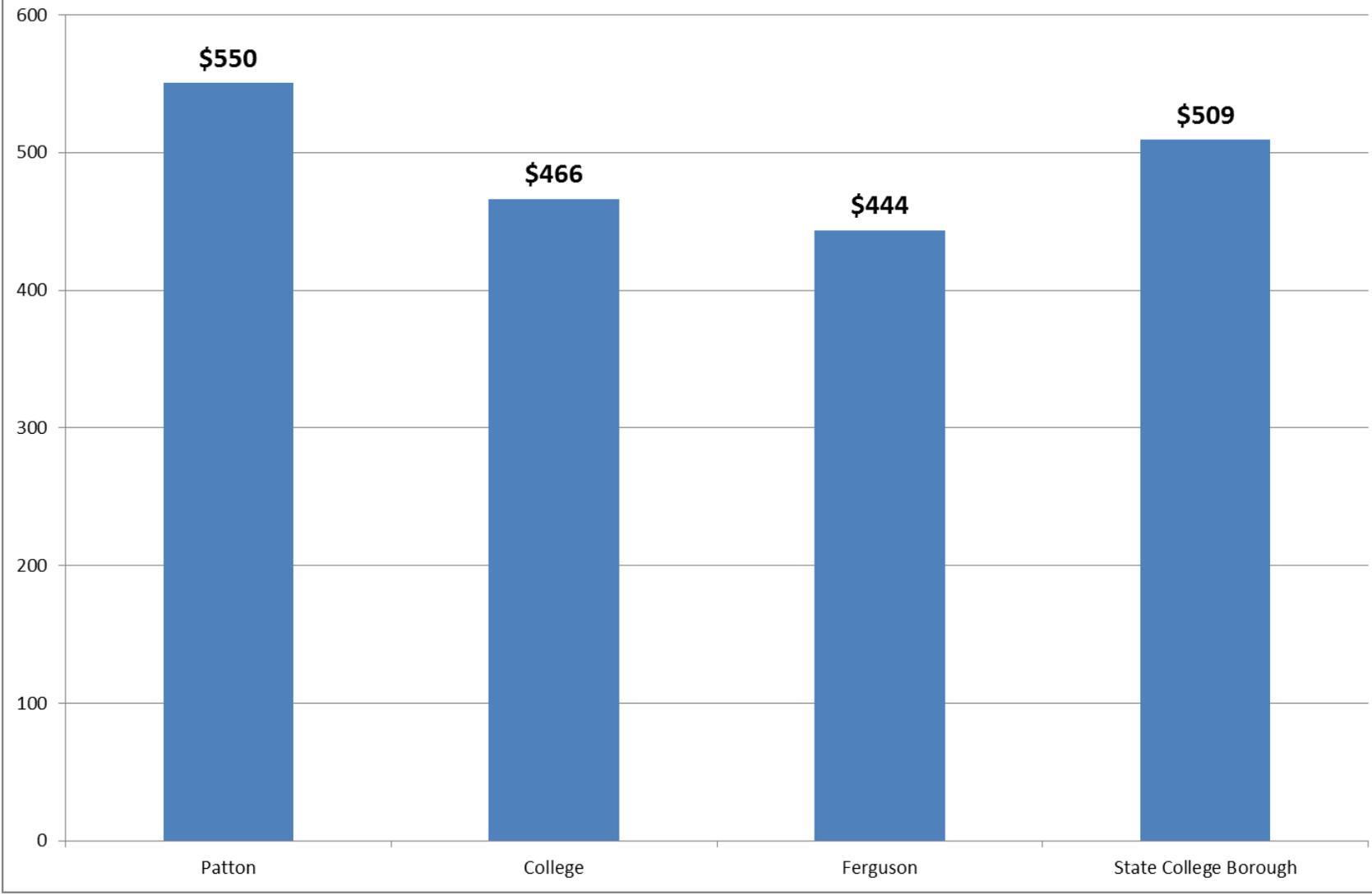
Source: State College Borough Annual Financial Reports, adjusted using Municipal Cost Index

General Fund Expenditures per capita (constant dollars)

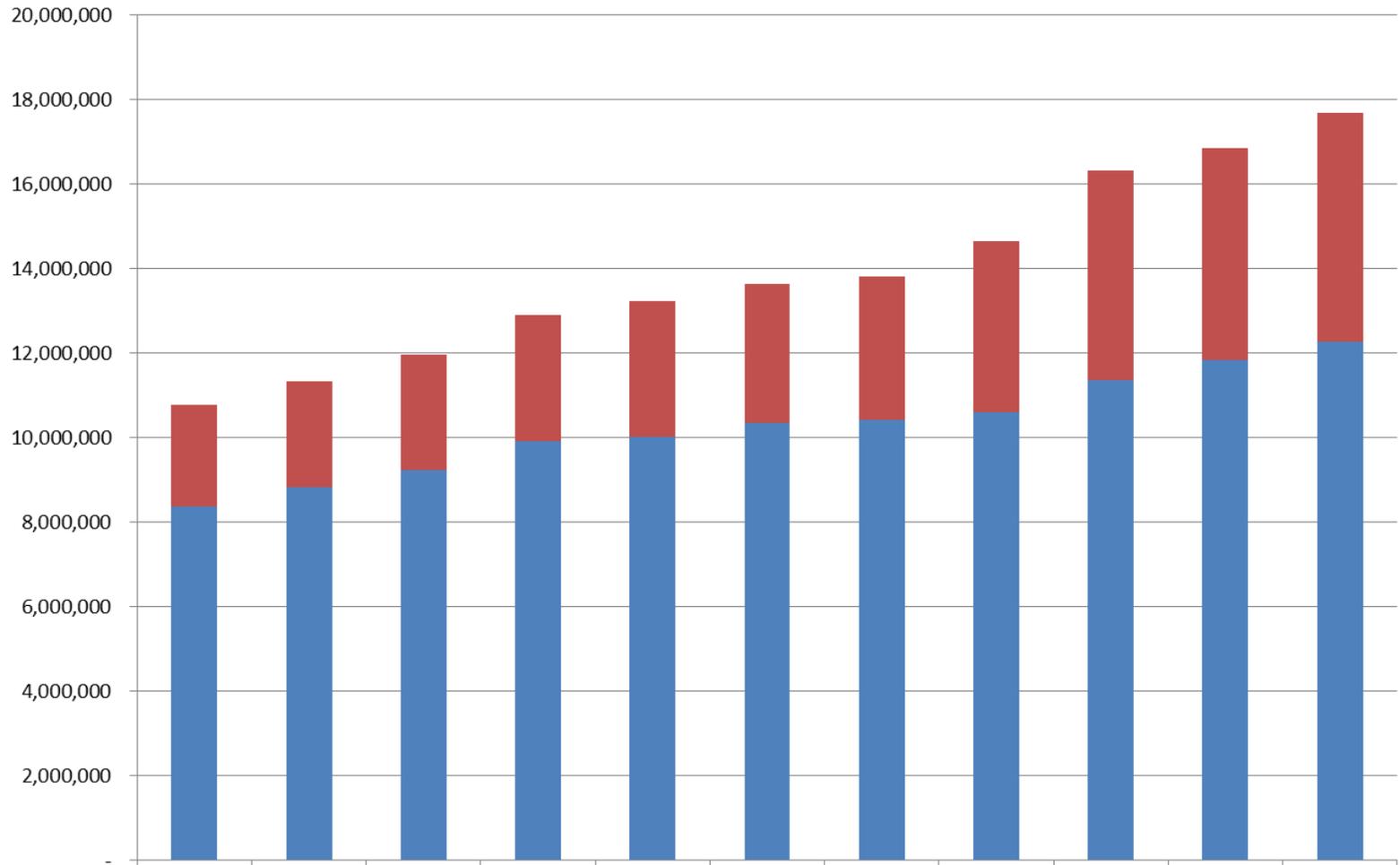


SOURCE: State College Borough Annual Financial Reports, adjusted using Municipal Cost Index; 2010 U.S. Census Bureau Population Data

