

**Meeting Minutes
State College Borough Council
Work Session
Monday, July 29, 2019**

The State College Borough Council met on Monday, July 29, 2019, at 12:00 p.m. in the Municipal Building, 243 South Allen, State College, PA 16801 in a Work Session. Mr. Myers called the Work Session to order at 12:00 p.m.

Present: Evan Myers, Council president
Jesse L. Barlow
Janet P. Engeman
Dan Murphy

Absent: Donald M. Hahn, Mayor
Catherine G. Dauler
David J. Brown
Theresa D. Lafer

Also Present: Thomas J. Fountaine, II, Borough Manager; Roger Dunlap, Assistant Borough Manager; Dwight Miller, Finance Director; Sharon K. Ergler, Assistant Borough Secretary; Douglas Shontz, Communications Specialist, media and interested Borough residents.

Mr. Myers explained that the Work Session consisted of the Public Hour followed by a discussion of the 2020 preliminary operating budget discussion including a financial trend analysis. He noted that the four Council members present sat in the middle of the room because it better facilitated a face-to-face discussion about goal planning.

Public Hour – Hearing of Citizens

Jim Leous, a resident of West Fairmount Avenue, discussed a modest traffic proposal for the West Campus Parking Deck at Penn State. He said the traffic study that was conducted explained that traffic came in the morning over a three to four-hour period to that site, but almost inevitably egresses from the West Campus Parking Deck around 5 p.m., 5:15 p.m. and 5:30 p.m. He said there was a need to put a relief value coming out of the West Campus Parking Deck. He noted the current proposal on West Course Drive consisted of a left turn coming onto North Atherton going north or onto North Atherton going south. He proposed using South Buckhout Street as a way out, but said the people living in the Holmes-Foster neighborhood opposed it. He said Buckhout Street thinned out once traffic exited onto West Beaver Avenue and he said they wanted to avoid the disastrous intersection between Robin Road and West Fairmount Avenue. The proposal allowed egress along North Buckhout Street but only to turn onto West College Avenue to prevent people coming from White Course Drive and taking the right through Downtown. He said it prevented cars coming into the neighborhood. He noted there was a concern about people dropping their kids off at the high school and the Corl Street Elementary School drop-off too. He said there was a dangerous increase in traffic at the Atherton and College Avenue intersection.

2020 Preliminary Operating Budget Discussion

Year-To-Date Financial Report

Mr. Miller presented the Year-To-Date Financial Report for the first six-months of the year. He noted there was an increase in the collections of real estate taxes. He said the Revenue and the Operating expenses increased compared to last year for the General Fund.

Financial Trend Analysis

Mr. Miller discussed the Borough's financial trends over a ten-year period. He noted the population spiked a little in 2010 because of the U.S. Census and the other years were estimates, and he expected to see a

bump in population for the 2020 U.S. Census. He said most of the Borough's Revenue was from Real Estate Tax Revenue, which was different from the surrounding townships. However, he said the Borough had the lowest per capita total tax revenue compared to the other townships. He said there was a decrease in the collection of the Local Services Tax, meaning that there were less employed people living in the Borough. He noted a slight increase in General Fund expenditures over the last few years.

Mr. Murphy affirmed that the Borough was the second lowest in the region in total tax per capita but the highest in spending per capita in the region. Mr. Miller confirmed that was correct.

Mr. Miller noted that cost of employee benefits, primarily healthcare and pension costs, drove the increase over the last several years. He noted that when Council adopted the Balanced Budget Policy in 2016 that it contributed to performance improvements.

Mr. Barlow asked whether the Borough outperformed the budget with a yearly surplus. Mr. Miller confirmed that was correct because when Council approved a structurally sound budget in 2016, there was no use of fund balance. He said there was an underspending of revenue primarily due to the Capital Improvement Plan (CIP) He said Council consciously made the decision to use excess fund balance, but from a pure accounting perspective, it ended up in expenditures. He affirmed that for the past three-year, recurring expenses were covered by recurring revenues.

Mr. Miller noted that Debt Service was not to exceed 10 percent as a percentage of General Fund revenue. He said there was more information available for Council to check out.

Mr. Murphy asked Mr. Miller to explain the Local Services Tax collection's decrease. Mr. Miller stated that while the total amount of the tax did not change, but that there were less employed people in the Borough paying the tax. He said it was \$52 tax per person.

Mr. Fontaine clarified there was an exemption for employed people earning less than \$12,000 and perhaps it was an increase in part-time workers not making more than that.

Mr. Murphy asked whether the projected debt balance was based on planned projects or on current debt. Mr. Miller clarified they were debt service payments and was based on current debt.

Financial Policies and Recommendations for Changes

Mr. Miller stated the Borough adopted GASB 54 definitions of fund balance in terms of financial reserves. He said the fund balance was broken down into different categories: non-spendable, restricted, committed, assigned and unassigned. He said the Borough had a policy of maintaining at least 12 percent of projected expenditures for the next year in the unassigned category. He said anything in excess of the fund balance would be transferred to the Capital Fund at the discretion of Council. He said staff recommended a transfer of \$1.8 million, leaving the Borough at 12 percent of the reserve. He said there was \$1.4 million risk management reserve and a healthcare and pension reserve. He explained the current policy required 12 percent of projected expenditures or six weeks of funding, but the GFOA recommended a fund balance reserve of 2 months in the fund balance.

Mr. Myers asked for the reasoning behind having two months versus six weeks, how long did the Borough have the six weeks policy, had the Borough ever fallen below the six weeks and what happened to the money sitting in the reserve. Mr. Miller said the recommendation from GFOA for the two months policy was based on what happened in 2008 when a lot of municipalities had lower reserves. He said after the 2008 market crash, the GFOA worked on a new policy for two months. Mr. Myers asked if the Borough was in any jeopardy then. Mr. Miller said he did not believe so, and that when he interviewed for his position in 2014, the proposed budget for 2015 would bring the Borough close to that reserve for the first time in fifteen years. He said it was a policy that served the Borough well and the GFOA challenged municipalities to prepare for the next downturn. He explained that the money sat in interest-bearing accounts as well. Mr. Myers asked if the Borough needed to raise the \$1.3 million. Mr. Miller explained the Borough did not need to raise \$1.3 million because there was already an excess fund balance of \$2.5

million, which would be added to the reserve and unavailable to spend on other items. Mr. Myers asked if this required an ordinance. Mr. Miller said it would not and would be an update to the budget policy amending the current reserve policy. Mr. Myers stated that Council would need to vote on it to raise and affirmed that the reserve fund balance would grow at the expense of the excess fund balance. Mr. Miller stated that the reserve fund balance and there would still be an excess fund balance of \$1.2 million for future uses. Mr. Myers asked what if there were other expenditures as part of strategic planning taken out of the excess fund balance and avoid raising additional revenue. Mr. Miller asked Council to examine the other policy, the structurally balanced budget policy, in which if there was one expenditure, it was acceptable to take funds from the excess fund balance, but if the expenditures were recurring, he recommended that Council find a recurring revenue source.

Mr. Fountaine added that if there were ongoing recurring expenses, the structurally balanced budget policy prohibited the Borough from funding those through a fund balance. He said the impact of the change would reduce money available for capital projects and only limited to non-recurring expenses.

Mr. Miller stated the Borough's current debt management policies dictated that the Borough would not use debt for ongoing operational costs, it would be used to fund CIP or other infrastructure projects, the maturity of that debt instrument would not exceed the useful life of the asset being funded and the Borough would abide by the Pennsylvania Unit Debt Act. He added the policies also stated that the Borough would use an independent financial advisor to help with abiding by the state laws and that any enterprise debt would be self-liquidating within that Enterprise Fund and the annual debt service would not exceed 10 percent of General Fund revenues. He said that after the Borough worked with the financial consultant and looking at their current S&P rating and how the Borough would work toward improving the bond rating, the financial consultant recommended instating a policy called Full Value. He explained that Full Value was the estimated market value of a taxable assessed value of property, and the consultant recommended that the total debt of the Full Value would not exceed 5.5 percent of that. He said the ratio was commonly used by rating agencies and would help the Borough improve its score.

Mr. Myers asked if the Borough was reaching that number. Mr. Miller said that when he developed the recommendation, he used the Pennsylvania Unit Debt Act to look at the Borough's available amount for borrowing and set the ratio to match that. Mr. Myers asked what the Borough was currently using. Mr. Miller said he did not have those numbers but would get them to Mr. Myers and noted that the Borough had not been at 5.5 percent because the Borough was never anywhere close to the Pennsylvania Unit Debt Act. He said that the policy would be a checkmark on the ratings scorecard. He said that the policy was a no-lose policy and would not put any new limitations that were not already in place. Mr. Miller went on to discuss purchasing policies in which the Borough would require competitive bidding for purchases over \$25,000 and open market purchases for less than \$25,000 with at least two quotes. He stated the Capitalization and Depreciation Policy was amended last year to include items less than \$100,000 and six-year useful life for the CIP, capital assets equal in value or greater than \$5,000 with a useful life of one year or greater, a depreciation schedule based on the asset class and a replacement policy based on useful life and minimum hours/miles.