2015 General Fund Expenditures / capita

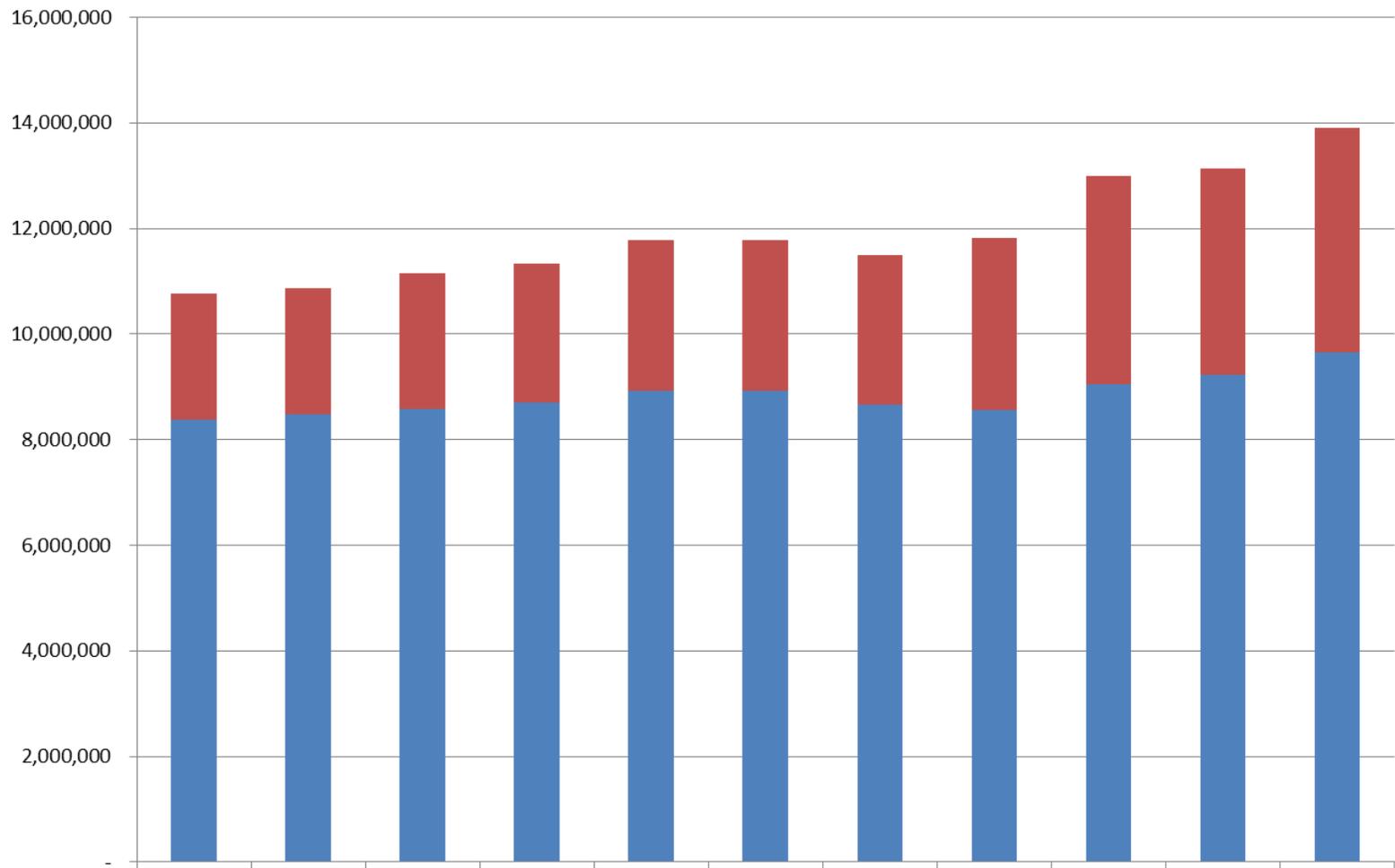


Salaries, Wages & Benefits All Funds



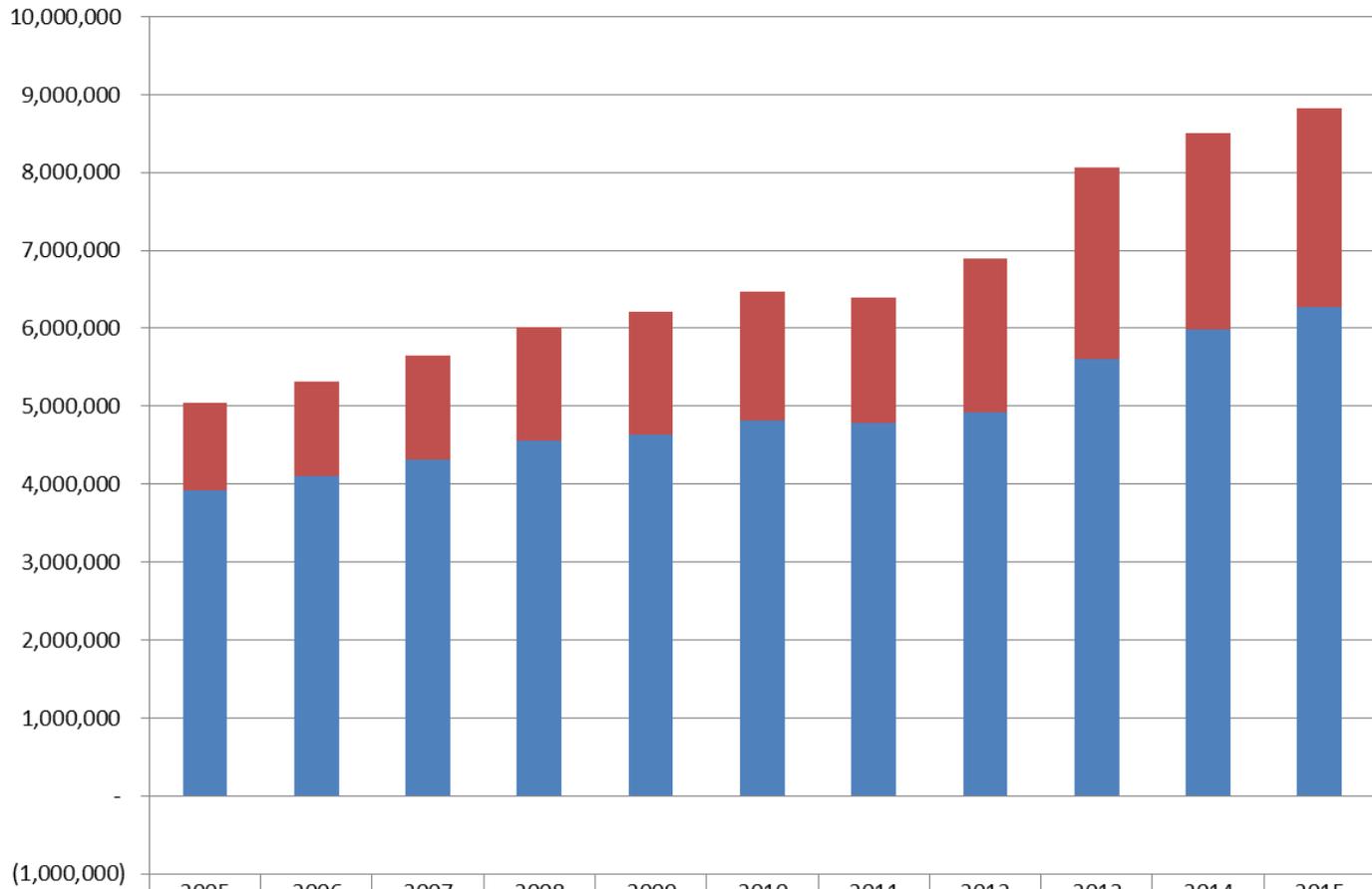
Employee Benefits	2,405,247	2,496,791	2,744,200	2,989,800	3,204,717	3,305,477	3,390,153	4,051,181	4,946,979	5,003,747	5,413,288
Salaries & Wages	8,370,255	8,837,888	9,224,801	9,916,439	10,024,099	10,337,285	10,417,137	10,596,063	11,366,406	11,834,887	12,280,819

Salaries, Wages & Benefits All Funds (constant dollars)



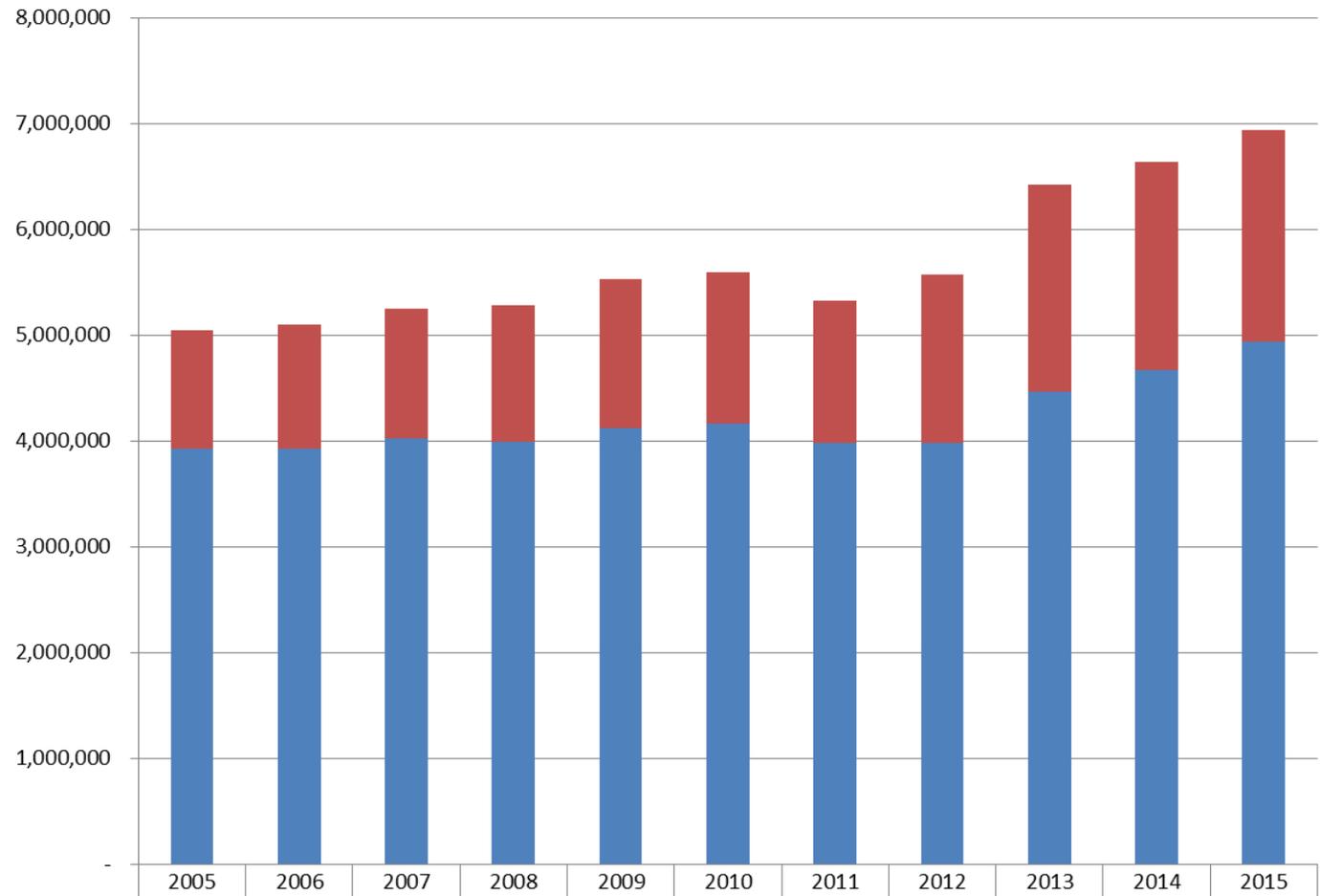
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Employee Benefits	2,405,247	2,393,195	2,555,186	2,624,524	2,852,979	2,853,593	2,819,977	3,271,418	3,939,021	3,901,245	4,256,463
Salaries & Wages	8,370,255	8,471,189	8,589,419	8,704,907	8,923,893	8,924,099	8,665,121	8,556,555	9,050,476	9,227,243	9,656,396