Mr. Fountaine reiterated that Council should make sense of the policies and determine whether they should be included in the 2020 Budget. Mr. Miller noted that increasing the fund balance reserve to 12 percent would reduce the amount available to transfer to the capital budget in 2020.

Mr. Myers said he opposed to this change and that the Borough was not historically at this number. He noted that many municipalities invested poorly in 2008 from a fiduciary standpoint. He said the Borough did not need to change this policy because it reduced the Borough's ability to do things.

Ms. Engeman stated she agreed with Mr. Myers.

Mr. Fountaine added that the recommendation did not reduce flexibility. He noted to Council that the flexibility in existence would already continue to be the same as it was beforehand and the change would bring the Borough in line with best practices when borrowing money. He said one of the Borough's problems was when the expenditures were paid by spending down fund balance and the Borough's bond

rating decreased. He explained the policy reserved a fund balance in case of an emergency and did not affect that flexibility. He said the only stipulation was that if there was a recurring expense, there must be a recurring revenue stream to cover that expense and not be funded out of the fund balance reserve. He said he viewed this policy as bringing the Borough into compliance with best practices on the national level.

Mr. Myers noted that both Mr. Miller and Mr. Fontaine stated there was no difference in spending the excess fund balance and the 2018 fund balance (GFOA – two-month reserve). Mr. Fontaine clarified that one of the uses of a fund balance was in the event of an emergency. Mr. Myers asked what was classified as an emergency. Mr. Fontaine stated that a hurricane that flooded the Borough or a sinkhole that opened on one of the streets were examples of emergencies. He said that adding programs was not an emergency. Mr. Myers asked if there was a difference balance in terms of the ability to use the money between the excess fund balance and the reserve balance fund. Mr. Fontaine said the excess fund balance could be used for one-time expenses or transferred out for capital projects. He said the 2018 fund balance (GFOA – two-month reserve) was not available for other expenditures. Mr. Myers asked if the change would affect the Borough's bond rating. Mr. Fontaine said the Borough's bond rating decreased from AA to AA- because the Borough spent money from the fund balance. He said the change would improve the bond rating going forward. Mr. Myers said that he was still opposed to the change and thanked Mr. Fontaine for the explanation.

Mr. Fontaine asked Council to identify short-, mid- and long-term primary budget goals that they wanted to see included in the 2020 Budget. He provided the example of bringing pavement conditions up by 10 percent instead of saying hiring three more police officers. He asked them to think about outcomes instead of solutions and what was important to Council in the 2020 Budget. He asked them to determine one-year, five-year, and ten-year goals.

After a lengthy discussion, Council members identified several programs or projects for the 2020 Budget including: pavement/infrastructure improvements, implementation of the recommendations from the Task Force on Policing Communities of Color, the creation of an Office of Equity that focused on recruitment, training (internal) and policy recommendations to Council, environmental stewardship including solar, plastic bag ban and electric charging stations, pedestrian improvements to downtown sidewalks, pedestrian corridors, curb cuts and expansion of pedestrian lighting and the Action Sports Park.

Then Council summarized their short-, mid- and long-term goals. The short-term goals included a pedestrian-friendly or walkable community, a fiscal commitment to equity that matched public statements by Council, investments in community "Health and Wellness," evaluating and expanding affordable housing to encourage long-term residency, increasing the number of local trees and exploring programs that encouraged residents to plant more trees. For mid- to long-term goals, Council stated that meeting long-term environmental goals, planning to handle an increase in regional expenses for fire, parks and facilities, pedestrian walkways through Downtown street closures, the West End Renewal, consolidation and affordable office, retail and manufacturing spaces for post-incubation startups were all important to them.

Adjournment

There being no additional business, the work session adjourned at 1:45 p.m.

Respectfully submitted,

Sharon K. Ergler
Assistant Borough Secretary

Prepared by: Melissa Krug, Administrative Assistant