Salaries & Benefits All Funds Excluding Police



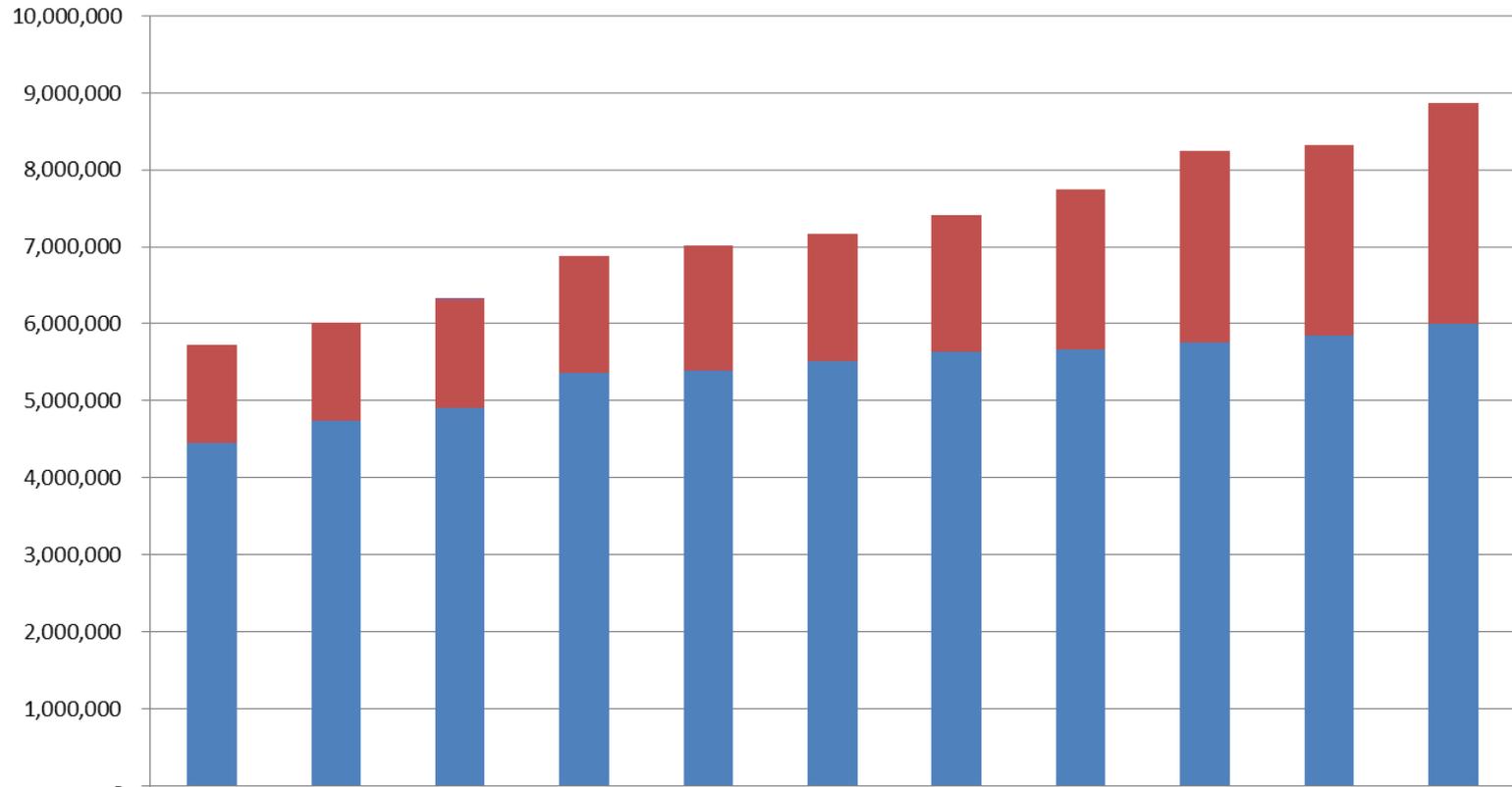
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
■ Benefits % Increase	15.50%	8.40%	8.80%	10.60%	7.70%	4.60%	-2.20%	21.50%	25.30%	2.60%	0.50%
■ Salaries & Wages % Increase	3.30%	4.50%	5.40%	5.50%	1.80%	4.00%	-0.80%	3.00%	13.70%	6.70%	4.90%
■ Employee Benefits Excluding Police	1,125,361	1,220,332	1,327,424	1,468,618	1,582,153	1,655,291	1,618,949	1,967,104	2,465,081	2,529,618	2,541,543
■ Salaries & Wages Excluding Police	3,921,356	4,096,296	4,315,923	4,551,279	4,634,037	4,819,921	4,783,052	4,928,128	5,603,903	5,981,480	6,277,048

Salaries & Benefits All Funds Excluding Police (constant dollars)



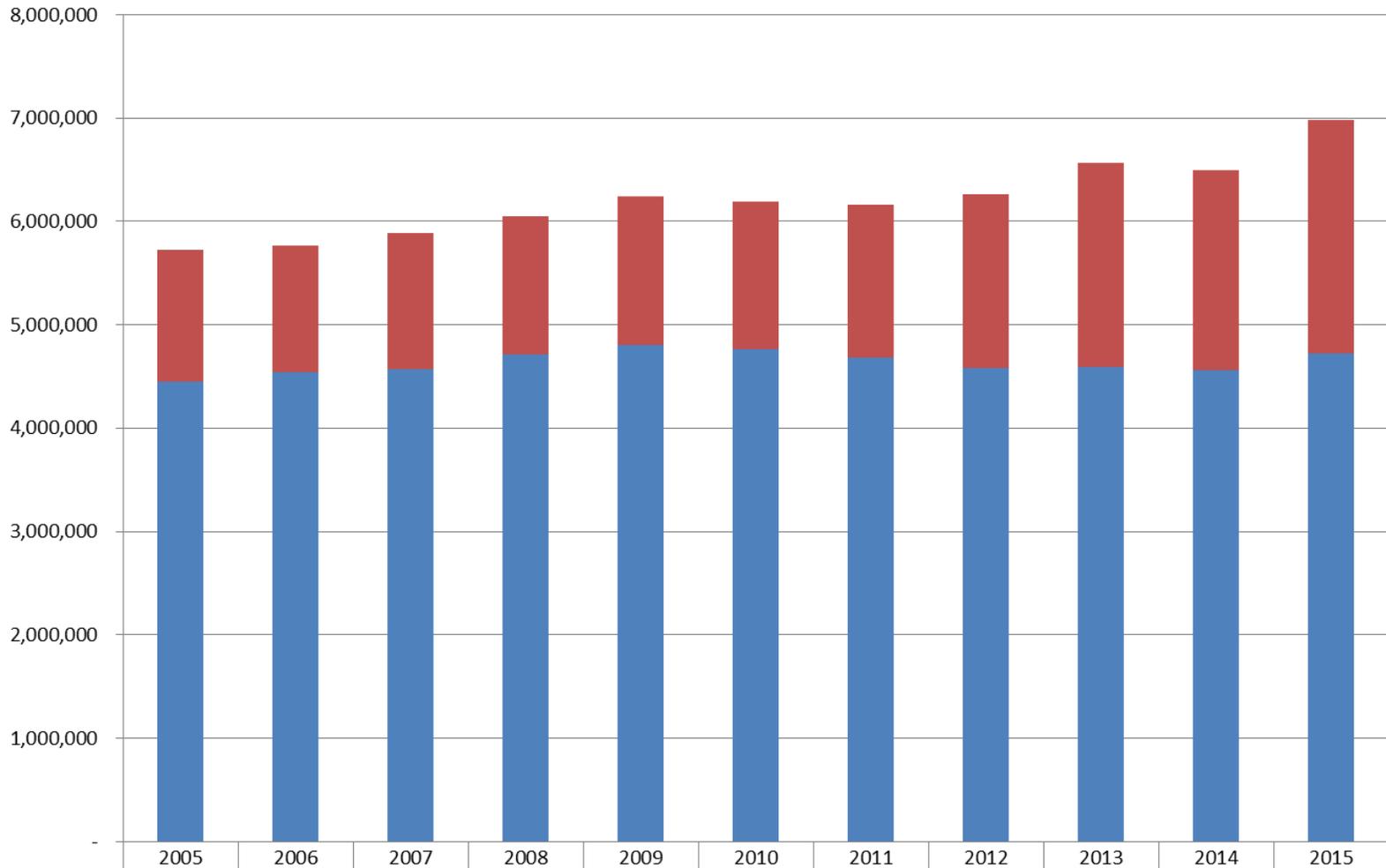
■ Employee Benefits Excluding Police	1,125,361	1,169,699	1,235,994	1,289,191	1,408,502	1,429,000	1,346,664	1,588,480	1,962,815	1,972,254	1,998,413
■ Salaries & Wages Excluding Police	3,921,356	3,926,334	4,018,652	3,995,230	4,125,423	4,161,001	3,978,610	3,979,572	4,462,096	4,663,548	4,935,637

Police Department Wages & Benefits



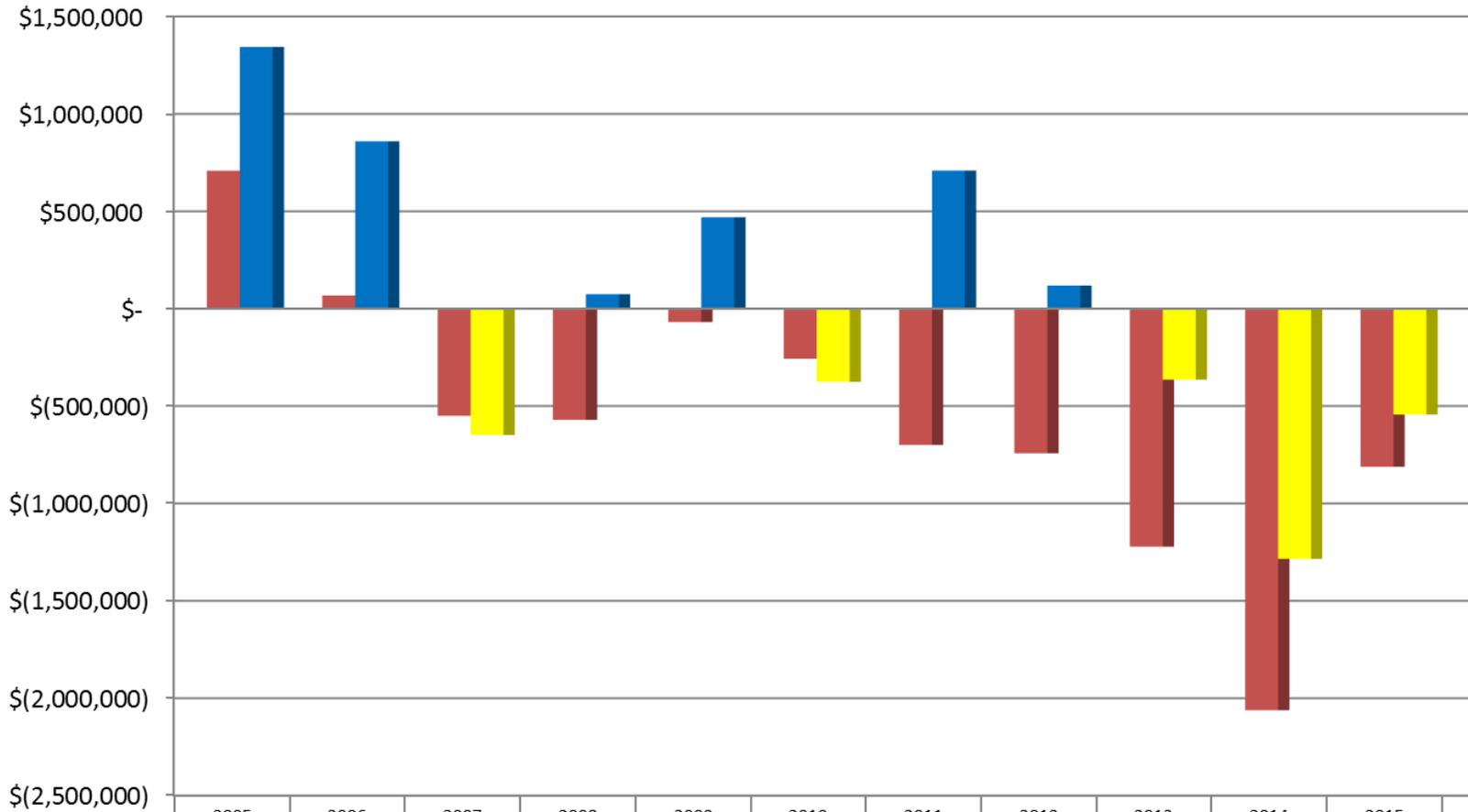
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
■ Benefits % Increase	19.40%	-0.30%	11.00%	7.40%	6.70%	1.70%	7.30%	17.70%	19.10%	-0.30%	16.10%
■ Wages % Increase	2.90%	6.60%	3.50%	9.30%	0.50%	2.40%	2.10%	0.60%	1.70%	1.60%	2.60%
■ Police Benefits	1,279,886	1,276,458	1,416,776	1,521,182	1,622,563	1,650,186	1,771,205	2,084,077	2,481,898	2,474,129	2,871,745
■ Police Wages	4,448,899	4,741,592	4,908,878	5,365,160	5,390,062	5,517,364	5,634,085	5,667,935	5,762,503	5,853,407	6,003,771

Police Department Wages & Benefits (constant dollars)



■ Police Benefits	1,279,886	1,223,496	1,319,192	1,335,333	1,444,477	1,424,593	1,473,313	1,682,938	1,976,206	1,928,991	2,258,050
■ Police Wages	4,448,899	4,544,856	4,570,767	4,709,677	4,798,470	4,763,098	4,686,511	4,576,983	4,588,380	4,563,694	4,720,759

General Fund Operating Performance



■ Budgeted Performance	708,680	67,291	(549,874)	(571,050)	(68,530)	(256,895)	(699,828)	(742,782)	(1,222,634)	(2,062,007)	(811,523)
■ Actual Performance	1,344,258	859,125	(648,560)	74,537	469,211	(375,820)	709,130	118,504	(364,524)	(1,284,656)	(543,592)

Source: State College Borough Annual Financial Reports

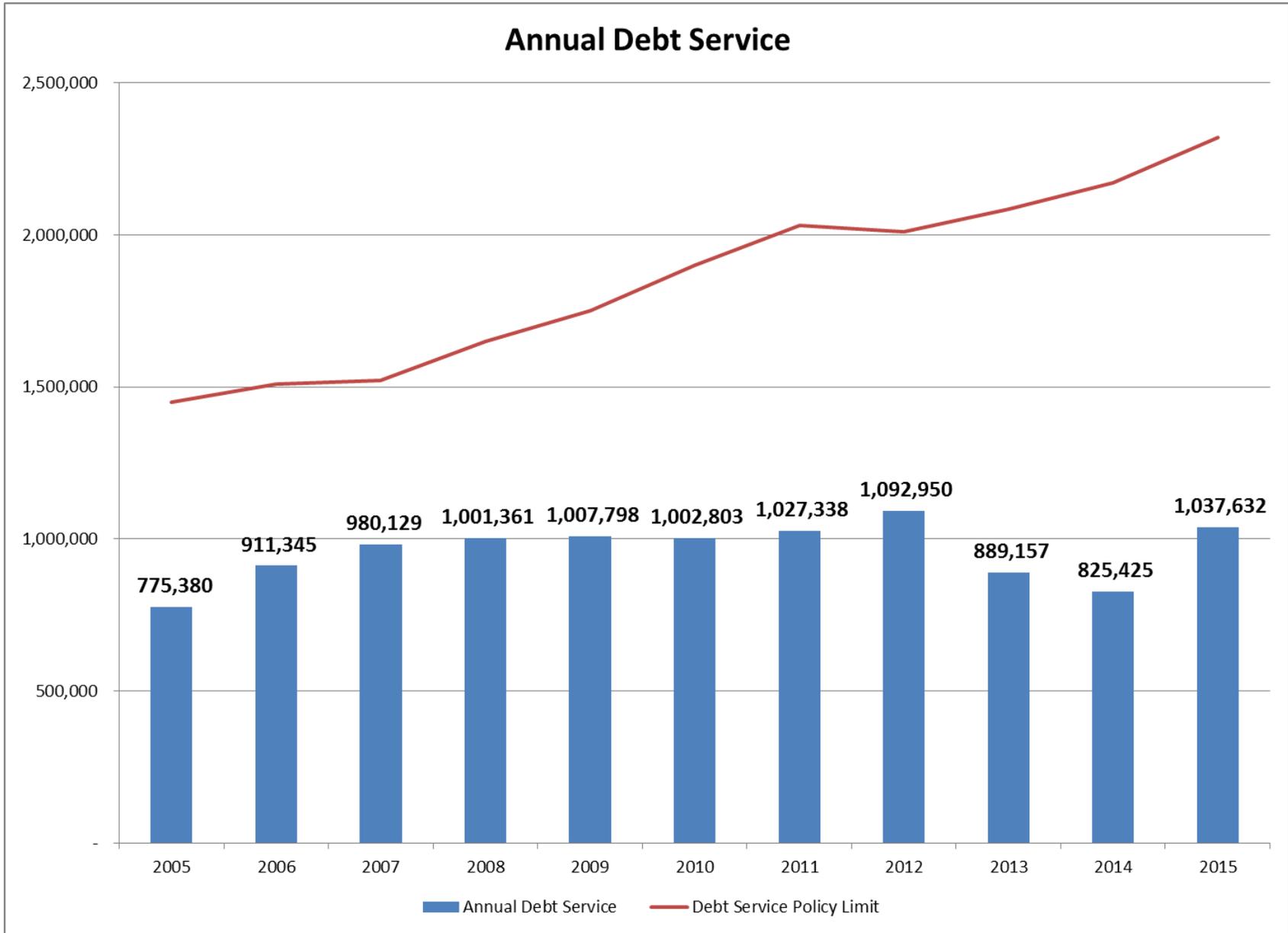
Not including use of Fund Balance

Debt Management & Fund Balance

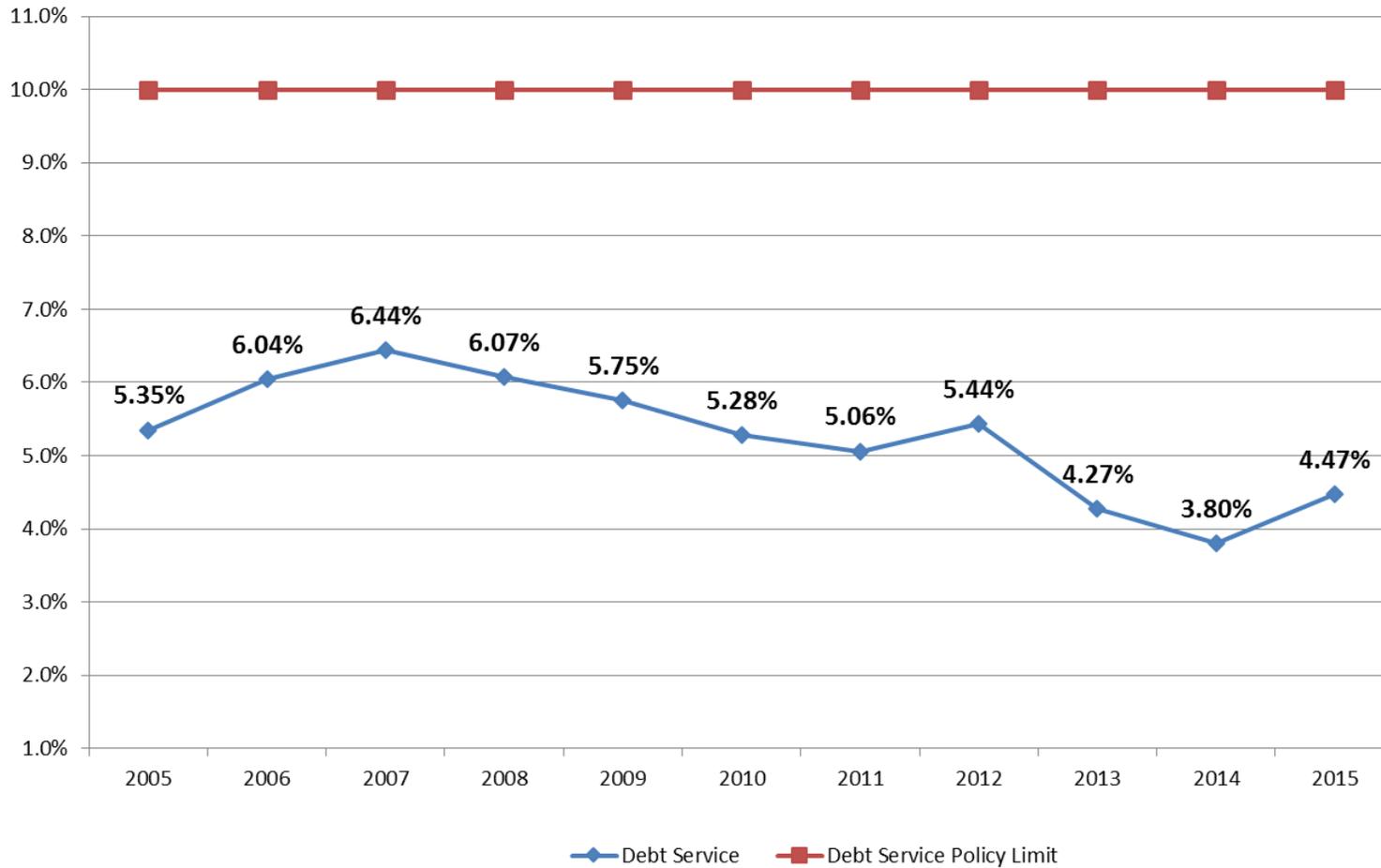
Because of low interest rates, the Borough has been able to refinance and refund previously outstanding bond issues using lower-rate bank financing. Through these refinancings, the Borough has saved millions in interest costs. Annual Debt Service increased from \$775,380 in 2005 to \$1,037,632 in 2015. The annual average Debt Service over the ten-year period was \$1,055,132 with a high of \$1,092,950 in 2012. Expressed as a percentage of General Fund revenues, annual Debt Service has declined from 5.35% in 2005 to 4.47% in 2015. The Borough maintains a policy which limits annual debt service to 10% of General Fund Revenues.

General Fund Outstanding Debt at year-end declined from 2005 through 2013 with a high in 2015 of \$15,061,340. In 2013, the Borough borrowed \$9,814,000 to fund a number of projects including a new public works maintenance facility, improvements to Atherton and Pugh streets including street lights, traffic signals, sidewalks and landscaping. The new Service Facility allows the Borough to better maintain its fleet of cars and trucks and store road maintenance supplies out of the weather. The new wash bay allows for indoor washing of winter plow trucks and garbage trucks which will substantially increase their useful life. The final draws on the 2013 note were not completed until 2015. In 2014, the Borough borrowed \$13,300,800 to refund previously issued bonds at a lower interest rate. The refunding savings exceeded \$637,000. Total Outstanding Debt rose to \$17,152,900 at the end of 2015. Total Outstanding Debt per capita was \$387.86 in 2005 and \$407.43 at the end of 2015.

General Fund Unassigned Fund Balance grew from \$814,059 in 2005 to \$3,248,977 in 2015. Unassigned Fund Balance represents the Operating Reserve of the General Fund and provides for working capital to cover any cash flow timing between receipt of taxes, mainly Real Estate Taxes, which are generally collected during March, April, and May. The Unassigned Fund Balance also includes a Risk Management Reserve of approximately \$1.5 million to cover insurance deductibles and other uninsured losses. The Borough's Financial Policy requires an Unassigned Reserve of 12% of General Fund Expenditures. A reserve of 12% covers approximately six weeks of Operating Expenditures.

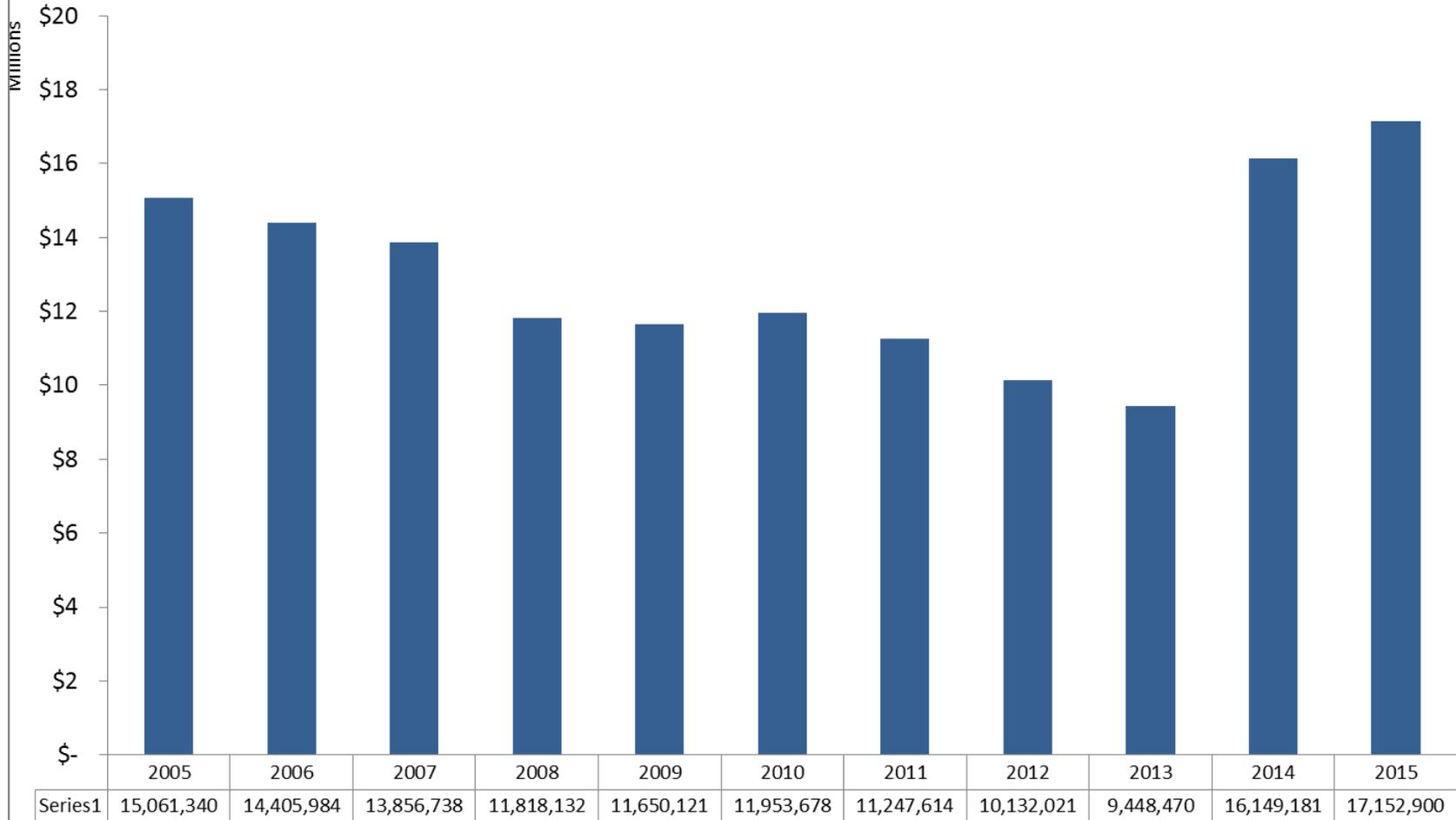


General Fund Debt Service as a Percentage of General Fund Revenues



Source: State College Borough Debt Service Schedules

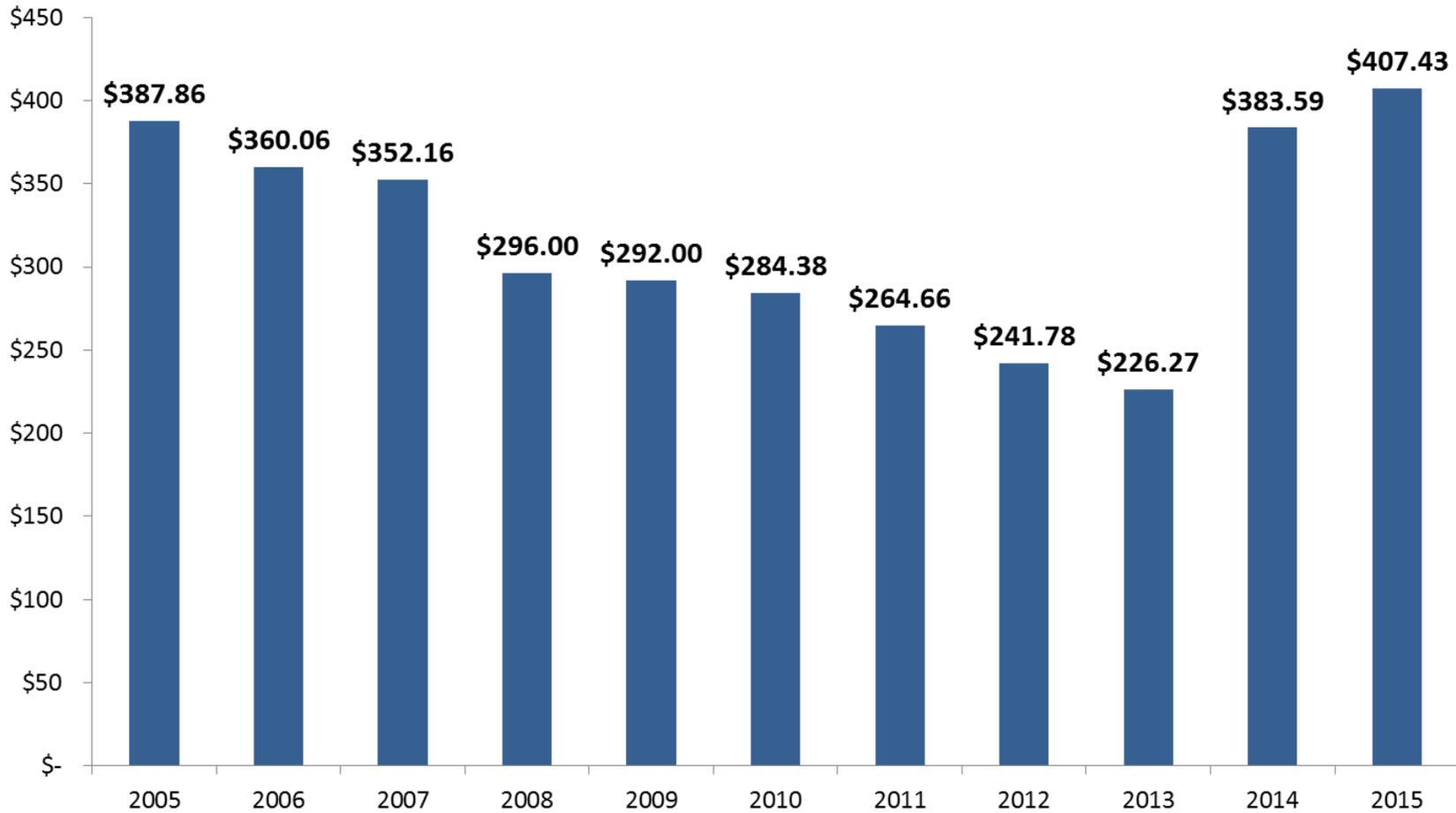
Outstanding Governmental-Type Activity Debt



SOURCE: State College Borough Debt Service Schedules

NOTE: Debt Reported at Year End; excludes interest.

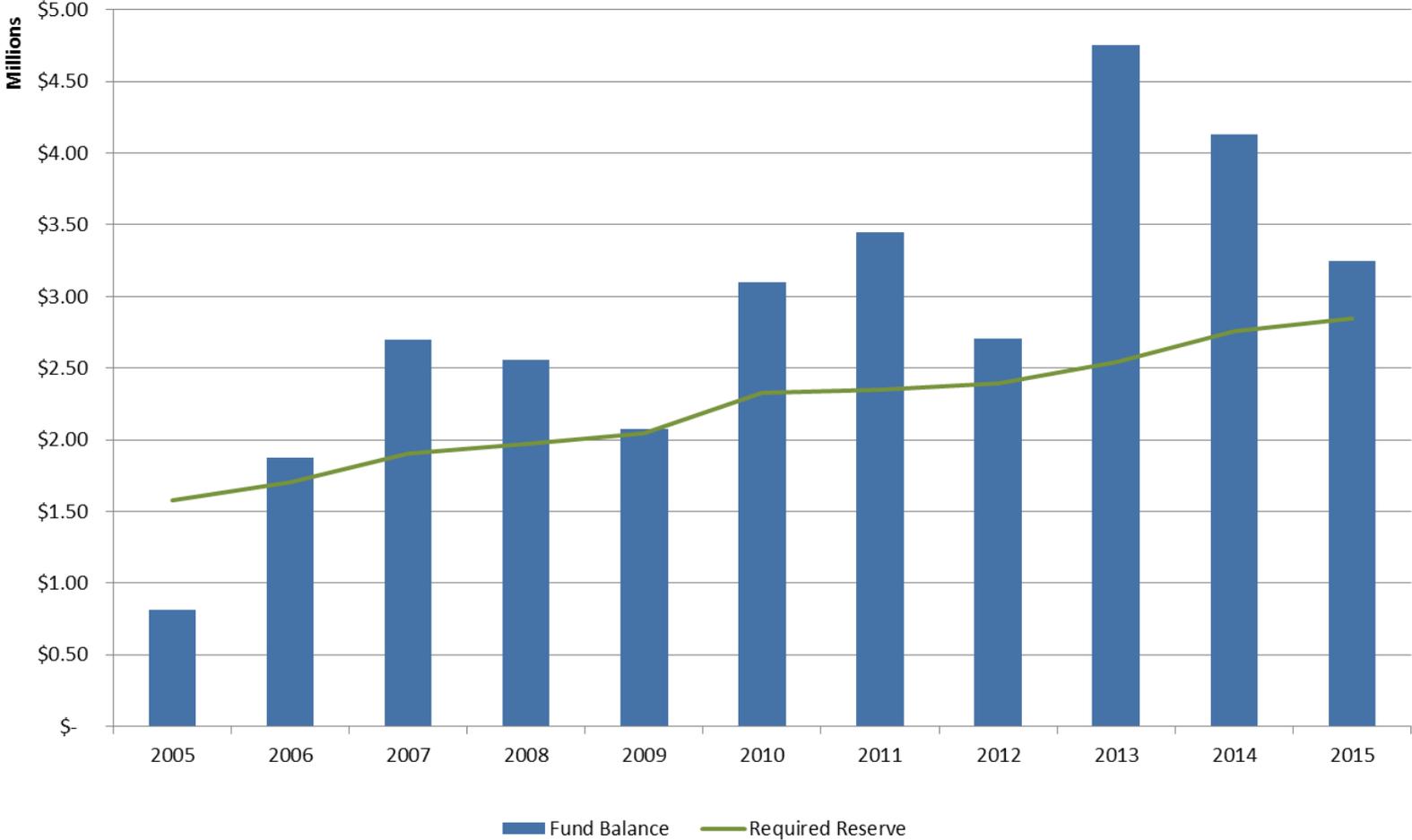
Outstanding Governmental-Type Activity Debt per capita



SOURCE: State College Borough Debt Service Schedules

NOTE: Debt Reported at Year End; excludes interest;
2010 U.S. Census Population Data

Unassigned General Fund Balance



SOURCE: State College Borough Annual Financial Reports

Includes Risk Management Reserve of \$1.5 million